

REGISTERED NUMBER: 00784752 (England and Wales)

Skanska UK Plc

**Group Strategic Report, Directors' Report and
Audited Consolidated Financial Statements
Year Ended 31st December 2021**

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Skanska UK Plc (Registered number: 00784752)

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For The Year Ended 31st December 2021**

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Skanska UK Plc (Registered number: 00784752)

**Company Information
For The Year Ended 31st December 2021**

Directors:
H J Francis
G L Craig
C K K Gangotra
T P Faulkner
M G Neeson
K M Dowding
S Paul

Secretary:
S Leven

Registered office:
Maple Cross House
Denham Way
Maple Cross
Rickmansworth
Hertfordshire
WD3 9SW

Registered number:
00784752 (England and Wales)

Auditors:
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Skanska UK Plc (Registered number: 00784752)

**Group Strategic Report
For The Year Ended 31st December 2021**

The Directors present their strategic report of Skanska UK Plc (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31st December 2021.

Business model

Skanska UK Plc generates value through the hundreds of projects the Group executes each year. Every project should both be profitable and delivered in line with Skanska's values and ambition to be a leader within sustainability. Skanska UK operations mainly consist of construction activities. Operating units within the construction business collaborate in various ways, creating operational and financial synergies that generate increased value.

Financial position and review

The Group recorded total revenues from continuing and discontinued operations of £1,249.6 million (2020: £1,456.3 million) and profit before interest and tax of £72.6 million (2020: £22.6 million) with a margin of 5.8% (2020: 1.6%). Profit before interest and tax includes a £29.1 million gain on the disposal of Infrastructure Services discussed below. See Note 35 for details of the total results including discontinued operations.

For continuing operations, the Group recorded revenues of £1,122.7 million (2020: £1,122.3 million), profit before interest and tax of £33.7 million (2020: £12.2 million) and a margin of 3.0% (2020: 1.1%). There were no non-recurring exceptional items recorded in the year from continuing operations. For the year ended 31st December 2020, the Group's underlying profit before tax and interest for its continuing operations, adjusted for non-recurring exceptional charges of £21.7 million, was £33.9 million with a margin of 3.0%.

The Group's total equity increased by £94.5 million. Total equity attributable to shareholders at the year-end was £362.7 million (2020: £268.2 million). Our consolidated year-end cash and cash equivalents totalled £519.7 million (2020: £422.4 million), an increase of £97.3 million in the year. The year-on-year movement was predominantly due to the proceeds from the sale of Infrastructure Services operating unit and a number of projects approaching completion, partially offset by the payment of £16.1 million in dividends, to the immediate parent entity. Cash inflow from operating activities was £88.3 million (2020: inflow £6.3 million). The Group has no debt.

The continued impact from the COVID-19 pandemic was managed throughout the year through high levels of project scrutiny and cash management, with productivity levels remaining at good levels throughout the year. Good communication and continued collaboration with our clients and supply partners were key parts of the Business strategy.

In 2020, the Group announced that it would withdraw from the Highways Maintenance, Rail Maintenance and Street Lighting Maintenance sectors, therefore divesting its Infrastructure Services operating unit. The sale of the operating unit was completed on 30th April 2021, resulting in the recognition during the year of a pre-tax gain on disposal of £29.1 million. The Infrastructure Services operating unit has been classified in these financial statements as a discontinued operation with the results from the operating unit, along with the associated gain on disposal, being separately presented from Group's underlying continuing operations. In accordance with IFRS 5, depreciation and amortisation of non-current assets associated with the disposal group ceased when the business was classified as held for sale effective from 31st December 2020. Had depreciation and amortisation continued up until the date of disposal, the pre-tax gain on the sale, net of disposal costs, would have been £31.6 million. Further information on the sale of Infrastructure Services can be found in Note 10.

The sale of Infrastructure Services and the associate decision to exit or wind down key contracts within the utilities sector were made after a strategic review, which has led the Business to concentrate on the infrastructure and building markets. The aim is to bring more focus to our customer relationships and service delivery, as well as create greater alignment between the Company's activities and our approach in other parts of the world.

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Group Strategic Report For The Year Ended 31st December 2021

Principle risks and uncertainties

The Group's principal risks and uncertainties are related to the contracts it undertakes to perform. Exposure to credit, interest rate and liquidity risk arises in the normal course of the Group's business:

- Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there was no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and amounts due from customers for contract work at the statement of financial position date.
- The Group does not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.
- Liquidity/cash flow risk is the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities. The Group aims to mitigate these risks by setting and monitoring cash flow targets and by assessing credit worthiness of all material business partners.
- COVID-19 introduced increased risk to all areas of the Group during 2020. A risk averse culture coupled with open and collaborative relationships with our stakeholders has and will continue to mitigate the impact on delivery and financial performance.
- A year on since the UK left the EU, Brexit has not had a material financial impact on the Group. A reason for this is that we have worked closely with our key supply chain to ensure the fallout from the EU exit (and COVID-19 return to work) is managed from a risk perspective including availability of workforce. The Business continues to review all aspects of how this legislative change could impact its operation and ensure steps are in place to mitigate any financial degradation.

COVID-19 Pandemic

Whilst variants of COVID-19 persist, the UK's economic bounce back was faster than predicted as spending surged after lockdown measures were lifted. Restrictions onsite and in offices were removed across the Group at the end of the first half of 2021, as per government guidelines and policy. Key reporting and review processes implemented at the start of the pandemic continued to be used, enabling management to continue concentrating on cash management and managing potential financial exposure on a proactive basis.

Throughout the pandemic, the fundamental values that underpin our business have been prominent in all decision making. Clear communication and standing side by side with our dedicated and exceptional employees have been key, alongside a supportive and collaborative level of engagement with our clients and supply chain partners. The Group's existing Health & Safety framework and culture has once again proven to be a real strength of our operational delivery, keeping everyone safe.

Detailed monitoring of the workforce and its health continues to be paramount in Management's strategy, ensuring their safety and also the safety of our partners.

Major contract wins

A428 Black Cat to Caxton Gibbet – Delivery of a new 10-mile dual carriageway on the A428, worth £507 million. Skanska is responsible for the design and build of the scheme, which will improve journeys between Milton Keynes, Bedford and Cambridge.

30 South Colonnade – Structural refurbishment of an existing 11-storey commercial-office building, YY London, on behalf of its customer, Quadrant and funds managed by Oaktree Capital Management, at Canary Wharf, London. Skanska will install the new cladding, construct three new office floors and a new reception. The value to the Group is £135 million.

Castlewood House – Construction of an 11-storey office building with retail and restaurant use, as well as 18 residential apartments. Mechanical, electrical and public health services installation will also be undertaken by Skanska. The 260,000 sq. ft project in London is worth £83 million to Skanska.

HS2 Area East – Construction of 2,000 piles for the Skanska Costain STRABAG joint venture, which is working to deliver the London tunnels on behalf of HS2. The piling contract is worth £93 million. The project will provide foundations for two new bridge structures, one of the largest current open-cut retaining boxes in Europe and the new Euston Cavern shaft. As part of the project, the team will be developing new techniques to reduce carbon, including the use of low carbon concrete.

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**Group Strategic Report
For The Year Ended 31st December 2021**

Laser Focus & Further Review

In late 2017 the Laser Focus Plan was launched with the aim to ensure we remain a profitable and sustainable business. With an over-arching objective to hit or beat tender margin on every contract, the first phase of the plan was to focus on five key areas: Right people, Design control, Understanding and applying the deal, Quality, and Forecasting and Reporting. The second phase of the Laser Focus Plan was launched in the first quarter of 2018, which following a strategic review of our markets and sectors, which as already discussed in the financial position and review, resulted in a reorganisation of the Group's Operating Units; reducing the number from 9 to 7.

2019 saw a consolidation of the plan with the Group ensuring each key area had been fully embedded. Improved Project performance, continued de-risking of the Group financials, increased underlying Operating Income % and the strengthening of the Balance Sheet has given Management a strong belief that the plan is having the impact it was designed to achieve.

In early 2020, the Group announced that it would withdraw from the Highways Maintenance, Rail Maintenance and Street Lighting Maintenance sectors, therefore divesting its Infrastructure Services operating unit. The sale of the operating unit was completed in 2021. In addition, the decision was made to exit key contracts within the Utilities operating unit, running these down, which resulted in a closure of the unit at the end of 2021.

Governance Review & Update

In 2018, Skanska AB undertook a review of its Governance framework and associated procedures and processes. In 2020 and 2022, as per guidance from Skanska AB which dictates a review should be carried out every two years, the Group completed a similar process to ensure our framework was aligned and could achieve similar benefits. These benefits include improving effectiveness, continued reduction of risk throughout the Group and to help each and every employee live by Skanska values. The updated Governance framework is now leaner, has much clearer structure and is accessible to all users.

In addition to the above, since 1st January 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies which enhances the Skanska AB's governance framework that the Group has adhered to historically.

During the COVID-19 pandemic use of enhanced IT has ensured that the business and senior management have been able to ensure governance and control has remained consistent throughout.

Lastly, the implementation of a new Enterprise Resource Planning (ERP) system has continued, with governance, standard procedures and controls being a key element of its design and build.

Values provide business benefits

We want our strong Skanska values to guide everything we do and they are essential to contributing to society. Increasingly, employees want to work for companies with clear values. We are seeing more customers and partners choose Skanska in part because of our values. Through what we do and how we work, we help ensure sustainable futures for our people, customers, and communities. We focus on the sustainability areas in which we can make the most significant positive contributions: Safety, Ethics, Green, Community Investment, and Inclusion and Diversity.

All of these areas relate to our core business and expertise and are interconnected.

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Safety, health and wellbeing

During 2021 we continued to maintain our focus on improving our culture and performance in the areas of safety, health and wellbeing (SHW). During this period, we have delivered a reduction in number of potential fatalities to the lowest level ever. This has been as a result of our programme on becoming outstanding at Lifting, Loading and Lowering operations. The lost time accident rate (LTAR) has returned to pre pandemic levels, and we are continuing to evaluate the reasons behind the reduction. Our initial analysis identifies several factors for the reduction in LTAR during the period. They can be summed up as being, clear on expected behaviours, clear communication on the importance of compliance and the immediacy of the risk to health of workers and others they come into contact with. Work is being undertaken to determine how these key learning points can be applied across all operations at all times.

The performance of the business was overshadowed by a fatality on one of our projects. Following the incident significant work has been undertaken with the HSE, manufacturers and plant operators to establish the cause of the incident. As a result of learnings from the incident, we will be removing certain types of equipment from our operations. We have supported the industry in raising awareness of the risk of injury during the operation of this type of equipment and provision of additional operator training. We are supporting the work of several parties to review and consider amending the EN standard to prevent the possibility of being crushed by a stabiliser.

During 2021 we have continued to progress our work on moving the focus on safety and health from site operations into the design and planning stage. By elimination and substitution of the work activities to reduce exposure to risk, we are confident we will further improve safety, health and wellbeing as well as operational efficiency and quality. One outstanding example shows that we reduced exposure to the risk including falls from height, items falling and manual handling by 40,000 hours on one work activity on one project.

We have continued to comply with COVID-19 legislation and guidance and have followed the changes introduced during the year. Our general approach has been more cautious than the government position and requirements have been eased once the impact of changes have been given time to work through society. Work on and communication of our wellbeing programme including mental health has been increased during this time. This has been well received and we continue to build on our mental health programme. During 2022 we are expanding our Mental Health programme focus from understanding mental health into creating the right environment for people to thrive.

Our continued with our Injury-free environment programme (IFE) which is now in its twelfth year and we are currently reviewing the programme with a view of updating the programme and adding to the programme with a focus on risk awareness. Our mental health programme continues to be effective, and the mental health ambassador community continues to thrive and support the programme. An independent survey of 97 of our customers, 246 supply chain partners and 2465 employees rated Skanska as a high performer in terms of SHW. We have continued to maintain ISO45001 certification.

Ethics

Within the Group we work in line with Skanska AB's Code of Conduct to increasingly act in a sustainable, transparent and responsible manner, to better meet the long-term demands of the Group's shareholders, customers and employees, as well as society at large. Our aim is to ensure all projects reflect our purpose and are not only profitable but are delivered without ethical breaches and with a transparent and inclusive culture. During 2021 we maintained our focus on ethics leadership by retraining all our employees on our Code of Conduct and ensuring all new employees are trained before they start work with Skanska. In addition, our employees are required to take part in regular 'dilemma' discussions where they debate how they would approach a variety of situations. A key thread throughout the year was an action plan looking at our ethical processes in areas such as inclusion and diversity, modern slavery, supply chain understanding, etc. As well as internal communications, we place additional focus on understanding our ethical responsibilities in relation to partners and suppliers. We developed our processes for scrutinising the ethical culture of potential partners, and to further engage our supply chain we work to ensure our Supplier Code is discussed in start-up meetings with suppliers, and we include ethics as an agenda item at our various supplier engagement events.

In 2022, a total of 18 reports of alleged breach of the Code of Conduct were received by the Skanska UK Ethics Committee (2021: 37). Cases were categorised in line with the topics in Skanska's Code of Conduct. The largest number of reports were concerned with HR-related matters, such as behaviour in the workplace. Other frequent categories of reports were health and safety (including COVID-19) and Company property. Across all categories, 2 cases determined a breach of the Code of Conduct (2020: 8), however neither of them were considered a high risk to the business.

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Environment

The Company and its subsidiary undertakings are required to pursue environmental policies that comply with relevant legislation and standards applicable to their particular disciplines. Beyond this, Skanska UK, in line with Skanska Group, is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services. Furthermore, Skanska UK is committed to operating with net-zero carbon emissions by no later than 2045, and since the publication of this objective in 2019 has committed significant resources into developing industry leading de-carbonisation capability. Our aim is to be the most respected contractor by our customers for our approach to sustainability and in particular our low carbon capability. Key areas of progress / highlights include:

- Continuing our excellent track record in operational environmental management, we learnt from our experience in 2020 of working with different operating parameters resulting from the COVID-19 pandemic, and as a result our environmental management performance has steadily improved across all of our projects. Our internal environmental leadership team continues to focus on improved monitoring and reporting, and on delivering better interventions against causes of environmental incident near misses. An example is the development and roll-out of a new bespoke environmental compliance training scheme which is targeted at site and operational leadership roles and is more comprehensive than industry standard environmental site management training courses.
- Supporting winning profitable sustainable business through continued engagement with our clients on sustainability performance and maintaining our green brand through demonstrating visible industry leading influence. In 2021 Skanska UK was involved with several industry sustainability events, such as hosting the 2021 Highways UK event as the 'sustainability sponsor'. Notably, Skanska maintained a substantial presence at the COP26 UN Climate Change Conference in Glasgow, with representatives attending both the Green Zone and Blue Zone, as well as the Sustainable Innovation Forum. Skanska UK CEO Gregor Craig and Skanska Group SVP Sustainability Lena Håk both spoke at events in the Blue Zone. Other industry appointments included Skanska UK CEO Gregor Craig being appointed to the Construction Leadership Council's (CLC) C02nstructZero Advisory Board, Director of Environment Adam Crossley maintaining his appointments as Chair of the UK Green Building Council's (UKGBC) Contractors' Forum and member of the Construction Leadership Council's Green Construction Board (GCB), as well as being appointed to the steering group of the UKGBC's Whole Life Carbon Roadmap project. Further to these appointments, Skanska UK collaborated with other industry bodies to shape and then commit to two cross-industry net-zero schemes: Climate Group's Steel Zero initiative; which is a pledge to purchase net-zero by 2050, and Cambridge Centre for Smart Infrastructure and Construction's Carbon Reduction Code, to which Skanska UK was one of the few 'champion' level signatories. Skanska UK also maintained engagement with two key green industry bodies, the All-Party Parliamentary Group for the Environment (APEG) and the Supply Chain Sustainability School (SCSS).
- Skanska UK continues to deliver on our multi-year strategy to significantly improve our capability as a business to de-carbonise at a quicker rate than our industry, and to support our clients in their de-carbonisation journeys, following our 2019 commitment to operate with net-zero carbon emissions by 2045. The plan comprises 6 focus areas:
 - Skills and capabilities for key roles: During 2021 we trained over a hundred key staff in project leadership, procurement, design and commercial on carbon reduction skills;
 - Carbon data / measurement: We continue to publish an annual transparent estimate of our direct and indirect (supply chain) emissions to the market;
 - Digital cost and carbon management tools: We have invested in project level digital carbon and cost management tools;
 - Net-zero materials (focussing on concrete and steel): We have established a low carbon materials expert group and have trialled a variety of low carbon alternatives across our projects;
 - Net-zero plant and transport: We mandated the use of hydro-treated vegetable oil (HVO) biofuel across our direct-hired plant, purchasing over 1m litres and avoiding circa 3000 tCO₂e, and we continue roll-out of electric vehicles across our company car fleet, with circa 25% of our fleet currently electric; and
 - Supply chain collaboration: We begun business-to-business collaborations with a small collection of selected supplier partners.

The delivery of our net-zero and broader environmental objectives is governed internally through Skanska UK's overall business planning process and is represented at the top management team. Externally we continue to demonstrate our credentials through a range of certifications, including continued verification under the Achilles 'Carbon Reduce' programme (formerly Certified Emissions Measurement and Reduction Scheme (CEMARS)), maintenance of ISO14001:15 for environmental management, and successfully maintaining external re-certification to the PAS2080 Carbon Management in Infrastructure specification. Our aim is to invest in environmental performance and sustainable business and, through continual improvement and innovation, to maintain our industry leading position.

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**Group Strategic Report
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Streamlined Energy and Carbon Reporting

The table below details the Group's energy and carbon consumption for the year ended 31st December 2021.

GHG Scope and Emission Source	Mandatory / Optional	2021		specific exclusions	% activity data estimated	2020	2010	2020	2010
		TCO2e	kWh			TCO2e	TCO2e baseline	TCO2e	TCO2e baseline
		Excludes discontinued activities (1)				Excludes discontinued activities (1)		Includes discontinued activities	
Scope 1									
Gas consumption at Skanska controlled offices and facilities	M	247	1,549,548	None	0%	398	535	398	535
Emissions from Skanska controlled company cars and commercial vehicles	M	2,375	10,046,381	None	0%	4,707	15,650	9,789	16,041
Site fuel (Gas oil & HVO) consumed by Skanska on construction sites	M	4,128	28,921,330	Gas Oil bought by Skanska for use of others to back up generation in facilities managed by Skanska	0%	5,613	6,405	7,376	6,813
Heating oil burned at Skanska controlled facilities	M	14	58,382	None	0%	25	48	26	48
Fugitive emissions from air conditioning at Skanska controlled facilities	M	-	-	Excluded on materiality	0%	22	50	13	50
Biomass burned for heating at Skanska controlled facilities	M	2	154,800	Excluded on materiality	0%	2	-	2	-
Scope 1 Total		6,764				10,744	22,638	17,589	23,437
Scope 2									
Electricity Consumption (Location based)	M	1,278	6,017,103	Electricity procured by Skanska but consumed by others through the use of facilities	0%	1,541	11,099	1,541	11,099
Electricity used in BEV company vehicles	M	9	41,335						
Electricity Consumption (Market based reflecting purchasing of REGO electricity)	O	650			0%	573	11,099	572	11,099
Scope 2 Total (Location based)		1,288				1,541	11,099	1,541	11,099
Scope 1 & 2 Total Emissions		8,050				12,284	33,738	19,140	34,536
Intensity Metric (emissions / £million)		7.1				10.9	27.9	13.1	27.3
Scope 3									
Purchased goods and services	O	180,717		Only high impact carbon areas included	100%	181,429	357,513	235,878	393,083
Capital goods	O	-		Not quantified				-	-
Fuel and energy related activities	O	2,343		None	0%	2,690	7,121	4,317	4,582
Upstream transportation and distribution	O	5,482			100%	6,639	8,478	8,808	8,785
Waste generation in operations	O	5,577		Waste disposal records but waste transportation estimated recorded	30%	3,919	3,841	3,844	3,841
Business travel	M	777		Emissions estimated from miles claimed	0%	1,504	4,260	1,688	4,869
Employee commuting	O	1,183		Employees commuting on company fuel card counted in scope 1 as can not accurately be broken out	0%	2,337	4,260	2,021	5,213
Upstream leased assets	O	589			100%	1,523	703	1,523	703
Downstream transportation and distribution	O	-		Not quantified				-	-
Processing of sold products	O	-		Not quantified				-	-
End-of-life treatment of sold products	O	-		Not quantified				-	-
Down stream leased assets	O	-		Not yet quantified				-	-
Franchisees	O	-		Not relevant				-	-
Out of Scope									
Biogenic emissions	O	3,437		Emissions relating to HVO fuel trials	0%	-	-	82	-
Total		204,698				212,350	419,763	275,234	455,482

- (1) Emissions data for 2021 exclude 21,899 TCO2e from the Infrastructure Services operating unit which was disposed of in the year and presented as a discontinued operation in these financial statements. To increase comparability, restated emissions data for 2020 and the 2010 base year excluding Infrastructure Services has been presented above, alongside the previously published data.

Reasons for Change in Emissions

Carbon emissions continue to drop from our 2010 base line and good progress has been made reducing carbon intensity through a range of carbon reduction policies and initiatives across the Company. Carbon reduction is a strategic focus of the Company's 2024 business plan, and a six-point action plan has been implemented to accelerate emissions reduction.

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Group Strategic Report For The Year Ended 31st December 2021

Emissions from Skanska commercial vehicles and company cars has dropped considerably from 2020. This is due to the combination of three factors, the completion of a major framework contract which had a heavy reliance on road vehicles, COVID-19 related travel disruption and the implementation of the Company's Electric First car policy. At the end of 2021 Battery Electric Vehicles (BEVs) made up 19% of the company car fleet, 41% of the car fleet is classified as Ultra Low Emission Vehicles and the fleet CO2 average was 70.3gCO2/km. The Electric First car policy complements the Company's flexible working and green travel allowance policies representing savings in both direct business travel and indirect staff commuting emissions.

Skanska's Low Carbon Fuel policy was implemented in April 2021 which started the phased introduction of sustainably sourced hydrotreated vegetable oil (HVO) fuel across our site activities. 49% of site fuel consumed in 2021 was HVO leading to 4,400t of avoided CO2e emissions. Without this policy emissions in this area would have been significantly increased on 2020. Under our Low Carbon Fuel policy, we continue to expand the use of electric- and hydrogen-powered plant alongside advance biofuels.

Quantification and Reporting Methodology

Skanska UK holds certification to ISO14064-1:2018 and we use this, UK Government publications and the Greenhouse Gas Protocol to guide our emission quantification and reporting. Estimations and exclusions for discontinued activities have been clearly identified.

In 2021 Skanska UK achieved platinum certification through the Carbon Reduce scheme (formerly CEMARS) recognising 11 years of year-on-year carbon reductions across our direct emissions. We are proud of this achievement but continue to work towards our overall goal of net zero emission across all Greenhouse Gas scopes by 2045.

Skanska UK reports estimates for scope 3 emissions associated with the activities of our supply chain across all our projects. We continue to work on improving the data on these emissions so we can more accurately target reductions initiatives with our customers through the supply chain.

Organisational Boundary

Skanska UK uses the financial control approach and JV emissions are included on an equity share bases.

Base Year

2010 is our chosen baseline year which is the first year of formal emission reporting under the Carbon Reduce scheme.

External Assurance Statement

Emission reports are audited annually to a reasonable level of assurance and documents supporting this certification can be found at <https://www.toitu.co.nz/our-members/members>

Carbon Offsets

The Group has not purchased any carbon offsets in the period.

Great People

In 2021, we developed our 2024 business plan. To deliver our business goals; operating safely, efficiently and innovatively, we outlined how we will continuously engage with and develop our people to build an inclusive, values driven and performance-based culture. A critical platform area is the people and culture action plan, which has three core focus areas. Leadership and culture, skills and capabilities and best employee experience.

Our purpose, we build for a better society and our organisational values - Care for Life, Act Ethically and Transparently, Be Better Together and Commit to Customers - remain unchanged, and continue to underpin everything we do, forming the foundations of the business plan. We recognise that building for a better society is more than just what we do, but also how we do it. In 2021 we developed a new 'living our values' behavioural framework to support the delivery of the plan. This framework is a tool to communicate the expected behaviours from all Skanska employees and replaces the 2015 Skanska Leadership Profile.

We know that being successful requires the right behaviours and skillsets not just for today but also for the future. We remain committed to ensuring that our project teams are set up to deliver the best outcomes for our customers and their customers, and to ensure we deliver a sustainable financial return for the Group. Our 'Right People' and redesigned workforce planning processes underpin the way we resource our projects through the entire project lifecycle, ensuring we get a diverse balance of sector experience, potential and delivery expertise in operational and leadership roles.

We encourage our people to share in the success of the Group by participating in SEOP, the Skanska employee ownership program. In 2021, 34% of our employees chose to invest in the Skanska Group through SEOP participation.

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Group Strategic Report For The Year Ended 31st December 2021

Recruitment

The Group welcomed 656 new employees in 2021 of which 29% were female and 23.6% identified as being from a minority ethnic heritage. In common with the majority of companies worldwide, we saw an increase in our voluntary turnover to 11.4%. Over 500 people successfully applied for new roles internally, keeping important skills and experience within the business.

The stability of Skanska helped to increase our attractiveness in the marketplace, leading to increased application numbers with over 20,000 applications for nearly 1,400 vacancies (for temporary and permanent roles) and saving over £2 million in agency fees through direct hiring.

Careers and development

During the early stages of the pandemic, we put our face-to-face development programmes on hold, and moved development focus into our online e-learning platform 'Skanska Academy' which is accessible to all employees. In 2021, many of our programmes recommenced but were delivered virtually and we took the opportunity to redesign our formal leadership programmes, to ensure they align to the new business plan. These will be introduced in 2022. A virtual 'adjusting to change' programme was also introduced, which included topics such as children's mental health, building resilience and coping with loss and bereavement to support employees respond to the challenges that the pandemic brought.

Our annual performance and development review process, formally includes both an end of year and a mid-year discussion. In 2020/21, we provided guidance to managers to extend their discussions beyond employee performance against set goals and behavioural expectations, to include conversations on work life balance, mental health and career aspiration. The annual cycle is recorded within an online system, Skanska Talent. Managers were also strongly encouraged to extend their discussions beyond these formal cycles to ensure employees were provided with regular support in these challenging times.

Our personal development portfolio is very comprehensive, demonstrating our commitment to both technical training and management development. This commitment provides the Group with the highest levels of employee competence, together with the strongest calibre of people and business leadership. We collaborate with leading business schools both in the UK and internationally to provide our leaders with leading edge and stimulating development and growth. Our continued approach to development and promoting from within wherever possible means we that are able to grow much of the leadership talent we will need for the future. An example is our Design Management Academy, which is a support and learning framework providing access to guidance, key reference material and training to all those involved in the management of design within Skanska. Established in 2020, the academy continues to provide world-leading content and best practice to our employees.

Our Talent and Succession process is run annually, with quarterly interventions ensuring regular progress is made in managing and developing key talent. We use robust psychometric assessments deployed by professionally-trained internal and external assessors to validate potential, with assessed employees having their own targeted development plan, allowing them to continually grow their skills and accelerate their careers within the organisation. During 2021, 57 internal assessments were completed by our in house British Psychological Society accredited assessor, with a further 45 completed by our external partners.

Inclusion and Diversity

Our inclusion and diversity (I&D) vision is all about delivering high performance by enabling everyone to bring their whole self to work. We are clear that everyone should be treated with dignity and respect within the workplace, and in 2021 we commissioned a research study by an external company, named 'Our Lived Experience', to find out how people in Skanska UK felt about inclusion, and to identify the ways that people from different groups and backgrounds experience our culture. Following the research, workshops took place with our Executive Management Team and senior leaders across the business to understand the report and to be clear upon how being more inclusive will support delivery of our business objectives. Clear strategic narratives about why inclusion is important to each business area, was created as an outcome.

We reworked the I&D governance, to ensure inclusive strategic decision making, leadership and behaviours are embedded across the business and there is alignment to business and network objectives.

We have established an I&D leaders group (made up of the CEO and representatives from senior leadership, HR, and our employee network leads) and a working group (departmental responsibility for I&D leads) who come together three times a year to share and learn from one another. Specifically within the leaders' group, we focus on creating an environment for the two-way sharing of perspectives between network leads and senior leaders.

To provide further insight alongside the Lived Experience Project, we analyse data from our pulse and engagement surveys, alongside 'business as usual' processes such as recruitment and performance reviews, to ensure we understand the differences in the responses of different demographic groups.

We continued to promote our 'Flex-it' framework which aims to provide all employees with informal flexibility about where and when they work. It marks a significant shift in working patterns for many of our people, allowing them to optimise their personal productivity and wellbeing. It is a key step in creating and implementing new ways of working that reflect our

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changing times and circumstances and is fundamental to making the construction industry attractive to all. We have so far chosen not to impose business wide expectations on working patterns, but rather to enable teams to find suitable patterns of work to deliver business priorities alongside enabling individual needs to be accommodated. We continue to watch carefully how this is received by employee groups and those working for the business.

We continued our flexible working pilots with Timewise and Build UK on an industry-wide flexible working programme to identify barriers and find solutions to adopting flexible working practices on project sites, as we are committed to ensuring we find flexible working solutions for all types of roles, including those with construction site restrictions.

People engagement

We remain focused on creating and maintaining high levels of people engagement and enablement.

In 2021 we continued opportunities for two-way communication through regular CEO 'all hands' briefings, leadership 'talk time' sessions, and regular pulse surveys. We asked general questions around topics such as anxiety to returning after a period of lockdown, and followed up on previous questions around topics such as desired working patterns. The responses have shaped our flexible working approach, mental health support and COVID-19 testing procedure. Results show us that we maintained a high level of engagement and enablement, with nearly 97% of respondents in February 2021 expressing positive feelings towards self and/or company.

Market Making

The Group's business plan 2024 is to pursue a market penetration strategy to achieve profitable revenue growth. This is achieved through a customer-centric approach that seeks to maximize market share in chosen sectors.

To ensure the success of this market strategy, there is an ongoing assessment of the investment appetite at both sector level and at the level of the customer. This assessment determines the projected demand for the core capabilities of those products and services where the Group has a proven track record of successful delivery. Assessment of the competitor environment provides further analysis that informs the Group on its most likely route to achieving its market strategy.

The Group aims to be an industry leader in listening, understanding and acting on customers' needs. To achieve this outcome the capabilities of the Group continue to develop in the following areas:

- Customer account management – A framework for customer account management that is developed and embedded across the Group. This includes a customer classification assessment that is reviewed annually, where customer insight provides a net promoter score assessment.
- Early engagement with customers – To enable an optimised outcome for the customer and for the Group.
- Sector & customer insights – Assessment of the suitability of the current market strategy to inform management of the future sales pipeline. The Group continues to invest in customer relationship management software (Salesforce) to enable this.
- Create customer-specific value propositions – providing a deeper understanding and active promotion of the Group's products & services to enable cross-selling to customers.

The values of the Group are assessed through the customer measurement programme. This continues to inform that the Group's values provide a differentiator to customers and that these are a desirable part of the offer to the market. To this end, the strategic alignment of existing and future customers is assessed with the Group's own values. Where there is a close alignment of shared values, there is evidence of repeat business with those customers.

For the year 2021, mitigation measures for the events of both Brexit and the global COVID-19 pandemic required the Group to continue to apply an appropriate risk management approach. This required a continuation of close assessment of the market supply and demand pressures relating to both. For both events the Group's market strategy has proven to be resilient where the outlook is stronger than the general market in which the Group operates.

The Group continues to apply strong risk management procedures at both corporate and project level. This ensures we select the right projects that will continue to deliver the expectations of our customers and shareholders.

Early contractor involvement

Demand continues to increase among the Group's customers for help with designing functional and cost-saving solutions. Joining a project at an early stage aids the Group, in early identification and management of risk with its customers, as well as in helping customers be more successful in their core businesses. This is a procurement route that we increasingly demand during our opportunity selection phase.

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Operational Efficiency

We remain focused on improving the operational efficiency of our business, especially construction projects. This means enabling project teams to deliver their contracts faster and at lower cost throughout the whole project life cycle.

We do this by:

Improving productivity through

- Rapid adoption of new digital ways of working
- Deployment of Innovation and industrialisation specialist expertise
- Coordination and prioritisation of productivity improvement opportunities

Managing our supply chain to

- Obtain best value from the right supply chain
- Ensure collaboration for supplier innovation and decarbonisation
- Achieve efficient and sustainable procurement and supply chain processes

Providing Engineering consultancy services to

- Improve the efficiency of construction using MMC
- Increase the provision of specialist technical expertise in our construction projects
- Manage engineering related Risk and Opportunity

The Group has identified project productivity as an area that, by undergoing a significant transformation over the next Business Plan period, can help us achieve our business objectives. We are focusing on the adoption of technology and the exploitation of data to improve our project productivity. A tactical effort has been approved at Group level that will deliver skills, tools, and processes to make our projects more productive.

We have successfully retained ISO19650 BIM Level 2 certification at Group level, which certifies our business as being capable of collaborating with project team stakeholders digitally. This is a requirement on all publicly funded projects. We have also gained ISO56000 accreditation at Group level. This standard certifies that we have a suitable framework to implement, maintain, and improve Innovation Management Systems. This accreditation supports our Group efforts to collaborate with our customers to improve the quality and value from their projects.

Looking ahead we will continue to focus on the well-being of our people and our supply chain. The post pandemic world is still evolving, and this includes the balance between remote and co-located working. We will strengthen the relationships with our key supply chain through increased communication, closer collaboration, and ethical and transparent behaviours. Equally, we will support our direct teams with continuous updates and communication of our Charter, which clearly articulates our purpose, core operating principles, core commitments, and shared mindset and behaviours. We will continue to strive for an inclusive workforce and supply chain.

Compliance with the Modern Slavery Act 2015

The Group is committed to ensuring that all of its business operations are free from involvement with slavery or human trafficking and this it seeks to ensure, primarily, through its Sustainable Procurement Policy.

The Skanska Code of Conduct and Skanska Supplier Code of Conduct include express provisions for Fair Working Conditions, based on the Universal Declaration of Human Rights, the conventions of the International Labour Organisation and the UN's Guiding Principles on Business and Human Rights. The Code of Conduct requires employees to treat each other with respect and dignity and to raise concerns about unfair working conditions. The Supplier Code of Conduct extends these principles to sub-contractors and suppliers.

The Group ensures there is enhanced modern slavery education and awareness through our external Supply Chain Sustainability School with procurement guidance notes and toolbox talks for projects and contracts being made available to the School's 50,000+ members.

Skanska's Modern Slavery and Human Trafficking Policy, which provides greater detail on our approach to the eradication of these issues from our business and our supply chain, is published via a link on the homepage of our website. This updated policy was approved by the Board of Directors of the Company on 20th June 2022. It is reviewed and published on an annual basis.

Market & Outlook

As we closed 2021, we booked over £1.3 billion of orders in our chosen markets, supported by £519.7 million of cash with no leverage or debt, placing the Group in a strong position. We remain mindful of the market conditions driven by the wider economic and geo-political challenges and continue to work proactively with both our customers and supply chain to monitor and mitigate headwinds in commodity and energy costs to protect the financial performance of the Business in the short, medium- and long-term.

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Section 172 Companies Act 2006

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In doing this, section 172 requires Directors to have regard to, amongst other matters, the:

- likely consequences of any decisions in the long-term,
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others,
- impact of the Company's operations on the community and environment,
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

In discharging our section 172 duties we have regard to the matters set out above. In addition, we also have regard to other factors which we consider relevant to the decision being made. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision making, we aim to make sure that our decisions are consistent and predictable.

We delegate authority for day-to-day management of the Company to senior leadership teams and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held regularly in which the Directors consider the Company's activities and make decisions. As a part of those meetings the Directors receive information in a range of different formats to ensure that they have regard to section 172 matters when making relevant decisions.

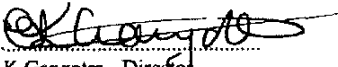
The Company's key stakeholders are its workforce, customers, suppliers and the local communities in which it operates. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. The size and spread of both the Company's stakeholders and the Skanska Group means that generally our stakeholder engagement takes place at an operational and Group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual Company. For details of the engagement which takes place with the Group's stakeholders please see page 16.

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board makes decisions for the long-term success of the Company and its stakeholders (see Principle 6 - Stakeholders, of the Corporate Governance Report within these Financial Statements), but also having regard to how the Board ensures the Group complies with the requirements of section 172 of the Companies Act 2006. Our reporting against the Wates Principles has been included on pages 13 to 18.

We set out below an example of how we have had regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duty and the effect of that on decisions taken by us:

Throughout 2022, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

On behalf of the board:


C K K Gangotra - Director

Date: 15th July 2022

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Statement of Corporate Governance arrangements

For the year ended 31st December 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website).

The disclosures below explain how the Group has applied these principles in the context of its corporate governance arrangements.

Principle 1 – Purpose and Leadership

As one of the UK's leading contractors, Skanska is an inclusive and responsible business that is helping to build for a better society. Known for major projects across the country, we are building, upgrading and maintaining the country's infrastructure.

Drawing on our Scandinavian heritage, we are green, innovative and values-driven. We bring together people and technology, as part of our quest to make construction a safer and more collaborative industry.

Purpose

The Group's purpose and mission is to build for a better society. What we do and how we do it contributes to a sustainable future for our people, our customers and for the communities in which we operate. We deliver our purpose through our great variety of projects and innovative, sustainable solutions. It is about what we do as well as how we do it. We aim to lead in health and safety, ethics, green, inclusion and diversity and community investment - our Sustainability areas - and we do that through our commitment, passion, and expertise. This creates greater shared value for our people, for society and for Skanska.

Values and Culture

The Group's four core values are: care for life, act ethically & transparently, be better – together and commit to customers. Our values express our moral foundations and compass. They express who we are, how we behave and what we believe in, and help us in our day-to-day work. Values provide business benefits (page 4) and living our values will make us successful. Actions that are not in line with, or may jeopardise, our values are not accepted.

We strive to create value for our shareholders and to have a positive impact on society. We don't believe it is about doing one or the other; it is about doing both at the same time. Profit is needed to deliver on purpose and a strong purpose will contribute to profit. Every project should both be profitable and delivered in line with the Skanska values and our ambition to be a leader within Sustainability. The Group's operations consist of construction and related activities. Operating units within several streams collaborate in various ways, creating operational and financial synergies that generate increased value.

The Skanska Code of Conduct defines how all Skanska employees should work. The aim of the Code is to provide clear direction for everyday behaviour, helping us to live our values and maintain our position as a safe, ethical and sustainable business. Our aim is to ensure all projects reflect our purpose and are not only profitable but are delivered without ethical breaches and with a transparent and inclusive culture.

People are at the heart of our business; we aim to create an inclusive culture with an environment where employees can be themselves and be the best they can be. We offer our employees opportunities to develop and learn. The Group sets a culture based on transparency, values and high performance, with employees working together towards common goals. This culture is embedded through senior management engagement, performance reviews, reward structures, as well as training and induction. We monitor the effectiveness of this culture and communication through staff surveys, exit interviews and feedback sessions with Directors.

Strategy

In the first half of 2022, the Group entered its next plan cycle and launched Business Plan 2024 across the business. At the core of the new Business Plan remains Skanska's long-term purpose and values. The new plan follows a market penetration strategy, aiming to increase our share of work in our most successful sectors and grow revenues with existing customers. Along with a challenging set of financial targets, the outcome of Business Plan 2024 is to make progress against our ambition to become the most respected construction company in the UK.

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Strategic objectives

The first stage of the Laser Focus Plan (page 4) focused on strategic objectives in five key areas:

Right people – Making sure we use objective, performance-based information based on evidence when we appoint people to key project positions. This is strategically important because people in these pivotal roles take values-driven decisions which significantly affect the successful delivery of projects. The key objective is to collect factual information about our projects and employees performance and then making sure we use it to drive a successful, diverse and collaborative team enabling the best opportunity to achieve profit with purpose.

Design control - Design control covers everything about how we assess, manage and deal with project design. This is critically important for the success of our projects and has a significant impact on our clients and our profitability. We have recognised that early collaboration with our partners on design in an open but controlled environment gives the best chance of success. This relates to all parts of a project from tender and procurement through to delivery and handover.

Understanding and applying the deal - This is about knowing the contract, acting on that knowledge and recognising the commercial impact it has on our stakeholders as well as upon ourselves. A collaborative, no surprises environment is the goal ensuring all parties are able to achieve their objectives, be they financial or operational.

Quality – We recognise that the cost of “lack of quality” is a burden to any construction business through the subsequent rework of design and delivery. Therefore, this objective is about ensuring a “right first time” mentality is driven through all areas of the Business. Using recognised and professional techniques through to sharing best practice and empowering our employees to innovate is at the heart of the objective. A clear and realistic plan that can be actioned and measured is key to each part of any project.

Forecasting and reporting – It is fundamental that reporting needs to be accurate, transparent and consistent across the Group. This also allows for more accurate forecasting, empowering the BU to be able to understand the opportunities available to it and the challenges it faces. The rollout of new project valuation systems alongside training and support for Project teams has been vital in achieving this objective.

By focusing on the strategic objectives in these key areas in the short-term increases profitability and in the long-term increases stakeholder value and sustainability. These are monitored through margins achieved on projects as well as employee appraisals and customer surveys.

In order for the Laser Focus Plan to be successful we need to: base our decisions on fact and realism; scrutinise effectively; learn from success and failure; address under performance and do what we say we would do. At their core is the Skanska culture – values driven, open and transparent, striving to be better - together. This in turn helps to advance the Group’s purpose of building for a better society.

Principle 2 – Board Composition

The board is made up of the Executive Management Team (EMT) which is led by UK President and CEO, Gregor Craig, supported by six Executive Vice Presidents. The board comprises a balance of skills, backgrounds, experience and knowledge with each individual making a valuable contribution. The average tenure of the board is six years.

The EMT is responsible for setting the strategic direction, values, ethics and purpose across the Group.

The size of the board is considered sufficient for the strategic needs and challenges faced by the organisation and enables effective decision making. The board is evaluated on a regular basis by its ultimate parent company Skanska AB.

Principle 3 – Directors’ Responsibilities

Accountability

Each board member has a clear understanding of their responsibility and accountability. The corporate governance framework ensures that Skanska is managed sustainably, responsibly and efficiently on behalf of all stakeholders. The purpose of corporate governance is also to ensure oversight of the Group by the EMT and management. By having a clearly defined governance structure as well as proper policies and procedures, the board can ensure that management and employees are focused on developing the business and thereby generating shareholder value and having a positive impact on society.

The board usually meets twice a month as an executive team and additionally as required.

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The EMT delegates authority for day-to-day management of the Group to the Senior Management Team (SMT), which it has oversight of, made up of individuals with the appropriate knowledge, qualifications and industry experience to carry out their roles. The SMT comprises of members who are responsible for specific operations and functions to enable effective and efficient decision making. The Group has a delegation of authority policy which clearly details what decisions can be delegated and to whom, including any financial limits. In some instances, Skanska HQ approval is also required above the EMT levels of authority.

Integrity of information

The EMT receives regular and timely information on all key aspects of the business including Sustainability, health and safety, opportunities, risks, financial performance, strategy, operations, order bookings and other key performance indicators.

Information is reported from the Group's operational, commercial and accounting systems. The employees involved are appropriately qualified to ensure the integrity of this information and are provided with the necessary training to keep up to date with any regulatory changes. Financial controls are regularly and routinely reviewed by the ultimate parent company's internal audit function.

Principle 4 – Opportunity and Risk

The EMT aims to promote the long-term sustainable success of the Group by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

Opportunity

For our construction operations, several factors have a significant bearing on the eventual outcome of the project, including - type and size, where it is located, how the contract and delivery approach are structured and the relationship with the customer. The Group has procedures and tools to manage risk and to deliver the Group's business plan. This platform provides a structured and efficient means of maximising profitability and achieving the business plan. It builds on the Group's fundamentals of focusing on core project types and the understanding of its customers and markets.

As part of our Laser Focus Plan, the goal is that every project must hit or beat tender margin, delivering an operating margin of 3% or greater. There are five work streams which have been prioritised as they will have most impact on improving our financial performance: the right people; design control; understanding and applying the deal; quality; forecasting and reporting.

We only bid on projects in areas which we have a proven track record of success and which delivers a 3% or greater operating margin. In order to identify these projects, we continuously monitor sectors we currently operate in from both a financial and performance perspective whilst also assessing the potential future opportunities. From time to time this evaluation protocol is also extended to newly-emerging sectors. Combining these elements together has given us a good understanding of the projects we should bid for. It is not just, however, about what we do, but also how we do it. To make the Laser Focus Plan a success we aim to: base our decisions on fact and realism; scrutinise effectively; learn from success and failure; address underperformance; and do what we say we will do.

As part of this, the 'Quality of Scrutiny' programme was introduced, an initiative undertaken by the Group to further enhance our abilities in scrutinising and managing projects. In order to improve our performance and achieve a high level of operational stability, we scrutinise and revisit continuously how we work with the estimating, planning, project execution, bid selection, risk assessment, administrative and support functions.

Risk

The way in which risk management is dealt with across the Group is set out in the Skanska Group Enterprise Risk Management Information Policy. The enterprise risks are classified in four categories: strategic; operational; financial; and regulatory. The Group's approach to risk is governed by Skanska AB, the ultimate parent company, who have identified the material risks in its operations that may, if not managed correctly, lead to errors in financial reporting and/or have an impact on the Company's performance results. Skanska AB's Group Leadership Team and its core functions are responsible for managing general risks relating to strategy, macroeconomics and regulatory frameworks, while the main tasks relating to operational risks and opportunities are carried out at the local level within its individual business units

The UK is required to carry out a business-wide enterprise risk assessment every two years, with the assessment being formally monitored by the ultimate parent in the interim year. This enables the board to monitor and assess risks at a local level and consider whether these are in line with the ultimate parent company's assessed risks at a global level. The last review was carried out during 2021 and a new process of reviewing and, if necessary, updating risks on a quarterly basis was adopted. The principal risks for the Group are set out within the Strategic Report (page 2).

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Responsibilities

The EMT has established an internal control framework with clearly defined roles and responsibilities for those involved. The Skanska UK policies, procedures and guidelines provide the basic rules and instructions to provide a clear structure for the business operations and they represent current best practice.

Principle 5 – Remuneration

At Skanska, a high-performance culture supported by appropriate remuneration and an award-winning employee development programme is critical to the delivery of individual and business objectives. This culture is driven by the alignment of clear and challenging responsibilities and ensuring that employees are aware of how their work impacts the Group.

Skanska stands by the principle of “equal pay for equal work”. Accordingly, decisions relating to remuneration are never influenced by discriminatory factors. Furthermore, Skanska adopts the Grandparent Principle for any remuneration decisions. To ensure fair and objective remuneration, approval is required from the line manager and the line manager’s manager.

The remuneration of the CEO is approved by the Skanska AB compensation committee, and external benchmarks are used in the setting of this. Remuneration of board members is approved by the CEO of Skanska AB in line with the requirements of the Skanska AB Compensation Committee.

The annual bonus plan for the CEO and other board members is based on two factors: profitability; and performance against a small number of strategic measures. Targets for both areas are set annually. The annual strategic measures are aligned with the three areas of the “Profit with Purpose” initiative – Great People, Operational Excellence, and Market Making.

Principle 6 – Stakeholder Relationships and Engagement

The EMT is clear that good governance and effective communication are critical to the Group’s success. These factors enable us to deliver our purpose within our communities, and to protect the Group’s brand, reputation and relationships with our stakeholders and ultimate parent, Skanska AB.

Our Communities

The Group is committed to providing a sustainable future for its people, customers and communities. The Group’s work makes a clear contribution to society and the environment. We are committed to supporting the communities in which we operate, and through our structured approach to community investment we provide our time, skills and gifts in kind to leave a positive legacy wherever we work. Our focus is on strengthening local economies and championing education in our areas of expertise. We believe this is where we can have the greatest influence, and it directly supports our purpose to build for a better society.

Our projects may last for several years in construction and are designed to last for many years after that. We are committed to maintaining and improving the environment on our sites and in surrounding areas. We have a team of more than 70 environmental professionals who provide advice and support to our business and projects. This includes delivering on legal compliance, helping our customers to meet their own green ambitions and delivering environmental management that goes above and beyond statutory requirements, including our plan to operate with net-zero carbon emissions by 2045.

Stakeholder Relationships and Engagement

The EMT promotes accountability and transparency with its internal and external stakeholders. An open and ongoing dialogue with stakeholders is a key component in day-to-day operations and long-term planning. This provides important insights regarding their needs, expectations and challenges.

The EMT continues to seek to align the Group’s strategic direction with its purpose to build for a better society as well as Skanska’s long-term sustainability goals of being a responsible business leader in health and safety, ethics, green, inclusion and diversity and community investment, focussing on scaling up climate solutions, and developing all our projects to ensure a high level of resilience. The EMT are the primary communicators between the Group and its ultimate parent company.

One of the Group’s core values is Commit to Customers. By better understanding our customers’ needs, we aim to provide innovative and industry-leading solutions. Relationships with our customers are most productive when we are involved in project planning at an early stage. This allows us to establish and work together towards common aims and provides the best environment for us to add value for them and for their stakeholders. We work on a variety of contracts including those in joint ventures, on frameworks and in partnerships, depending on the project requirements and the customer. The EMT has set the foundations for an initiative to become better engaged and connected with customers. This includes “Customer Insights and Measurement” which is a structured customer satisfaction measurement programme using Net Promoter Score.

During the year the EMT receives updates on key customers including any current or potential issues. Each member of EMT will meet regularly with customers as being visible, open and collaborative is key to our success. Whether it is sharing best practice, discussing success on a project or resolving challenges, the success of this engagement cannot be underestimated.

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Each member is also a direct contributor to professional bodies and associations that shape and give thought leadership to our industry. This interaction aims to keep the Group at the forefront of innovation, forward-thinking debate and collaboration with all stakeholders. The impact of this engagement can be seen from policy change through to challenging the mindsets about mental health within the industry.

The Group works closely with our supply chain partners who are essential to our success. The EMT aims to build collaborative relationships to develop solutions that will drive down costs, manage risk and improve sustainability standards. The EMT have implemented a structured relationship management and development programme, which includes the ISO44001 standard. In the wider industry, the Group is collaborating with the other main contractors in order to help deliver the UK government's Construction 2025 strategy targets – 33% lower costs, 50% faster build and 50% lower emissions – as well as to support the award-winning Supply Chain Sustainability School. The School now has over 70,000 registered users from across the supply chain who can improve their skills in sustainability competence.

The majority of the Group's spend is with small- and medium-sized businesses, which are often close to its project sites and offices – helping to support local people and the economy. The EMT is committed to applying fair and transparent payment terms for its supply chain, supporting the national Construction Supply Chain Payment Charter and Prompt Payment Code, which demonstrates its commitment to fair payment. The EMT strongly believes that fair and transparent on-time payment is essential to good supply chain partner relationships and the delivery of successful projects. In addition to this, the Group supports several areas of its supply chain to undertake research and development.

The Group is committed to managing the wider social, environmental, and economic impacts of its operations which includes the way it engages and builds relationships with its customers and manages sustainability. The EMT is committed to protecting the environment and making a positive contribution to a more sustainable world through improving the environmental performance of all our products and services, and actively working to minimise our impact on climate change. The EMT has set Skanska UK's aim to be the leading green contractor and we continue to make progress against our target to operate with net-zero greenhouse gas emissions by 2045, and deliver against our overall environmental business plan.

Investment in people is a priority for the Group, offering employees (including contractors) the opportunity to develop and learn, either within their current role or in one of the cross-Skanska schemes to build networks and improve collaboration. The EMT engages with employees in a number of ways throughout the year including recruitment and on-boarding platforms, Company-wide conferences, roadshows, development programmes and local communication events. During COVID-19 board and employee engagement was retained through several channels including online meetings, wellbeing surveys and live Company-wide updates including Q&A sessions with the CEO.

Over the past few years, the EMT has taken steps to improve employee relations by launching more interactive meetings, improving financial, commercial and operational systems, expanding the range of employee benefits, encouraging more flexible working practices and supporting wellbeing initiatives. An employee engagement survey, 'Your Voice, Our Success' (YVOS), is carried out annually to provide every employee with the opportunity to give input to improve Skanska and enable an approach for understanding strengths and development areas. The EMT treats the results of the YVOS survey as an important indicator of the workforce's confidence in the Group's strategic direction. Specific feedback is requested on how employees believe the EMT are performing and whether they are trustworthy and capable at leading the Business. Once again, the results of this survey in 2021 demonstrated a high level of trust and belief in the EMT.

Skanska's Code of Conduct connects all parts of the Group with Skanska's values, strengthening the business. The Code of Conduct defines how all Skanska employees should work and interact with each other, customers and other stakeholders. New employees are required to complete Code of Conduct training on or before their first day at Skanska, with a mandatory refresher course for all employees at two-year intervals. Skanska employees are expected to take action, without fear of recourse, if they believe that there has been a serious breach to the Code, for example, fraud, theft, bullying or health & safety violations. A number of methods are available for any employee to raise any potential concerns, including anonymously via Skanska's Code of Conduct hotline. Reports are investigated by the Ethics Committee and summaries are published internally for all employees to read.

The Group communicates regularly with the Trustees of its various defined benefit pension schemes, who are independent of the Group. The Board of Trustees comprises individuals nominated by the pension scheme members and by the Group. These relationships are key to ensuring that the decisions made by both the Group and the scheme reflect the interest of all stakeholders.

The Company's website (www.skanska.co.uk), intranet and social media channels provide extensive and up-to-date news on recent developments.

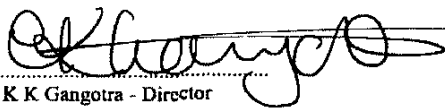
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For The Year Ended 31st December 2021**

Principal decision-making

The Group recognises the importance of engaging with stakeholders to help inform strategy and EMT decision-making. Relevant stakeholder interests, including those of employees, suppliers, customers and other stakeholders, are taken into account by the EMT when decisions are made. In making these decisions, the EMT considers the outcomes of relevant stakeholder engagement as well as the need to maintain reputation and shareholder value.

On behalf of the board:


.....
C K K Gangotra - Director

Date: 15th July 2022

Skanska UK Plc (Registered number: 00784752)

**Directors' Report
For The Year Ended 31st December 2021**

The Directors present their report with the financial statements of the Company and the Group for the year ended 31st December 2021.

This Directors' report should be read in conjunction with the Group Strategic Report, which shall be deemed to form part of this Directors' Report to the extent required by applicable law and regulations.

Principal activities

The principal activity of the Group in the year under review was that of a construction services business with core activities in construction, civil engineering, utilities, piling and ground engineering, design, mechanical and electrical works and hard and soft facilities management. Our business model is to integrate our core disciplines to deliver project solutions across our chosen market sectors.

Dividends

An interim dividend in-specie of £16.1 million (0.4878p per share) in respect of the year ended 31st December 2021 was distributed to the ordinary shareholder on 26th November 2021. This in turn provided distributable reserves for dividend payments from the Company's immediate UK parent, Skanska Construction Holdings UK Limited, to Skanska Europe AB for the financial year ended 31st December 2021.

Future developments

The Group will continue to focus on its new business plan in the year which will set out our direction for the next several years as well as continuing to focus on mitigation plans in respect of Brexit and the Ukraine crisis.

Directors

The Directors who have held office during the period from 1st January 2021 to the date of this report are:

H J Francis
G L Craig
C K K Gangotra
T P Faulkner
M G Neeson
K M Dowding
S Paul (Appointed 6th April 2021)

Directors' interests and transactions with Directors

None of the Directors as at 31st December 2021 had any interests required to be disclosed under Section 182 Companies Act 2006. There were no changes in the Directors' interests between 31st December 2021 and the date of approving this report. No Director during the year had an interest in any contract significant to the Group's business.

Statement of corporate governance arrangements

From the 1st January 2018, under The Companies (Miscellaneous Reporting) Regulations 2018, the UK Group has applied the Wales Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC')) in December 2018 and available on the FRC website). They embrace the Group's existing governance framework, which already contained many of the principles to satisfy the new legislative requirements.

The Corporate Governance Report approved by the Board is provided on pages 13 to 18.

Policy on payment of creditors

The Company and its subsidiary undertakings are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Company policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. The Group's trade creditors at 31st December 2021 represented 6.9 days' purchases (2020: 5.7 days).

Skanska UK Plc (Registered number: 00784752)

**Directors' Report
For The Year Ended 31st December 2021**

Research and Development

Innovation is important to enable Skanska to retain a leading market position, enabling the Group to provide the solutions needed by customers, now and well into the future. Through innovation, Skanska identifies, develops and apply new technical products, services, and processes, increasingly working with external partners. This focus – part of the 2024 business plan's Digital productivity aspect – generates enhanced value for Skanska's shareholders and customers. Various internal networks and communications platforms facilitate sharing knowledge across the Group.

Research and development priority areas include Sustainability – including green and health and safety – and digitalisation.

Going concern

The Company's Directors have considered the preparation of these financial statements under the 'going concern' basis. They have considered:

- The quality, remaining duration and volume of construction contracts held;
- The liquidity levels maintained by the business;
- The principal risks and uncertainties outlined in the Group Strategic Report;
- The future forecasts for the Group.

In addition, we continue to assess the continuing impact of Brexit and the emerging impact of the Ukraine crisis on the business through additional stress testing of the Group's budgets and forecasts. The stress testing has considered the Group's operational performance and cash flow based on a number of scenarios in accordance with the impacts on the wider economy, our clients markets and supply chain, looking at both the short to medium-term. The outcome of which shows that the Group is expected to maintain positive cash flows giving the Group the ability to continue to operate for the foreseeable future.

After considering the above points and making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period from the date of signing these financial statements to 31st December 2023. Accordingly, they deem it appropriate to continue to prepare these financial statements on the going concern basis.

Employment policies

The Directors recognise that employees are fundamental to the Group's success and are committed to the involvement and development of employees at all levels. The Company is committed to a policy of providing equal opportunities for all, regardless of race, religion, sex or disability. The Company is committed to training and management development, so as to ensure a supply of trained and skilled employees.

To reflect society at large, the areas in which the Company works, and its customer profile, the Company needs to increase the diversity of its workforce in terms of educational and occupational background, gender and ethnicity. Therefore, the Company is broadening its recruitment base by attaching greater importance to these issues. Examples of our approach in this area include the establishment of a number of employee networks to give a greater voice to under-represented Groups, a mixed pair mentoring programme, and a Returners programme which provides a supportive bridge back into employment for people who have been out of the work arena for reasons such as caring responsibilities or raising a family.

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company and the Skanska Group. This is achieved through formal and informal meetings and in-house publications.

The Directors ensure that employees or their representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Environment

The Company and its subsidiary undertakings are required to pursue policies that comply with the relevant legislation and standards applicable to their particular industries.

The Group's Streamlined Energy and Carbon Reporting can be found within the Strategic Report on page 7.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Skanska UK Plc (Registered number: 00784752)

**Directors' Report
For The Year Ended 31st December 2021**

Pensions

On an IAS 19 basis, the Group's defined benefit pension schemes had a surplus of £54.0 million at 31st December 2021 (2020: deficit of £31.3 million).

Total contributions paid into the main Skanska Pension Fund by the Group was £15.0 million (2020: £14.5 million).

Directors' indemnity provisions

In accordance with the Companies (Audit, Investigations and Community Enterprise) Act 2004, as at the date of this report, the articles of association contained provisions for third-party qualifying indemnities where the Group has agreed to indemnify the Directors in respect of losses arising out of, or in connection with, the execution of their duties and responsibilities as Directors of the Company, and this was in force throughout the financial year ended 31st December 2021.

Post balance sheet events

There have been no post balance sheet events that require disclosure or adjustment in these financial statements.

Disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Group's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, the auditors, Ernst & Young LLP, will be proposed for re-appointment at the following Annual General Meeting.

On behalf of the board:


.....
C K K Gangotra - Director

Date: 15th July 2022

Skanska UK Plc (Registered number: 00784752)

**Statement of Directors' Responsibilities
For The Year Ended 31st December 2021**

The Directors are responsible for preparing the Group Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and then apply them consistently;
- state whether applicable IFRS, in conformity with the requirements of the Companies Act 2006, have been followed, *subject to any material departures, disclosed and explained in the financial statements*;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Independent Auditors to the Members of Skanska UK Plc

Opinion

We have audited the financial statements of Skanska UK Plc ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2021 which comprise the Group Profit and Loss Account, the Group and Parent company Balance Sheet, Group and Parent company statement of cash flows, the Group statement of comprehensive income, the Group and Parent statement of changes in equity and the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the parent company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We assessed the risk around going concern in planning our audit and again at the year-end phase;
- We confirmed our understanding of the process followed by management to prepare the Group's going concern assessment, including assessing the inflation and supply chain impact of the ongoing Covid-19 pandemic and the conflict in Ukraine;
- We obtained management's going concern assessment, including the cash flow forecast for the going concern period to 31 December 2023;
- We identified and challenged the key assumptions underlying management's forecasts and models by checking to corroborative evidence. We also searched for contrary evidence to challenge the assumptions;
- We performed our own sensitivity analysis on the forecast in addition to sensitivity analysis performed by management;
- We performed reverse stress testing on the forecast prepared by management;
- We checked the logic and arithmetical accuracy of the models developed by management;
- We assessed the accuracy of management forecasting by comparing forecasts made in prior periods to actual outcomes;
- We obtained a copy of the Group's order bookings and performed an assessment over the secured revenue; and
- We assessed the accuracy and appropriateness of management's disclosure in the Director's Report and the Going Concern basis of preparation note.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period from when the financial statements are authorised for issue to 31 December 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Report of the Independent Auditors to the Members of Skanska UK Plc

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on x, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report of the Independent Auditors to the Members of Skanska UK Plc

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

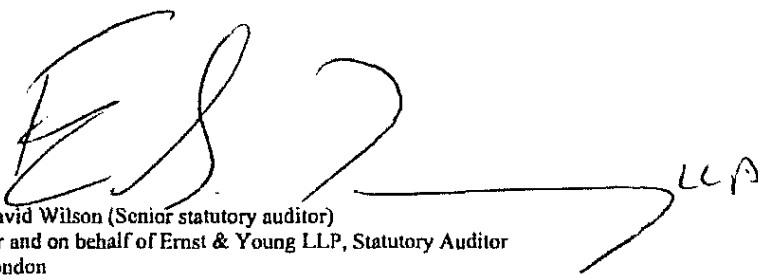
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, Bribery Act 2010, Construction (Design and Management) Regulations 2015 and the relevant tax regulations in the United Kingdom.
- We understood how Skanska UK Plc is complying with those frameworks through inquiry with management, and by identifying the Group's policies and procedures regarding compliance with laws and regulations. We corroborated our inquiries through our review of board minutes, compliance issues reported through a whistleblowing hotline and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur through inquiry with management (including legal) and those charged with governance to understand where they considered there was susceptibility to fraud. As part of this we understood the performance targets of management. We also considered the risk of management override.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved testing manual journal entries and other journals identified by specific risk criteria, review of board minutes and any legal correspondence, inquiries with senior management and where applicable, those charged with governance and obtaining written representations from the directors of the company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



David Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15th July 2022

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Profit or Loss
For The Year Ended 31st December 2021**

	Notes	2021 £'000	2020 £'000
Revenue	4	1,122,698	1,122,278
Cost of sales		<u>(1,005,754)</u>	<u>(1,042,310)</u>
Gross profit		116,944	79,968
<i>Other operating income</i>	5	302	4,018
Administrative expenses		<u>(83,538)</u>	<u>(71,810)</u>
Operating profit		33,708	12,176
Finance costs	7	(2,022)	(2,476)
Finance income	7	3,060	3,333
Profit before tax		34,746	13,033
Income tax	9	<u>(10,760)</u>	<u>(855)</u>
Profit after tax for the year from continuing operations		<u>23,986</u>	<u>12,178</u>
Profit after tax for the year from discontinued operations	10	31,552	8,181
Profit for the year		<u>55,538</u>	<u>20,359</u>
Profit attributable to: Owners of the parent		<u>55,538</u>	<u>20,359</u>

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Comprehensive Income
For The Year Ended 31st December 2021**

	2021	2020
	£'000	£'000
Profit for the year	55,538	20,359
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Net actuarial gain/(loss) on pension scheme	72,007	(5,592)
Employees share scheme	2,490	2,173
Current tax credit relating to items of other comprehensive Income	3,388	2,338
Deferred tax charge relating to items of other comprehensive Income	(21,416)	(1,276)
	56,469	(2,357)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference	(1,402)	1,077
	(1,402)	1,077
Other comprehensive income/(loss) for the year, net of income tax	55,067	(1,280)
Total comprehensive income for the year	<u>110,605</u>	<u>19,079</u>
Total comprehensive income attributable to:		
Owners of the parent	<u>110,605</u>	<u>19,079</u>

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Financial Position
For The Year Ended 31st December 2021**

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	12	9,634	6,830
Property, plant and equipment	13	19,989	20,574
Right-of-use assets	14	44,661	45,526
Investments	15	3,937	3,937
Pension asset	28	53,981	-
Deferred tax	27	9,293	16,019
		<u>141,495</u>	<u>92,886</u>
Current assets			
Inventories	16	4,573	4,667
Trade and other receivables	17	165,738	145,691
Contract assets	18	83,534	85,433
Cash and cash equivalents	19	519,650	422,385
		<u>773,495</u>	<u>658,176</u>
Assets held for sale	10	-	54,725
		<u>773,495</u>	<u>712,901</u>
Total Assets		<u>914,990</u>	<u>805,787</u>
Equity			
Shareholder's equity			
Called up share capital	20	165,000	165,000
Retained earnings	21	197,682	103,177
Total equity		<u>362,682</u>	<u>268,177</u>
Liabilities			
Non-current liabilities			
Lease liabilities	24	50,434	53,069
Pension liability	28	-	31,331
Deferred tax	27	13,496	2,556
Provisions	26	98,808	82,826
		<u>162,738</u>	<u>169,782</u>
Current liabilities			
Trade and other payables	22	285,188	218,468
Contract liabilities	23	85,354	88,065
Tax payable		8,166	199
Lease liabilities	24	10,862	10,278
		<u>389,570</u>	<u>317,010</u>
Liabilities directly associated with the assets held for sale	10	-	50,818
		<u>389,570</u>	<u>367,828</u>
Total liabilities		<u>552,308</u>	<u>537,610</u>
Total equity and liabilities		<u>914,990</u>	<u>805,787</u>

The financial statements were approved by the Board of Directors on 15th July 2022 and were signed on its behalf by:


C K K Gangotra - Director

The notes on pages 34 to 73 form part of these financial statements

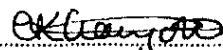
Skanska UK Plc (Registered number: 00784752)

**Company Statement of Financial Position
For The Year Ended 31st December 2021**

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	12	9,634	6,830
Property, plant and equipment	13	6,457	6,289
Right-of-use assets	14	43,380	41,953
Investments	15	48,898	49,238
Pension asset	28	54,874	-
Deferred tax	27	2,576	8,346
		<u>165,819</u>	<u>112,656</u>
Current assets			
Trade and other receivables	17	259,490	246,449
Contract assets	18	32,788	27,211
Tax receivable		14,176	4,182
Cash and cash equivalents	19	-	2,839
		<u>306,454</u>	<u>280,681</u>
Assets held for sale	10	-	15,954
		<u>306,454</u>	<u>296,635</u>
Total Assets		<u>472,273</u>	<u>409,291</u>
Equity			
Shareholder's equity			
Called up share capital	20	165,000	165,000
Retained earnings		82,604	16,170
Total equity		<u>247,604</u>	<u>181,170</u>
Liabilities			
Non-current liabilities			
Lease liabilities	24	48,395	48,690
Pension liability	28	-	28,115
Deferred tax	27	13,718	-
		<u>62,113</u>	<u>76,805</u>
Current liabilities			
Trade and other payables	22	138,594	127,621
Contract liabilities	23	-	1,286
Lease liabilities	24	7,359	6,174
Bank overdraft		16,603	-
		<u>162,556</u>	<u>135,081</u>
Liabilities directly associated with the assets held for sale	10	-	16,235
		<u>162,556</u>	<u>151,316</u>
Total liabilities		<u>224,669</u>	<u>228,121</u>
Total equity and liabilities		<u>472,273</u>	<u>409,291</u>

The Directors have taken the exemption provided by Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company. The profit for the year of the Company was £27,406,000 (2020: £35,213,000)

The financial statements were approved by the Board of Directors on 15th July 2022 and were signed on its behalf by:


C K K Gangotra - Director

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Changes in Equity
For The Year Ended 31st December 2021**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2020	165,000	119,098	284,098
Profit for the year	-	20,359	20,359
Other comprehensive loss	-	(1,280)	(1,280)
Total comprehensive income	-	19,079	19,079
Dividends paid	-	(35,000)	(35,000)
Balance as at 31st December 2020	165,000	103,177	268,177
Profit for the year	-	55,538	55,538
Other comprehensive income	-	55,067	57,067
Total comprehensive income	-	110,605	110,605
Dividends paid	-	(16,100)	(16,100)
Balance as at 31st December 2021	165,000	197,682	362,682

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Company Statement of Changes in Equity
For The Year Ended 31st December 2021**

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1st January 2020	165,000	19,368	184,368
Profit for the year	-	35,213	35,213
Other comprehensive loss	-	(3,411)	(3,411)
Total comprehensive income	-	31,802	31,802
Dividends paid	-	(35,000)	(35,000)
Balance as at 31st December 2020	165,000	16,170	181,170
Profit for the year	-	27,406	27,406
Other comprehensive income	-	55,128	55,128
Total comprehensive income	-	82,534	82,534
Dividends paid	-	(16,100)	(16,100)
Balance as at 31st December 2021	165,000	82,604	247,604

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Consolidated Statement of Cash Flow
For The Year Ended 31st December 2021**

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Cash generated from operations	32	85,489	6,323
Tax (paid)/received		(8,872)	3,786
Net cash from operating activities		76,617	10,109
Cash flows from investing activities			
Purchase of intangible fixed assets		(2,804)	(5,548)
Purchase of tangible fixed assets		(3,471)	(4,483)
Sale of tangible fixed assets		572	118
Sale of investments		-	1,721
Sale of business operations	10	53,722	-
Interest received		2,876	2,931
Net cash from investing activities		50,895	(5,261)
Cash flows from financing activities			
Dividends paid		(16,100)	(35,000)
Principal paid on lease liabilities	24	(14,147)	(21,173)
Net cash from financing activities		(30,247)	(56,173)
Increase/(decrease) in cash and cash equivalents		97,265	(51,325)
Cash and cash equivalents at beginning of year		422,385	473,710
Cash and cash equivalents at end of year		519,650	422,385

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Company Statement of Cash Flow
For The Year Ended 31st December 2021**

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Cash used in operations	32	(24,167)	(24,251)
Tax (paid)/received		<u>(8,872)</u>	<u>3,786</u>
Net cash used in operating activities		<u>(33,039)</u>	<u>(20,465)</u>
Cash flows from investing activities			
Dividends received		40,000	-
Purchase of intangible assets		(2,804)	(4,701)
Purchase of tangible fixed assets		(1,559)	(150)
Interest received		<u>4,308</u>	<u>3,615</u>
Net cash from investing activities		<u>39,945</u>	<u>(1,236)</u>
Cash flows from financing activities			
Dividends paid		(16,100)	(35,000)
Principal paid on lease liabilities	24	<u>(10,248)</u>	<u>(14,570)</u>
Net cash from financing activities		<u>(26,348)</u>	<u>(49,570)</u>
Cash flows from financing activities			
Decrease in cash and cash equivalents		(19,442)	(71,271)
Cash and cash equivalents at beginning of year		<u>2,839</u>	<u>74,110</u>
Cash and cash equivalents at end of year		<u>(16,603)</u>	<u>2,839</u>

The notes on pages 34 to 73 form part of these financial statements

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

1. Corporate Statutory information

Skanska UK Plc (the 'Company') is a public Company, limited by shares, incorporated and domiciled in England and Wales. The Company's registered number and registered office address can be found on the Company Information page.

The presentation currency of the financial statements is the Pound Sterling (£), the functional currency of the Group. All values are rounded to the nearest thousand pounds (£000), unless otherwise stated.

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared and approved by the Directors in conformity with the requirements of the Companies Act 2006 and under the historical cost convention and include the results of activities described in the Directors' report.

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence and meet its liabilities as they fall due, for the period from the date of signing these financial statements to 31st December 2023.

The Group has net current assets of £383.9 million and net assets of £362.7 million. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

The Group's financial forecasts, taking into consideration the current environment, show that the Group is expected to maintain positive cash flows giving the Group the ability to continue to operate for the foreseeable future. The Group has been able to utilise certain government stimulus initiatives and upon several productivity analyses performed, the Directors do not anticipate requesting any support from its ultimate parent, Skanska AB.

In view of the circumstances referred to above, the Directors are satisfied that sufficient financial resources will be generated by the Group for the foreseeable future. Accordingly, the Directors of the Group believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

However, should sufficient positive cash flow not be available, the going concern basis would be invalid and adjustments would have to be made to provide for any further liabilities which might arise and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 not to prepare a profit and loss account as the Company's results are included in the consolidated statement of profit or loss shown on page 26.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together the 'Group') as at 31st December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

2. Accounting policies - continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss.

Associated undertakings and joint arrangements

A joint arrangement exists where the co-owners have rights to the assets of the arrangement and obligations for the liabilities of the arrangement. An arrangement that is not structured through the formation of a separate Company is a joint operation. Contracting projects performed in cooperation with outside contracting companies, with joint and several liability, are reported by the Group as joint operations. If the arrangement is a separate Company but the majority of the Company's production is acquired by the co-owners, then the arrangement is often considered to be a joint operation. If, on the other hand, the co-owners of the arrangement only have rights to the net assets of the arrangement, it is a joint venture. Classification of a joint arrangement requires consideration of its legal form, the terms agreed by the parties in the contractual arrangement and other circumstances.

An associated undertaking is an entity over which the Group holds a participating interest on a long-term basis and exercises significant influence. Interests in associated undertakings are included in the consolidated financial statements using the equity accounting method.

The Group has entered into a number of joint operations with different partners for the purposes of undertaking specific contracts. Interests in joint operations are accounted for by recognising the Group's share of income and expenses and assets and liabilities measured according to the terms of the arrangements.

Investment in subsidiaries

The Group holds investments in subsidiaries at cost less any applicable provision for impairment.

Early adoption of new or revised IFRS and interpretations

There has been no early adoption of new or revised IFRS or interpretations.

New standards and interpretations

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1st January 2022 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 7, IFRS 4 and IFRS 16); and
- Amendments to IFRS 4 – increase in temporary exemption from applying IFRS 9.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

2. Accounting policies - continued

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows:

- COVID-19 related rent concessions (Amendments to IFRS 16)¹;
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)¹;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)¹;
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)¹;
- References to Conceptual Framework (Amendments to IFRS 3)¹;
- Changes to accounting estimates and accounting policies (Amendments to IAS 1 and IAS 8)²; and
- Deferred Tax assets and liabilities arising from a single transaction (Amendment to IAS 12)².

¹ Effective for the period beginning 1st January 2022

² Effective for the period beginning 1st January 2023

In January 2020, the IASB issued amendments to IAS 1, which clarify the criteria used to determine whether liabilities are classified as current or non-current. These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendments also clarify that 'settlement' includes the transfer of cash, goods, services, or equity instruments unless the obligation to transfer equity instruments arises from a conversion feature classified as an equity instrument separately from the liability component of a compound financial instrument. The effective date of this amendment has been deferred to annual reporting periods beginning on or after 1st January 2024.

Skanska UK Plc is currently assessing the impact of these amendments to accounting standards. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

Revenue

Revenue represents the sales value of work done on construction contracts and services activities in the period and excludes VAT. Profit and revenue on construction contracts is calculated in accordance with IFRS 15 Revenue from Contracts with Customers.

When an outcome of a construction contract can be estimated reliably, the Company's preferred method of revenue is the output method in which revenue is recognised based on the units of work performed and the price allocated thereto. This method is applied provided that the progress of the work performed can be measured based on the contract and during the contract's performance. Under this output method the units of work completed under each contract are measured monthly and the corresponding output is recognised as revenue. Where it is not practicable to apply this 'units of production' output method, the 'percentage of completion' input method is used instead. Under this input method costs are recognised as incurred and revenue is recognised based on the proportion of total costs at the reporting date to the estimated total costs of the contract.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered highly probable i.e. agreed with the customer. Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is highly probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately as a provision for forecast losses.

Contract Assets and Contract Liabilities

Unlike the method used to recognise contract revenue, the amounts billed to the customer are based on the monthly achievement of progress towards our performance obligation in the contract and on acknowledgement thereof by the customer, which takes the form of a contractual document call a 'certificate of completion' or 'work order'. Thus, the amounts recognised as revenue for a given year do not necessarily coincide with the amounts billed to or certified by the customer. In the case of contracts in which goods and services transferred to the customer exceed the related amount billed or certified, the difference is recognised as a contract asset. Whereas in contracts in which the goods or services transferred are lower than the amount billed to or certified by the customer, the difference is recognised as a contract liability.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

2. Accounting policies - continued

Government Grants

The grants are recognised in other income within profit or loss when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. The grants are recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Profit from disposal of investments

Profit on disposal of the Company's investments is recognised when all three of the following criteria are met:

- contracts are exchanged prior to the year-end;
- conditions of the sale that need to be satisfied before legal completion are satisfied before the year-end. Any conditions not satisfied before the year-end must be administrative in nature only; and
- full consideration from the sale must be received shortly after the year-end.

Pre-contract costs

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged as an expense over the period of the contract. Amounts recovered in respect of pre-contract costs that have been written-off are deferred and amortised over the life of the contract. When financial close is achieved on Private Finance Initiative (PFI) contracts and pre-contract costs are recovered, those costs not previously capitalised are credited to the profit or loss.

Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. As per the corporate laws of Euroland, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal Groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal Groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal Group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal Group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal Group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a separate column in the statement of profit or loss.

Additional disclosures are provided in Note 10. All other notes to the financial statements comprise amounts for continuing operations, unless indicated otherwise.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

2. Accounting policies - continued

Intangible assets and goodwill

Goodwill arising on the acquisition of subsidiaries, representing the difference between the fair value of purchase consideration and the fair value of net assets acquired, is capitalised in the statement of financial position. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit or loss within administrative expenses and is not subsequently reversed. The fair value of net assets in excess of the fair value of purchase consideration is credited to the income statement in the year of acquisition.

Impairment losses are determined on the basis of the recoverable amount of goodwill, which is based exclusively on value in use, calculated by discounting the expected future cash flows generated by the asset. The discount factor is the weighted average cost of capital applicable to the parent Company. For goodwill, the recoverable amount is estimated for the cash-generating unit to which it is attributable. A cash-generating unit is the smallest Group of assets that generates cash flows which are independent of other Groups of assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the profit or loss on a straight-line basis over 5 years. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Research and development

Research costs which predominately relate to client technical solutions and IT are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. Amortisation is recognised in the profit or loss on a straight-line basis over 7 years. During the period of development, the asset is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all property, plant, and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Leasehold improvements	3 - 30 years
Plant and Equipment	3 - 10 years

Freehold land is not depreciated. Provision for permanent diminution in the value of land is charged to the statement of profit or loss.

2. Accounting policies - continued

Financial instruments

All financial instruments, including derivatives, are recognised as a financial asset or financial liability in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognised in and derecognised from the statement of financial position using trade date accounting. A financial asset is derecognised from the statement of financial position when the contractual rights to cash flows from the financial asset expire or when the Group transfers the contractual rights to receive cash flows from the financial asset or retains the contractual rights to receive cash flows, but assumes a contractual obligation to pay cash flows to one or more recipients. A financial liability is derecognised from the statement of financial position only when the contractual obligation is fulfilled, cancelled or expires.

Presentation of financial assets is based on the Group's business model and the contractual cash flows of the asset. A financial asset is measured at amortised cost if the asset is held within the framework of a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and the cash flows on specified dates are solely payments of principal and interest on the principal amount outstanding. A financial asset is measured at fair value through other comprehensive income if the asset is held according to a business model the objective of which can be achieved both by collecting contractual cash flows and selling financial assets, and the cash flows are solely payments of principal and interest on the principal amount outstanding. A financial asset is measured at fair value through profit or loss if it is not measured at amortised cost or at fair value through other comprehensive income. All financial assets are measured at amortised cost. The Group is only entitled to reclassify all relevant financial assets when the Group changes its business model for managing financial assets. Reclassification of financial liabilities is not permitted.

Financial assets and liabilities are initially measured at fair value plus or minus transaction costs upon acquisition of a financial asset or financial liability for a financial asset or financial liability that is not measured at fair value through profit or loss. Trade receivables that do not contain a significant financing component are measured upon initial recognition at their transaction price (as defined in IFRS 15). After initial recognition, financial assets are measured at amortised cost. Subsequent measurement of financial liabilities is at amortised cost or fair value through profit or loss.

The Group applies the impairment requirement to expected credit losses on financial assets and a loss provision for these is recognised as a deduction from the asset. On every closing day the loss provision is to be equivalent to an amount reflecting the expected credit losses for the remaining time until maturity if the credit risk has increased significantly since it was initially recognised. If the credit risk has not increased significantly since it was first recognised, the loss provision is to be equivalent to 12 months of expected credit losses. For trade receivables, contractual assets and lease receivables, the loss provision is always to be at an amount equivalent to the remaining time to maturity. The Group measures expected credit losses taking into account an objective and probability-weighted amount, the time value of money, reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Offsetting of financial assets and financial liabilities occurs when there is a legal right to offset items against each other and the intention to either settle these items on a net basis or simultaneously divest the asset and settle the liability.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Stocks: Purchase cost on a first-in/first-out basis
- Properties: Cost comprises direct materials and where applicable, direct labour costs and those overheads, not including any general administrative overheads, that have been incurred in bringing the property to its present location and condition, as well as directly attributable borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash

Cash in the statement of financial position comprises cash at banks and on hand and with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the Consolidated and Company statement of cash flows, cash and cash equivalents consist of cash, as defined above.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

2. Accounting policies – continued

Taxation

Current income tax is recognised in the statement of comprehensive income, except tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred taxation is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes except for temporary differences arising on the revaluation of assets and the future remittance of undistributed earnings from subsidiaries. Deferred tax assets are recorded only to the extent that they are considered recoverable.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the assets and liabilities of foreign operations are translated into sterling at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Employee benefit costs

Certain of the Group's employees are members of a Group-wide defined benefit pension plan. The cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the profit or loss reflects the current service cost of such obligations. The expected return on plan assets and the interest cost on scheme liabilities are included within financial income and expenses in the profit or loss. The retirement benefit deficit recognised in the statement of financial position represents the excess of the present value of scheme liabilities over fair value of scheme assets. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the consolidated statement of comprehensive income in the year.

The cost of defined contribution pension schemes is expensed to the profit or loss as incurred.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2. Accounting policies - continued

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy;
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount;
- If the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the Group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

2. Accounting policies - continued

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties from which it operates. In some cases, the lease contracts provide for payments to increase each year by inflation or reset periodically to market rental rates. In some property leases the periodic rent is fixed over the lease term.

The Group also leases certain items of plant and equipment. Leases of plant, equipment and vehicles comprise only fixed payments over the lease terms.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

31st December 2021

	Payments in the year £000	Lease Contracts Number	Fixed Payments %	Variable payments %	Sensitivity £000
Property leases with payments linked to inflation	4,833	11	-	29	329
Property leases with fixed payments	3,603	25	22		
Leases of plant and equipment	4,173	472	25		
Vehicle leases	3,958	1,704	24		
	16,567	2,212	71	29	329

The Group sometimes negotiates break clauses in its property leases. On a case-by-case basis, the Group will consider whether the absence of a break clause would expose the Group to excessive risk.

At 31st December 2021, the carrying amounts of lease liabilities are not reduced by the amount of payments that would be avoided from exercising break clauses because on both dates it was considered reasonably certain that the Group would not exercise its right to exercise any right to break the lease. Total lease payments of £1,408,000 are potentially avoidable were the Group to exercise break clauses at the earliest opportunity.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

The interest capitalised is the gross interest incurred on the Group's development specific borrowings. Interest is capitalised from the commencement of the development work until the date of practical completion.

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

3. Accounting judgements and estimation uncertainty

The preparation of the financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and judgements in drawing up the financial statements are in connection with construction contracts in progress, claims on construction contracts, the valuation of pension liabilities and investments in subsidiary undertakings impairment tests and lease length and incremental borrowing rate used.

Principal assumptions underlying the valuation of defined benefit pension liabilities (Note 28) - These assumptions were set on the advice of the schemes' actuaries having regard to current market conditions, history, and factors specific to the scheme.

Determination of lease term for some lease contracts in which the Group is a lessee - The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Determination of the incremental borrowing rate used to measure lease liabilities - The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The IBR is determined on a quarterly basis, by the Group's ultimate parent entity, Skanska AB. Discount rates used are disclosed in Note 24 of these financial statements.

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

4. Revenue

Expected revenue recognition for remaining performance obligations

Contracts may run for a period greater than one year. The expected revenue recognition relating to ongoing or won contracts, at 31st December 2021 is as follows

	2022 £'m	2023 £'m	2024 £'m	2025+ £'m	Total £'m
Expected Revenue	1,092	632	459	734	2,917

	2021 £'000	2020 £'000
Construction works	944,014	954,434
Rendering of services	178,684	167,844
IFRS 15 revenue from contracts with customers	1,122,698	1,122,278

No revenue was derived from exchange of goods or services (2020: £nil). Revenue recognised in the year from amounts that were included in the contract liability at the beginning of the period equals £88,065,000 (2020: £85,828,000). Revenue recognised in the year from performance obligations satisfied in previous years equals £2,700,000 (2020: £5,850,000).

5. Other operating income

	2021 £'000	2020 £'000
Government grants	302	4,018

Government grants relate to supporting the payroll of the Company's employees during the COVID-19 pandemic. The Company had to commit to spending the assistance on payroll expenses and does not have any unfulfilled obligations relating to this program.

Skanska UK Plc (Registered number: 00784752)

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021

6. Employees and Directors

	2021 £'000	2020 £'000
Wages and salaries	222,807	263,884
Social security costs	23,759	29,227
Other pension costs	24,987	28,516
	<u>271,553</u>	<u>321,627</u>

The amount recognised as an expense for the following pension plans is as follows:

	2021 £'000	2020 £'000
Defined benefit costs	2,802	2,809
Defined contribution costs	22,185	25,707
	<u>24,987</u>	<u>28,516</u>

The average monthly number of employees during the year was as follows:

	2021	2020
Construction	1,042	1,575
Administration	2,814	3,702
	<u>3,856</u>	<u>5,277</u>

	2021 £	2020 £
Directors' remuneration	2,172,378	3,343,397
Long-term incentive plans	162,823	57,002
Pensions	<u>19,060</u>	<u>7,479</u>

Information regarding the highest paid Director is as follows:

	2021 £	2020 £
Directors' remuneration	383,501	676,844
Long-term incentive plans	55,147	18,699
Accrued pension as at 31st December	<u>31,984</u>	<u>31,813</u>

The number of Directors to whom retirement benefits were accruing at year end was as follows:

	2021	2020
Defined contribution schemes	1	-
Defined benefit schemes	<u>-</u>	<u>-</u>

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

7. Net finance costs

	2021 £'000	2020 £'000
Finance income:		
Bank interest	3,060	3,333
Finance costs:		
Interest expense on lease liabilities	1,676	1,848
Interest on pension scheme liabilities	346	628
	<u>2,022</u>	<u>2,476</u>
Net finance income	<u>1,038</u>	<u>857</u>

8. Profit before income tax

	2021 £'000	2020 £'000
Included in cost of sales:		
Cost of inventory recognised as expense	847	455
Depreciation of owned assets	3,484	3,485
Profit on disposal of fixed assets	(855)	(7)
Depreciation of right-of-use assets	6,925	6,898
Expense relating to short-term leases	2,512	655
Expense relating to low value leases	187	-
Research costs	178	73
Included in administrative expenses:		
Depreciation of right-of-use assets	2,922	2,723
Impairment of right-of-use assets	1,446	-
Foreign exchange gains	-	(30)
Audit of Group's consolidated financial statements	5	5
Audit of parent Company's financial statements	2	2
Audit of parent Company's subsidiaries and related entities	577	581
Total audit fees	584	588
Audit related services	-	-
Other non-audit service fees	-	-
Total fees paid by Group	<u>584</u>	<u>588</u>

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

9. Income tax

The major components of income tax expense for the years ended 31st December 2021 and 2020 are:

Consolidated profit or loss	2021	2020
	£'000	£'000
Current income tax		
Current income tax charge	8,676	1,695
Adjustments in respect of current income tax of previous year	3,594	(1,060)
Total current tax charge	12,270	635
Deferred tax		
Current year tax (credit) / charge	(481)	1,423
Adjustments in respect of current tax of previous year	2,869	741
Impact of change in corporate tax rate	(3,898)	(1,944)
Total deferred tax (credit) / charge	(1,510)	220
Total tax expense reported in the statement of profit or loss	10,760	855
Consolidated other comprehensive income	2021	2020
	£'000	£'000
Current tax credit on pensions	(3,388)	(2,338)
Deferred tax charge on pensions (note 28)	21,416	1,276
Total tax charge / (credit) reported in other comprehensive income	18,028	(1,062)
Reconciliation of tax expense and the accounting profit multiplied by UK tax rate for 2021 and 2020:		
Accounting profit before tax from continuing operations	34,746	13,033
Profit before tax from a discontinued operation	38,520	9,403
Accounting profit before income tax	73,266	22,436
Profit before tax multiplied by standard rate of corporation tax in the UK		
19% (2020: 19%)	13,920	4,263
Expenses not deductible for tax purposes	716	557
Adjustment in respect of prior years	6,463	(319)
Change in rate	(3,345)	(2,611)
SEOP adjustment to OCI	(26)	187
Total tax charge	17,728	2,077
Income tax attributable to continuing operations	10,760	855
Income tax attributable to discontinued operations	6,968	1,222
	17,728	2,077

Changes in corporation tax rate

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax rate, thereby maintaining the current rate of 19%. The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted on 24 May 2021 and hence deferred taxes on the balance sheet have been measured at 25% (2020 – 19%) which represents the future corporation tax rate that was enacted at the balance sheet date.

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

10. Discontinued operations

On 24th February 2020, the Company publicly announced the decision of its Board of Directors to withdraw from highways maintenance, rail maintenance and street lighting maintenance sectors and therefore sell the Infrastructure Services operating unit. At the end of 2020, the shareholders of the Company approved the plan to sell the operating unit and Infrastructure Services was classified as a disposal Group held for sale and presented as a discontinued operation. The presentation of the prior year consolidated profit and loss account has been updated to be in compliance with the presentation and disclosure requirements as per IAS 1 and IFRS 5. As a result, the Group has removed the discontinued and total column from the prior year consolidated profit and loss account and instead presented the results of the discontinued operation as a single line item on the face of the consolidated profit and loss account within 'profit after tax from discontinued operations'. The details of the components of the discontinued operations have been included within this note, which has been restated.

The sale of Infrastructure Services was completed on the 30th April 2021 for cash proceeds of £53,722,000. The results of the operating unit up until the date of disposal is presented below.

	2021	2020
	£'000	£'000
Revenue	126,888	334,040
Cost of Sales	(110,644)	(310,099)
Gross profit	16,244	23,941
Other operating income	-	387
Administration expenses	(6,401)	(13,831)
Operating profit	9,843	10,497
Gain on disposal of business operations	29,069	-
Finance costs	(392)	(1,094)
Profit before tax from discontinued operations	38,520	9,403
Tax:		
Related to pre-tax profit from ordinary activities	(1,796)	(1,222)
Related to gain on sale of discontinued operation	(5,172)	-
Profit for the year from discontinued operations	31,552	8,181

The major classes of assets and liabilities of the Infrastructure Services operating unit at the date of disposal and the associated gain recognised in the financial statements is as follows:

	2021
	£'000
Assets	
Intangible assets	1,205
Property, plant and equipment	1,958
Right of use assets	24,840
Inventory	3,191
Contract assets	28,179
Debtors	38
	59,411
Liabilities	
Contract liabilities	26,349
Creditors	1,933
Provisions	1,168
Lease liabilities	23,132
	52,582
Net assets disposed	6,829
Sale proceeds	53,722
Net assets disposed	(6,829)
Disposal costs and warranties provided	(17,824)
Gain on disposal	29,069

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

10. Discontinued operations - continued

The net cash flows incurred by Infrastructure Services, are as follows:

	2021	2020
	£'000	£'000
Operating	3,912	17,804
Investing	(103)	(1,065)
Financing	(2,302)	(6,833)
Net cash inflow	<u>1,507</u>	<u>9,906</u>

11. Profit/(loss) of parent Company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent Company is not presented as part of these financial statements. The Company's profit after tax for the financial year was £27,406,000 (2020: £35,213,000).

12. Intangible assets

Group

	IT Software
	£'000
Cost	
At 1st January 2021	21,278
Additions	2,804
Disposals	<u>(14,448)</u>
At 31st December 2021	<u>9,634</u>
Amortisation	
At 1st January 2021	8,205
Disposals	<u>(8,205)</u>
At 31st December 2021	<u>-</u>
Impairment	
At 1st January 2021	6,243
Disposals	<u>(6,243)</u>
	<u>-</u>
Net book value	
At 31st December 2021	<u>9,634</u>
At 31st December 2020	<u>6,830</u>

Company

	IT Software
	£'000
Cost	
At 1st January 2021	6,830
Additions	<u>2,804</u>
At 31st December 2021	<u>9,634</u>
Amortisation	
At 1st January 2021 and 31st December 2021	<u>-</u>
Net book value	
At 31st December 2021	<u>9,634</u>
At 31st December 2020	<u>6,830</u>

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Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021

13. Property, plant and equipment

Group	Freehold property £'000	Leasehold improvements £'000	Plant and machinery £'000	Totals £'000
Cost				
At 1st January 2021	97	10,742	59,601	70,440
Additions	-	739	2,732	3,471
Disposals	-	-	(2,107)	(2,107)
At 31st December 2021	97	11,481	60,226	71,804
Depreciation				
At 1st January 2021	-	5,000	44,866	49,866
Charge for the year	-	388	3,096	3,484
Eliminated on disposal	-	-	(1,535)	(1,535)
At 31st December 2021	-	5,388	46,427	51,815
Net book value				
At 31st December 2021	97	6,093	13,799	19,989
At 31st December 2020	97	5,742	14,735	20,574

Company	Leasehold improvements £'000	Plant and machinery £'000	Totals £'000
Cost			
At 1st January 2021	10,626	19,131	29,757
Additions	739	820	1,559
At 31st December 2021	11,365	19,951	31,316
Depreciation			
At 1st January 2021	4,884	18,584	23,468
Charge for the year	388	1,003	1,391
At 31st December 2021	5,272	19,587	24,859
Net book value			
At 31st December 2021	6,093	364	6,457
At 31st December 2020	5,742	547	6,289

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

14. Right-of-use Assets

Group	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2021	39,404	128	5,994	45,526
Additions	675	4,724	4,454	9,853
Depreciation	(3,992)	(2,426)	(3,429)	(9,847)
Impairment	(1,446)	-	-	(1,446)
Effect of modification of lease terms	2,436	-	38	2,474
Disposals	(1,200)	-	(699)	(1,899)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2021	<u>35,877</u>	<u>2,426</u>	<u>6,358</u>	<u>44,661</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Company	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2021	35,833	127	5,993	41,953
Additions	-	3,622	4,454	8,076
Depreciation	(1,865)	(2,271)	(3,430)	(7,566)
Impairment	(700)	-	-	(700)
Effect of modification of lease terms	2,276	-	38	2,314
Disposals	-	-	(697)	(697)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2021	<u>35,544</u>	<u>1,478</u>	<u>6,358</u>	<u>43,380</u>
	<hr/>	<hr/>	<hr/>	<hr/>

15. Investments

Group	Shares in participations £'000
Cost	
At 1st January 2021 and 31st December 2021	<u>3,937</u>
Provisions	
At 1st January 2021 and 31st December 2021	<u>-</u>
Net book value	
At 31st December 2021	<u>3,937</u>
At 31st December 2020	<u>3,937</u>

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

15. Investments – continued

Company	Investment in Group undertakings £'000
Cost	
At 1st January 2021 and 31st December 2021	90,361
Provisions	
At 1st January 2021	41,123
Provision for year	340
At 31st December 2021	41,463
Net book value	
At 31st December 2021	48,898
At 31st December 2020	49,238

The Company's investments at the Statement of Financial Position date in the share capital of companies are listed below:

Subsidiaries

The following subsidiary undertakings all have construction as their principal activity (except where marked *, where the principal activity is the development of property to hold for investment purposes, ** where the principal activity is the development of property and *** where the Company is dormant). The subsidiary undertakings marked **** are indirectly owned but not controlled by the Company and therefore the results of these companies are not included in the consolidated financial statements. All companies are registered in England and Wales except Cementation Skanska Ireland Ltd which is registered in Ireland and Skanska ESS Construction HB which is registered in Sweden. Unless stated otherwise, the registered office in England and Wales is: Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW. The registered office in Ireland is: 1 Stokes Place, St Stephen's Green, Dublin 2 and the registered office in Sweden is Odarslövsvägen 113, 225 92 Lund

The following subsidiaries are 100% directly owned. All shares are the same class of ordinary shares.

Skanska Construction UK Ltd
 Skanska Project Developments Ltd**
 Skanska Technology Ltd
 Cementation Construction Ltd***
 Cementation Mining Ltd***
 Davy Mining Ltd***
 Skanska Construction Company Ltd***
 Skanska Healthcare Trustees Ltd***
 Skanska Construction (Regions) Ltd
 Trollope & Colls Ltd
 Skanska Construction Services Ltd
 Skanska Trusteships Ltd***
 Skanska Infrastructure Development UK Limited
 Skanska Infrastructure Investment UK Limited

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

15. Investments continued

The following subsidiaries are 100% indirectly owned unless stated otherwise

Cementation Skanska Ltd
Cementation Skanska Ireland Ltd (in liquidation)
Clark & Fenn Skanska Ltd
Skanska J.V. Projects Ltd
Skanska Major Projects Ltd
Skanska Rashleigh Weatherfoul Ltd
Wilson & Jennings Ltd***
SPD Moorgate Ltd*
SPD Temple Circus Ltd**
SPD Engine Shed 2 Ltd**
SPD Templegate Ltd**
Skanska Construction Services Trustee Ltd****
Skanska TAM Ltd****
Skanska ESS Construction HB (25% owned)
Skanska RM PSP Limited**** (87.5% owned) - (Registered office: Third Floor Broad Quay House, Prince Street, Bristol, BS1 4DJ)
NPH Healthcare (Holdings) Limited **** (50% owned) - (Registered office: 3rd Floor, South Building, 200 Aldersgate Street, London, EC1A 4HD)

The following Companies are exempt from publishing audited accounts under Section 479A of the Companies Act 2006;

Trollope & Colls Ltd - registration: 00079287
Skanska Construction Regions Ltd - registration: 00225316
Skanska Construction Services Limited - registration: 04067668
Davy Mining Limited - registration: 00473118
Wilson & Jennings Limited - registration: 00752550
Skanska J.V. Projects Limited - registration: 03686027
Skanska Major Projects Limited - registration: 00993835
Clark & Fenn Skanska Limited - registration: 00679167
Skanska Technology Limited - registration: 00932158
Skanska Project Developments Limited - registration 06009021
Skanska Infrastructure Development UK Limited - registration 03024337
Skanska Infrastructure Investment UK Limited - registration 04624530
SPD Moorgate Limited - registration 11357664
SPD Temple Circus Limited - registration 10272419
SPD Engine Shed 2 Limited - registration 10275093
SPD Templegate Limited - registration 09794314

16. Inventories

	Group	
	2021	2020
	£'000	£'000
Stocks	484	578
Properties	4,089	4,089
	<u>4,573</u>	<u>4,667</u>

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17. Trade and other receivables

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Current:				
Trade receivables	59,444	57,410	8	656
Amounts owed by parent entity	39,493	40,120	39,493	40,120
Amounts owed by subsidiary companies	-	-	194,725	187,951
Amounts owed by other group undertakings	460	463	1,589	1,597
Other receivables	32,320	36,089	17,127	11,852
Prepayments and accrued income	34,021	11,609	6,548	4,273
	<u>165,738</u>	<u>145,691</u>	<u>259,490</u>	<u>246,449</u>

Trade and other receivables are part of the Group's operating cycle and are recognised as current assets. Trade and other receivables are non-interest bearing and are generally on terms of 30 to 90 days settlement. As at 31st December 2021, trade receivables with an initial carrying value of £4,194,000 (2020: £3,409,000) were impaired and fully provided for.

The table below shows the ageing profile of trade receivables (£'000);

	Current	31-60 days	61-90 days	91-120 days	120+ days	Total
Group	55,113	2,010	248	205	1,868	59,444
Company	-	8	-	-	-	8

18. Contract assets

At 31st December 2021, the Group had contract assets of £83,534,000 (2020: £85,433,000). At 31st December 2021, the Company had contract assets of £32,788,000 (2020: £27,211,000). Contract assets consists of amounts recoverable on contracts. The change in contract assets in the year is due to normal activity and timing of certification of work done in the construction business.

19. Cash and cash equivalents

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Bank accounts	<u>519,650</u>	<u>422,385</u>	<u>-</u>	<u>2,839</u>

Included in this total is £57,000,000 restricted cash held in joint arrangements (2020: £60,033,000).

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**Notes to the Consolidated Financial Statements
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20. Called up share capital

Authorised, allotted, issued and fully paid share capital:

Number:	Class	Nominal Value:	2021 £	2020 £
3,300,000,000	Ordinary	£0.05	165,000,000	165,000,000

21. Reserves

Group

	Retained earnings £'000
At 1st January 2021	103,177
Profit for the year	55,538
Net actuarial gain on defined pension schemes	72,007
Foreign exchange loss	(1,402)
Employee share award scheme	2,490
Income tax relating to items of other comprehensive income	(18,028)
Dividends	(16,100)
At 31st December 2021	<u>197,682</u>

22. Trade and other payables

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Current:				
Trade payables	39,571	33,159	3,149	2,475
Amounts owed to parent entity	-	3,235	-	5,823
Amounts owed to subsidiary companies	-	-	89,585	89,822
Other payables	52,904	38,646	19,195	15,532
Accruals and deferred income	<u>192,713</u>	<u>143,428</u>	<u>26,665</u>	<u>13,969</u>
	<u>285,188</u>	<u>218,468</u>	<u>138,594</u>	<u>127,621</u>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally on 45-day payment terms.
- Other payables are non-interest bearing
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions with parent entity, subsidiary companies and other group undertakings, refer to Note 31.
- For explanations on the Group's liquidity risk management process, refer to Note 25.

23. Contract liabilities

At 31st December 2021, the Group had contract liabilities of £85,354,000 (2020: £88,065,000). Contract liabilities consists of billings-in-excess. At 31st December 2021, the Company had no contract liabilities (2020: 1,286,000). The change in contract liabilities in the year is due to normal activity and timing of certification of work done in the construction business.

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**Notes to the Consolidated Financial Statements
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24. Lease liabilities

Group	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2021	57,237	120	5,990	63,347
Additions	675	4,724	4,454	9,853
Interest expense	1,474	43	159	1,676
Lease payments	(8,137)	(2,412)	(3,598)	(14,147)
Effect of modification of lease terms	2,436	-	38	2,474
Disposals	(1,205)	-	(702)	(1,907)
At 31st December 2021	52,480	2,475	6,341	61,296

Company	Land and Buildings £'000	Plant and equipment £'000	Motor Vehicles £'000	Totals £'000
At 1st January 2021	48,754	121	5,989	54,864
Additions	-	3,622	4,454	8,076
Interest expense	1,269	27	159	1,455
Lease payments	(4,395)	(2,256)	(3,598)	(10,249)
Effect of modification of lease terms	2,276	-	38	2,314
Disposals	-	-	(706)	(706)
At 31st December 2021	47,904	1,514	6,336	55,754

The table below shows the payments and commitments for operating leases not capitalised

	Group 2021 £'000	Company 2021 £'000
Short term lease expense	2,512	-
Low value lease expense	187	-

The table below shows incremental borrowing rate (IBR) used to measure lease liabilities:

Lease Term	Discount rate (%)						
	1 year	2 years	3 years	5 years	10 years	15 years	30 year
Q4 2020	1.7	1.7	1.7	2.2	3.3	3.5	4.3
Q1 2021	1.5	1.6	1.6	2.1	3.1	3.2	4.0
Q2 2021	1.3	1.4	1.5	2.0	3.0	3.1	3.7
Q3 2021	1.3	1.5	1.6	2.1	3.0	3.1	3.5
Q4 2021	1.6	1.9	2.0	2.4	3.1	3.1	3.3

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For The Year Ended 31st December 2021**

25. Financial instruments

Exposure to credit, interest rate and liquidity risk arises in the normal course of the Group and the Company's business.

Credit risk

Management has a credit policy in place. Credit evaluations are performed on all prospective customers prior to entering into construction contracts and exposure to credit risk is monitored on an ongoing basis. At the statement of financial position date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of trade receivables and contract assets at the statement of financial position date.

Interest rate risk

The Group and Company do not seek to reduce exposure to fluctuations in interest rates through the use of derivative financial instruments. The Group meets its day to day working capital requirements through an inter-Company UK pooling arrangement and does not have any bank debt or other external borrowings or facilities.

Liquidity risk

The Group uses cash-flow projections as a means of managing the fluctuations in short-term liquidity and to minimise the risk that it cannot meet its payment obligations due to lack of liquidity. As at 31st December 2021, the Group had cash and cash equivalents totalling £519,650,000 (2020: £422,385,000) and no debt. Included in this total is £57,000,000 restricted cash held in Joint arrangements (2020: £60,033,000).

The Board is confident that the Group has sufficient cash resources in light of the challenges arising from the COVID-19 pandemic and are continually assessing the impact of COVID-19 on cash flow and forecasts across the business (Note 2).

Effective interest rates and maturity analysis

As at 31st December 2021, income-earning financial assets of the Group comprised cash and cash equivalents totalling £519,650,000 (2020: £422,385,000) and of the Company £nil (2020: £2,839,000). Interest is earned on net cash balances at floating rates linked to the Swedish base rate. The Group has no overdraft or bank debt.

Fair Value

The carrying amounts shown in the financial position of all financial assets and financial liabilities are not considered to be materially different to their fair value. The investments do not have a quoted price in an active market and are measured at cost because the fair value cannot otherwise be measured.

Sensitivity analysis

At 31st December 2021 and 31st December 2020, it was estimated that a general rise of one percentage point in interest rates would have no material impact on profit before tax.

Capital requirements vary between business streams. The Group's construction projects are mainly based on customer funding. As a result, in its Construction Business stream, the Group can operate with low levels of cash investment (negative working capital). However, the equity requirement for a construction Company is substantial and is related to the large business volume and to the risks inherent in the various types of construction assignments carried out. The Group must also take into account the performance guarantees required in procured projects. The Board has determined that the Group's equity is at a reasonable level based on what its financial position requires.

Capital Management

Capital requirements vary between business streams. The Group's construction projects are mainly based on customer funding. As a result, in its construction business stream, the Company can operate with low levels of cash investment (negative working capital). The free working capital within the construction business stream together with the Group's operations make it possible for the Group to finance investments in its own project development.

A number of financial targets have been established that are judged to best reflect the profitability of the operations and best demonstrate the financial scope for investment and growth. The return on equity and on capital employed is a measure of how well the capital provided by the shareholders and lenders is being used. No changes were made in the objectives, policies or processes for managing capital during the years ended 31st December 2021 and 2020.

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For The Year Ended 31st December 2021**

25. Financial instruments – continued

	Group		Company	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Loans and receivables				
Contract assets	83,534	85,433	32,788	27,211
Trade receivables	59,444	57,410	8,957	656
Amounts owed by fellow Group undertakings	39,953	40,583	235,807	229,668
Other receivables	32,320	36,088	13,107	11,853
Financial assets				
Cash and cash equivalents	519,650	422,385	-	2,839
Total Financial Assets	734,901	641,899	290,659	272,227
Financial liabilities				
Contract liabilities	85,354	88,065	-	1,286
Trade payables	39,571	33,159	3,149	2,475
Amounts owed to fellow Group undertakings	-	3,235	89,585	95,646
Other payables	52,904	38,646	19,195	15,532
Lease liabilities	61,296	63,347	55,754	54,863
Borrowings	-	-	16,603	-
Total financial liabilities	239,125	226,452	184,286	169,802

Maturity analysis for non-derivative financial liabilities

	On demand	Less than 3 months	More than 3 months
	£'000	£'000	£'000
Year ended 31st December 2021			
Trade and other payables (Group)	2,306	67,813	22,536
Trade and other payables (Company)	-	22,344	-
Year ended 31st December 2020			
Trade and other payables (Group)	2,183	35,969	33,653
Trade and other payables (Company)	-	15,691	2,315

The table below shows the undiscounted maturity analysis for lease liability payments:

Group	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31st December 2021	£'000	£'000	£'000	£'000	£'000
Lease liabilities	3,492	8,852	7,756	12,388	39,809
Company	Up to 3 months	Between 3 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31st December 2021	£'000	£'000	£'000	£'000	£'000
Lease liabilities	2,516	6,177	6,552	10,854	39,467

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

25. Financial Instruments – continued

	2021 £'000	2020 £'000
Trade and other payables	285,188	218,468
Contract liabilities	85,354	88,065
Lease liabilities - current	10,862	10,278
Less: cash and short-term deposits	(519,650)	(422,385)
Net surplus	(138,246)	(105,574)
Shareholders' equity	362,682	268,177
Capital and net debt	224,436	162,603
Gearing ratio %	-61.6%	-64.9%

26. Provisions

	Forward loss on contracts & disputes £'000	Warranty £'000	Other £'000	Total £'000
2021				
At 1st January 2021	6,236	62,669	13,921	82,826
Released in year	(921)	(8,557)	(2,299)	(11,777)
Created in year	3,085	26,149	24,080	53,314
Reclassification	-	(4,250)	430	(3,820)
Utilised	(4,340)	(9,155)	(7,899)	(21,394)
Disposals	(299)	-	-	(299)
Exchange differences	-	(42)	-	(42)
At 31st December 2021	3,761	66,814	28,233	98,808
2020				
At 1st January 2020	15,994	33,897	19,254	69,145
Released in year	(6,103)	(27,617)	(6,498)	(40,218)
Created in year	4,181	59,271	14,483	77,935
Reclassification	(5,709)	6,445	(420)	316
Utilised	(2,127)	(9,159)	(11,898)	(23,184)
Held for sale	-	(168)	(1,000)	(1,168)
At 31st December 2020	6,236	62,669	13,921	82,826

The amount and timing of payment of provisions for liabilities is uncertain but they are expected to be made substantially within two years.

Warranty provisions are made in the normal cause of our business. Other provisions include provisions for insurance and legal claims, all of which are incurred in the normal course of business. Due to the nature of such potential liabilities the period of utilisation is not ascertainable.

No provision is made for any tax on capital gains or tax arising in the event of the distribution of profits retained by overseas subsidiaries and associates as no liability is expected to crystallise.

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

27. Deferred tax

Group

	Asset £'000	2021 Liability £'000	Total £'000	Asset £'000	2020 Liability £'000	Total £'000
Accelerated Capital Allowances	1,742	-	1,742	2,127	-	2,127
Deferred tax on pension balance	-	(13,496)	(13,496)	5,953	-	5,953
Unrelieved trading losses	610	-	610	2,962	-	2,962
Other	6,941	-	6,941	4,977	(2,556)	2,421
Total	9,293	(13,496)	(4,203)	16,019	(2,556)	13,463
At beginning of year	16,019	(2,556)	13,463	16,614	(1,842)	14,772
Deferred tax movement in P&L	1,194	2,556	3,750	494	(714)	(220)
Deferred tax direct to equity	(7,920)	(13,496)	(21,416)	(1,089)	-	(1,089)
Total	9,293	(13,496)	(4,203)	16,019	(2,556)	13,463

Company

	Asset £'000	2021 Liability £'000	Total £'000	Asset £'000	2020 Liability £'000	Total £'000
Accelerated Capital Allowances	741	-	741	761	-	761
Deferred tax on pension balance	-	(13,718)	(13,718)	5,342	-	5,342
Unrelieved trading losses	309	-	309	953	-	953
Other	1,526	-	1,526	1,290	-	1,290
Total	2,576	(13,718)	(11,142)	8,346	-	8,346
At beginning of year	8,346	-	8,346	8,284	-	8,284
Deferred tax movement in P&L	1,339	-	1,339	817	-	817
Deferred tax direct to equity	(7,109)	(13,718)	(20,827)	(755)	-	(755)
Total	2,576	(13,718)	(11,142)	8,346	-	8,346

The deferred tax asset has been recognised as the Directors have reviewed the Group's future forecast profits and are satisfied that there will be sufficient profits to utilise the deferred tax asset.

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

28. Employee benefit obligations

The Group, through trustees, operates a number of pension schemes; The Skanska Pension Fund, the Federated Pension Plan and The McNicholas Plc Retirement Benefits Scheme. Details of the latest actuarial valuations and reviews and the assumptions used by the actuaries are set out below.

For The McNicholas Plc Retirement Benefit Scheme the Group conclude that there is not an unconditional right of refund and therefore under IAS 19, IFRIC 14, the Group only recognises the asset of the pension fund up to the limit of the liability, (the asset ceiling). For the other pension schemes the Group conclude that there is an unconditional right of refund and therefore if there is a pension surplus this will be recognised in the accounts.

Pension obligations and plan assets:

	2021 (%)	2020 (%)
Active members' portion of obligations	5	15
Dormant pension rights	56	45
Pensioners' portion of obligations	39	40
Weighted average duration	20 years	20 years

There are various types of risk inherent in the Company's defined-benefit pension plans. Pension obligations are mainly affected by the relevant discount rate, wage increases, inflation and life expectancy. The risk inherent in the plan assets is mainly market risk. Overall, these risks may result in volatility in the Company's equity and in increased future pension costs and higher than estimated pension disbursements. Skanska continually monitors changes in its pension obligations and updates the most important assumptions every quarter and other assumptions at least once a year. Pension commitments are calculated by independent actuaries. The Company has prepared policy documents for the management of plan assets in the form of investment guidelines regulating permitted investments and allocation frameworks for these. In addition, the Company uses external investment advisors who continually monitor development of the plan assets. The long duration of the pension obligations is partly matched by long-term investments in infrastructure projects and property investments, and investments in long-term interest-bearing securities.

a) The Skanska Pension Fund

The Group, in its capacity as employer, participates in The Skanska Pension Fund. The fund was closed to further accruals on 31st March 2018. Total contributions paid during the year by the Group (excluding employee contributions) were £15,030,000 (2020: £14,547,000). Ultimately, the contributions are met by the particular Group company for which the employees are working. The Group expects to contribute approximately £13.7 million to the Fund in the next financial year.

There are various types of risk inherent in the Company's defined benefit pension plans. Pension obligations are mainly affected by the relevant discount rate, wage increases, inflation and life expectancy. The risk inherent in the plan assets is mainly market risk. Overall, these risks may result in volatility in the Company's equity and in increased future pension costs and higher than estimated pension disbursements. Skanska continually monitors changes in its pension obligations and updates the most important assumptions every quarter and other assumptions at least once a year. Pension commitments are calculated by independent actuaries.

The Company has prepared policy documents for the management of plan assets in the form of investment guidelines regulating permitted investments and allocation frameworks for these. In addition, the Company uses external investment advisors who continually monitor development of the plan assets. The long duration of the pension obligations is partly matched by the long-term investments in infrastructure projects and property investments, and investments in long-term interest-bearing securities.

The 31st December 2021 valuation is an update of the actuarial valuation at 31st March 2019 but uses a lower rate of return on assets to discount the scheme liabilities.

The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Inflation	3.25	3.00	3.00	3.25
Rate of increase of pension	3.10	2.90	2.90	3.15
Rate of increase for deferred pension	2.65	2.30	2.20	2.25
Pre and post retirement rates to discount scheme liabilities	1.60	1.40	2.00	2.75

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**Notes to the Consolidated Financial Statements
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28. Employee benefit obligations - continued

Life expectancy after age 65 is 22 years for men and 24 years for women (2020: 22 years for men and 24 for women).

The financial position of the fund based on the above assumptions

	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Scheme liabilities	(912,551)	(928,099)	(840,819)	(747,751)
Scheme assets	967,425	899,984	807,748	715,705
Total surplus/(deficit)	54,874	(28,115)	(33,071)	(32,046)
Related deferred tax (liability)/asset	(13,719)	5,342	5,622	5,448
Net pension asset/(liability)	41,155	(22,773)	(27,449)	(26,598)

The fair value of the fund assets and the expected return on those assets are as follows:

	Valuation of assets 2021 £'000	Valuation of assets 2020 £'000	Expected return 2021 %	Expected return 2020 %
Quoted UK equities	67,285	96,144	1.60	1.40
Quoted overseas equities	107,096	241,501	1.60	1.40
Quoted gilts fixed	223,104	160,099	1.60	1.40
Quoted gilts index linked	212,911	141,705	1.60	1.40
Quoted UK corporate bonds fixed	3,590	9,354	1.60	1.40
Quoted UK corporate bonds index linked	2,215	-	1.60	1.40
Quoted government bonds fixed overseas	25,947	12,639	1.60	1.40
Quoted government bonds index linked overseas	10,243	-	1.60	1.40
Quoted overseas corporate bonds fixed	13,866	28,020	1.60	1.40
Cash	147,632	12,938	1.60	1.40
Infrastructure assets	1,448	49,000	1.60	1.40
Freehold property*	17,600	17,600	1.60	1.40
Other	134,488	130,984	1.60	1.40
Total	967,425	899,984	1.60	1.40

*The Company has a long-term lease with Skanska Construction Services Trustees Limited (a related party).

	2021 £'000	2020 £'000
Actual return on fund assets	77,478	103,960

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments in quoted government bonds.

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

28. Employee benefit obligations - continued

Analysis of the amount charged to the profit or loss

	2021 £'000	2020 £'000
Current service cost	-	-
Employee contribution	-	-
Total operating charge	-	-

Analysis of the amount charged to Other Finance Cost

	2021 £'000	2020 £'000
Expected return on pension scheme assets	12,517	16,012
Interest on pension liabilities	(12,821)	(16,548)
Net finance return	(304)	(536)

Analysis of amount recognised in Statement of Comprehensive Income

	2021 £'000	2020 £'000
Actual return less expected return on assets	64,961	87,948
Experience gains and losses on liabilities	-	(4,595)
Changes in demographic assumptions	-	-
Changes in financial assumptions	5,164	(90,250)
Actuarial gain/(loss) recognised in statement of comprehensive income	70,125	(6,897)

Cumulative loss recognised in statement of comprehensive income	(136,604)	(206,729)
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Movement in the present value of defined benefit obligation

Present value of obligation 1st January	928,099	840,819
Interest cost	12,821	16,548
Benefits paid	(23,205)	(24,113)
Actuarial (gains)/losses	(5,164)	94,845
Obligation at 31st December	912,551	928,099

Changes in fair value of fund assets

Fair value of plan assets, 1st January	899,984	807,748
Expected return on fund assets	12,517	16,012
Employer contribution	15,030	14,547
Benefits paid	(23,205)	(24,113)
Administrative expenses	(1,862)	(2,158)
Actuarial gains	64,961	87,948
Fair value at 31st December	967,425	899,984

Scheme surplus/(deficit)	54,874	(28,115)
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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

28. Employee benefit obligations - continued

History of experience gains and losses:

	2021	2020	2019	2018
Difference between expected and actual return on scheme assets £'000:	64,961	87,948	87,878	(34,403)
Percentage of scheme assets %	6.7%	9.8%	10.9%	(4.8%)
Experience gains and losses on scheme liabilities £'000:	-	(4,595)	-	11,128
Percentage of scheme liabilities %	-	(0.5%)	-	1.5%
Total amount recognised in statement of comprehensive income £'000:	70,125	(6,897)	(11,538)	35,654
Percentage of scheme liabilities %	7.7%	(0.7%)	(1.4%)	4.8%

Sensitivity Analysis

The sensitivity analysis is based on existing circumstances, assumptions and populations. Sensitivity of pension obligation at the year-end to changes in assumptions

	2021 £'000	2020 £'000
Total pension liability at 31st December	912,551	928,099
Estimated decrease in pension liability if discount rate increases by 0.25%	(43,010)	(43,473)
Estimated increase in pension liability if discount rate decreases by 0.25%	45,933	46,843
Estimated increase in pension liability if inflation rate increases by 0.25%	22,123	32,304
Estimated decrease in pension liability if inflation rate decreases by 0.25%	(21,385)	(28,753)

b) The Federated Pension Plan

The Group also sponsors The Federated Pension Plan, a defined benefit pension plan. The benefit provided by this plan is a final salary benefit. The assets of the Plan are held separately under Trust from those of the Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2021, in accordance with the Plan rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group expects to contribute approximately £3.4 million to the plan in the next financial year.

The following valuation is an update of the actuary's valuation at 5th April 2019. The actuarial valuation in accordance with IAS 19 used the projected unit actuarial valuation based on the following assumptions:

	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Inflation	3.25	3.00	3.00	3.25
Rate of increase of salaries	3.50	3.25	3.25	3.50
Rate of increase of pension	3.25	3.00	3.00	3.25
Rate of increase of deferred pensions	3.25	3.00	3.00	3.25
Pre and post retirement rates to discount scheme liabilities	1.60	1.40	2.00	2.75

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**Notes to the Consolidated Financial Statements
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28. Employee benefit obligations - continued

Life expectancy after age 65 is 22 years (2020: 22 years) for men and 24 years (2020: 24 years) for women. The financial position of the scheme based on the above assumptions is detailed below:

	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Scheme liabilities	(99,306)	(94,622)	(87,546)	(73,411)
Scheme assets	98,413	91,406	82,842	68,473
Scheme deficit	<u>(893)</u>	<u>(3,216)</u>	<u>(4,704)</u>	<u>(4,938)</u>

The fair value of the fund assets and the expected return on those assets are as follows:

	Valuation of assets 2021 £'000	Valuation of assets 2020 £'000	Expected return 2021 %	Expected return 2020 %
Quoted equities	44,744	55,913	2.00	2.00
Quoted gilts fixed	48,424	35,140	2.00	2.00
Quoted corporate bonds	5,245	-	2.00	2.00
Cash	-	353	2.00	2.00
Total	<u>98,413</u>	<u>91,406</u>	<u>2.00</u>	<u>2.00</u>

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments in quoted government bonds.

Analysis of amount recognised to profit or loss

	2021 £'000	2020 £'000
Current service cost	3,250	3,243
Employee contribution	(448)	(434)
Total operating charge	<u>2,802</u>	<u>2,809</u>

Analysis of amount charged to Other Finance Cost

	2021 £'000	2020 £'000
Expected return on pension scheme assets	1,292	1,672
Interest on pension liabilities	(1,333)	(1,764)
Net finance return	<u>(41)</u>	<u>(92)</u>

Analysis of amount recognised in statement of comprehensive income

	2021 £'000	2020 £'000
Actual return less expected return on assets	3,893	5,332
Experience gains and losses on liabilities	(924)	2,067
Changes in demographic assumptions	-	-
Changes in financial assumptions	(1,087)	(6,094)
Actuarial gain recognised in statement of comprehensive income	<u>1,882</u>	<u>1,305</u>
Cumulative loss recognised in statement of comprehensive income	<u>(11,876)</u>	<u>(13,758)</u>

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**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021**

28. Employee benefit obligations - continued

Movement in the present value of defined benefit obligation

	2021	2020
	£'000	£'000
Present value of obligation 1st January	94,622	87,546
Service cost	3,250	3,243
Interest cost	1,333	1,764
Benefits paid	(1,910)	(1,958)
Curtailment losses	-	-
Actuarial losses	2,011	4,027
Closing balance, 31st December	<u>99,306</u>	<u>94,622</u>

Changes in fair value of fund assets

	2021	2020
	£'000	£'000
Fair value of plan assets, 1st January	91,406	82,842
Expected return on plan assets	1,292	1,672
Company contribution	3,407	3,278
Employee contribution	448	434
Benefits paid	(1,910)	(1,958)
Administrative expenses	(123)	(194)
Actuarial gains	3,893	5,332
Closing balance, 31st December	<u>98,413</u>	<u>91,406</u>

History of experience gains and losses:

	2021	2020	2019	2018
Difference between expected and actual return on scheme assets £'000:	3,893	5,332	11,084	(4,147)
Percentage of scheme assets %	<u>4%</u>	<u>6%</u>	<u>13%</u>	<u>(6%)</u>
Experience gains and losses on scheme liabilities £'000:	(924)	2,067	(3,112)	(243)
Percentage of scheme liabilities %	<u>(1%)</u>	<u>2%</u>	<u>(4%)</u>	<u>(-)</u>
Total amount recognised in statement of comprehensive income £'000:	1,882	1,305	(201)	(601)
Percentage of scheme liabilities %	<u>2%</u>	<u>1%</u>	<u>(-)</u>	<u>(1%)</u>

The sensitivity analysis is based on existing circumstances, assumptions, and populations

Sensitivity of pension obligation at the year-end to changes in assumptions

	2021	2020
	£'000	£'000
Total pension liability at 31st December	<u>99,306</u>	<u>94,622</u>
Estimated decrease in pension liability if discount rate increases by 0.25%	(5,036)	(5,123)
Estimated increase in pension liability if discount rate decreases by 0.25%	<u>5,935</u>	<u>5,448</u>
Estimated increase in pension liability if inflation rate increases by 0.25%	6,186	5,318
Estimated decrease in pension liability if inflation rate decreases by 0.25%	<u>(5,263)</u>	<u>(4,707)</u>

Skanska UK Plc (Registered number: 00784752)**Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021****28. Employee benefit obligations - continued****c) The McNicholas Plc Retirement Benefits Scheme**

The Group also sponsors The McNicholas Plc Retirement Benefits Scheme, a defined benefit plan. The assets of the Scheme are held separately under Trust from those of the Group and are invested by the Trustee, having taken appropriate investment advice. As at 31st December 2021, in accordance with the Scheme rules there were no outstanding contributions. The pension contributions are set by the Trustees based on the advice of the Fund actuary. The Group does not expect to contribute to the plan in the next financial year.

For The McNicholas Plc Retirement Benefit Scheme the Group believes there is not an unconditional right of refund and therefore under IAS 19 and IFRIC 14, the Group only recognises the asset of the pension fund up to the limit of the liability (the asset ceiling).

The scheme was closed to both new members and future accruals in 2003.

The valuation below is an update of the actuarial valuation at 28th February 2018. The actuarial valuation in accordance with IAS 19 used the projected unit cost method based on the following assumptions:

	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Inflation	3.25	3.00	3.00	3.25
Rate of increase of salaries	3.50	3.25	3.25	3.50
Rate of increase of pension	3.10	2.90	3.00	3.25
Rate of increase for deferred pensions	2.65	2.30	3.00	3.25
Pre and post retirement rates to discount scheme liabilities	1.60	1.40	2.00	2.75

Life expectancy after age 65 is 22 years (2020: 22 years) for men and 24 years (2020: 24 years) for women.

The financial position of the scheme based on the above assumptions is detailed below:

	2021 £'000	2020 £'000	2019 £'000	2018 £'000
Scheme liabilities	(21,109)	(21,221)	(22,223)	(20,285)
Scheme assets excluding asset ceiling	24,822	24,901	22,632	20,212
Less asset ceiling provision	(3,713)	(3,680)	(409)	(742)
Pension deficit	-	-	-	(815)

The fair value of the fund assets and the expected return on those assets are as follows:

	Valuation of assets 2021 £'000	Valuation of assets 2020 £'000	Expected return 2021 %	Expected return 2020 %
Quoted UK equities	1,454	1,210	2.00	2.00
Quoted UK bonds	10,297	11,886	2.00	2.00
Other	13,071	11,805	2.00	2.00
Total	24,822	24,901	2.00	2.00

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**Notes to the Consolidated Financial Statements
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28. Employee benefit obligations – continued

The expected long-term returns on assets assumption is assessed by considering the current level of expected risk-free investments in quoted government bonds.

Analysis of the amount charged to profit or loss.

	2021 £'000	2020 £'000
Current service cost	-	-

Analysis of amount charged to Other Finance Cost

	2021 £'000	2020 £'000
Expected return on pension scheme assets	294	439
Interest on pension liabilities	(294)	(439)
Net finance return	-	-

Analysis of amount recognised in statement of comprehensive income

	2021 £'000	2020 £'000
Actual return less expected return on assets	(2)	(901)
Experience gains and losses on liabilities	(243)	230
Changes in demographic assumptions	-	-
Changes in financial assumptions	245	671
Effect of the asset ceiling	-	-
Actuarial loss recognised in statement of comprehensive income	-	-
Cumulative gain recognised in statement of comprehensive income	1,921	1,921

Movement in the present value of defined benefit obligation

	2021 £'000	2020 £'000
Present value of obligation 1 st January	21,221	22,223
Interest cost	294	439
Benefits paid	(404)	(540)
Actuarial gains	(2)	(901)
Closing balance, 31 st December	21,109	21,221

Changes in fair value of plan assets

	2021 £'000	2020 £'000
Fair value of plan assets, 1 st January	21,221	22,223
Expected return on plan assets	294	439
Benefits paid	(404)	(540)
Actuarial losses	(2)	(901)
Closing balance, 31 st December	21,109	21,221

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**Notes to the Consolidated Financial Statements
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28. Employee benefit obligations – continued

History of experience gains and losses:

	2021	2020	2019	2018
Difference between expected and actual return on scheme assets £'000:	(2)	(901)	1,640	(1,239)
Percentage of scheme assets %	<u>-</u>	<u>(4%)</u>	<u>7%</u>	<u>(6%)</u>
Experience gains and losses on scheme liabilities £'000:	(243)	230	450	48
Percentage of scheme liabilities %	<u>(1%)</u>	<u>1%</u>	<u>2%</u>	<u>-</u>
Total amount recognised in statement of comprehensive income £'000:	-	-	(30)	(944)
Percentage of scheme liabilities %	<u>-</u>	<u>-</u>	<u>(-)</u>	<u>(5%)</u>

The sensitivity analysis is based on existing circumstances, assumptions, and populations

Sensitivity of pension obligation at the year-end to changes in assumptions

	2021 £'000	2020 £'000
Total pension liability at 31st December	<u>21,109</u>	<u>21,221</u>
Estimated decrease in pension liability if discount rate increases by 0.25%	(1,009)	(1,033)
Estimated increase in pension liability if discount rate decreases by 0.25%	<u>1,060</u>	<u>1,088</u>
Estimated increase in pension liability if inflation rate increases by 0.25%	844	803
Estimated decrease in pension liability if inflation rate decreases by 0.25%	<u>(798)</u>	<u>(773)</u>

29. Ultimate parent Company

The immediate parent undertaking is Skanska Construction Holdings UK Limited, a Company incorporated in the UK.

The ultimate parent Company is Skanska AB, a Company incorporated in Sweden, which heads the smallest and largest Group in which the results of the Group and Company are consolidated. The registered address for Skanska AB is Warfvinges väg 25, SE-112 74 Stockholm, Sweden.

Copies of the Skanska AB financial statements can be obtained from Skanska UK Plc at Maple Cross House, Denham Way, Rickmansworth, Herts WD3 9SW.

30. Contingent liabilities

The Group faces contingent liabilities in respect of guarantees and potential claims by third parties under contracting agreements entered into by them in the normal course of business. These are provided as liabilities only to the extent that the Directors believe that the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation. Contingent liabilities relating to the Group's portion of the joint and several liabilities for the obligations of joint operations totalled £9,855,000 (2020: £83,293,000).

Skanska UK Plc (Registered number: 00784752)

**Notes to the Consolidated Financial Statements
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31. Related party disclosures

Transactions between the parent entity, subsidiary companies and other Group undertakings are detailed below. Balances with the Parent entity, subsidiary companies and other Group undertakings are disclosed in the debtors and creditors notes. Amounts owed to and from these entities are unsecured and interest free.

Related party	Nature of relationship	Good/service provided	Transactions in year	
			2021 £'000	2020 £'000
Skanska Construction Holdings UK Limited	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc paid dividends to this Entity in the year.	16,100	35,000
Skanska AB	Ultimate parent Company of Skanska UK Plc	Skanska AB provides management services to Skanska UK Plc	1,080	1,314
Skanska AB	Ultimate parent Company of Skanska UK Plc	Skanska AB receives management services from Skanska UK Plc	645	756
Skanska TAM Limited	Skanska TAM Limited holds Public Financial Initiative investments on behalf of the Skanska Pension Fund	Skanska UK Plc provides accounting services to the entity.	13	75
Skanska TAM (Nordic) Limited	Skanska TAM (Nordic) Limited holds Public Financial Initiative investments on behalf of the pension schemes of fellow group undertakings	Skanska UK PLC provides accounting services to the entity.	8	57
Skanska Construction Services Trustee Limited	Skanska Construction Services Trustee Limited is a corporate trustee of the Skanska Pension Fund	Skanska UK Plc rents an office in Doncaster from the Skanska Pension Fund.	1,388	1,632
Skanska Residential Developments UK Limited	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK Plc provides management and facilities management services to the entity.	-	331
BoKlok UK Limited	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK PLC provide payroll services and staff costs to the entity.	3,457	3,047
Skanska USA	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska USA recharges for staff costs provided to Skanska UK Plc.	618	440
Skanska Poland	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK PLC recharges for staff costs provided to the entity.	45	16
Skanska Sverige AB	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK PLC recharges for staff costs provided to the entity.	-	34
Skanska CDE SP Z.O.O	Fellow Group undertaking. Ultimately owned by Skanska AB	Skanska UK PLC recharges for staff costs provided to the entity.	-	270

Remuneration of key management personnel

Details of remuneration of the Directors, who are the key management personnel of the Company, are contained in Note 6.

Skanska UK Plc (Registered number: 00784752)

Notes to the Consolidated Financial Statements
For The Year Ended 31st December 2021

32. Reconciliation of profit before income tax to cash used in operations

Group

	2021 £'000	2020 £'000
Profit before income tax	73,266	22,436
Depreciation and impairment	14,777	20,370
Profit on sale of business operations	(29,069)	-
Increase in provisions	18,753	13,681
Employee ownership scheme	2,490	1,986
Pension service cost	2,802	2,809
Pension company contribution	(16,452)	(15,473)
Finance costs	2,022	3,170
Finance income	(2,876)	(2,931)
	<u>65,713</u>	<u>46,048</u>
Decrease in inventories	94	4,232
Decrease in trade and other receivables	6,491	69,683
Increase/(decrease) in trade and other payables	<u>13,191</u>	<u>(113,640)</u>
Cash generated from operations	<u>85,489</u>	<u>6,323</u>

Company

	2021 £'000	2020 £'000
Profit before income tax	24,991	32,306
Depreciation and impairment	9,657	12,091
Impairment of investments	340	-
Dividends received	(40,000)	-
Employee ownership scheme	2,490	1,986
Pension company contribution	(13,168)	(12,389)
Finance costs	1,759	2,490
Finance income	(4,308)	(3,615)
	<u>(18,239)</u>	<u>32,869</u>
Decrease/(increase) in trade and other receivables	620	(46,993)
Decrease in trade and other payables	<u>(6,548)</u>	<u>(10,127)</u>
Cash used in operations	<u>(24,167)</u>	<u>(24,251)</u>

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**Notes to the Consolidated Financial Statements
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33. Joint operations

The Group has entered into a number of Joint operations with different partners for the purposes of undertaking specific contracts. The principal Joint arrangements within the Group (excluding those between Group companies) are as follows:

Name of Joint arrangements	Address	Joint arrangement partners	Control
Skanska Construction UK Limited			
Skanska BAM Northern Hub Joint Venture	1,7	BAM Nuttall Limited	50%
Costain Skanska C405 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C360 Joint Venture	1,2	Costain Limited	50%
Costain Skanska C412 Joint Venture	1,2	Costain Limited	50%
SMB Joint Venture	1,4,5	Balfour Beatty Utility Solutions Limited / MWH Treatment Limited	33%
SEESA AMS Joint Venture	1,9,10	UK Grid Solutions Limited / Mott Macdonald Limited	20%
Costain Skanska Joint Venture - L P T	1,2	Costain Limited	47.38%
tRHO	1,8	Morrison Water Service Limited	50%
HS2 Enabling	1,2	Costain Limited	50%
HS2 Main Works SCS S1	1,2,6	Strabag AG-UK Branch / Costain Limited	34%
HS2 Main Works SCS S2	1,2,6	Strabag AG-UK Branch / Costain Limited	34%
Skanska Porr A-Hak Joint Venture	1,11,12	Porr Bau GmbH / A-Hak International B.V.	40%
Bakerloo Line Link Joint Venture	1,2	Costain Limited	50%
A14 Huntingdon to Cambridge	1,2,4	Balfour Beatty Civil Engineering Limited / Costain Limited	33%
Skanska ESS Construction Handelsbolag	1,13	Skanska Sverige AB	25%
Tønsberg Joint Venture	1,14	Skanska Norge AS	30%
Skanska UK PLC			
RAF Molesworth	1,15	Black & Veatch Limited	50%
Cementation Skanska Limited			
Cementation Skanska Balfour Beatty GE Joint Venture	1,3	Balfour Beatty Ground Engineering Limited	50%
Skanska J.V. Projects Limited			
Skanska Balfour Beatty M25 Joint Venture	1,4	Balfour Beatty Civil Engineering Limited	50%

The addresses of these Joint arrangements are as follows:

- 1 Maple Cross House, Denham Way, Maple Cross, Rickmansworth, Hertfordshire, WD3 9SW
- 2 Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB
- 3 The Curve Building Axis Business Park Hurricane Way Langley Berkshire SL3 8AG
- 4 5 Churchill Place, Canary Wharf, London, E14 5HU
- 5 Spring Lodge, 172 Chester Road, Helsby, Cheshire, WA6 0AR
- 6 Strabag AG UK Branch, The Tower, 3rd Floor 65 Buckingham Gate, London, SW1E 6AS
- 7 St James House, Knoll Road, Camberley, Surrey, GU15 3XW
- 8 Abel Smith House, Gunnels Wood Road, Stevenage, Herts SG1 2ST
- 9 St Leonards Building, Harry Kerr Drive, Stafford, ST16 1WT
- 10 Mott Macdonald House, 8-10 Sydenham Road, Croydon, Surrey, CR0 2EE
- 11 Absberggasse 47, 1100 Vienna, Austria
- 12 Steenoven 2-6, NL-4196 HG Tricht, the Netherlands
- 13 Warfvinges väg 25, SE-112 74, Stockholm, Sweden
- 14 Lakkegata 53 0187, Oslo, Norway
- 15 1 Farnham Road, Guildford, Surrey, GU2 4RG

34. Post balance sheet events

There have been no post balance sheet events that require disclosure or adjustment in these financial statements.

Notes to the Consolidated Financial Statements
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35. Total results including discontinued operations

The Directors have presented the information below as an alternative performance measure so to demonstrate the total revenues and costs that were generated by the Group.

	Notes	2021 £'000		2020 £'000	
		Continuing	Discontinued	Continuing	Discontinued
			Total		Total
Revenue	4	1,122,698	126,888	1,122,278	334,040
Cost of sales		(1,005,754)	(110,644)	(1,042,310)	(310,099)
Gross profit		116,944	16,244	79,968	23,941
Other operating income	5	302	-	4,018	387
Administrative expenses		(83,538)	(6,401)	(71,810)	(13,831)
Operating profit		33,708	9,843	12,176	10,497
Gain on disposal of business operations	10	-	29,069	-	-
Profit before interest and tax		33,708	38,552	12,176	10,497
			72,620		22,673