ANNUAL REPORT
2018

REPORT OF THE DIRECTORS

The Board of Directors and the President of Skanska Financial Services AB (publ) hereby submit the Annual Report for the 2018 financial year.

Business activities
Skanska Financial Services AB (publ) is a wholly owned subsidiary of Skanska AB (publ) (556000-4615), which has its registered office in Stockholm Municipality. Skanska AB is listed on Nasdaq Stockholm, Large Cap list. Skanska Financial Services AB (publ) has listed bonds in the form of medium-term notes (MTN) on NASDAQ OMX Stockholm.

Skanska Financial Services AB (publ) provides support functions to Skanska AB and the Skanska Group’s Business Units. The company coordinates the Skanska Group’s relationships with financial markets and institutions. The company is responsible for managing Skanska Group’s borrowing and for ensuring that the Group has sufficient liquidity. Skanska Financial Services AB (publ) coordinates and executes operational financial transactions for the Business Units.

Business activities are conducted within strictly regulated frameworks established by Skanska AB’s Board of Directors. Skanska Financial Services AB (publ) secures solutions or negotiates contract guarantees and financing for projects. Skanska Financial Services AB (publ) also manages risks associated with the Skanska Group’s operations, such as interest rate, foreign exchange, credit, counterparty and project risk, as well as borrowing and liquidity.

Skanska Financial Services AB (publ) is not to conduct any business that requires permits under the Banking and Financing Business Act (2004:297).

Events during the year
In 2018 Skanska Financial Services AB (publ) implemented its second issue of green bonds under the medium-term note program, totaling SEK 1,000 M, of which SEK 500 M will mature in two and a half years and SEK 500 M in five years. Also in 2018 an option was exercised under the syndicated credit agreements - both of which were obtained in 2017 - to extend for one year after the first year.

In May 2018 the internal sale of the subsidiaries Skanska Försäkrings AB and Skanska Project Finance AB to Skanska Kraft AB was executed.

A review was conducted of the Skanska Group’s various departments during the year with a focus on cost and efficiency. This resulted in the corporate risk department being moved to Skanska Financial Services AB (publ) and also in a decision to reduce the number of board members.

An extraordinary shareholders’ meeting on June 27, 2018 decided to dismiss all previous board members besides Therese Tegner. The meeting also decided to elect Maria Almebäck and Jamie Stanbury as board members as of the end of the following Annual Shareholders’ Meeting.

Anticipated future development
The core operations will remain the same. Management of financial risks will remain an important focus in the years ahead, in particular in light of the fact that SFS expects its financing requirements to increase and that the geopolitical environment remains uncertain.

Multi-year review	**2018**	**2017**	**2016**	**2015**
Net interest income	535	540	415	384
Operating revenue*	484	533	869	307
Total assets	36 417	36 880	31 876	33 063
Equity	273	273	700	200
Equity/assets ratio	0,7%	0,7%	2,2%	0,6%

* Represents revenue before tax

Information on financial risks
Through its operations, aside from business risk, Skanska Financial Services AB (publ) is exposed to various financial risks such as credit risk, liquidity risk and market risk. These risks are associated with the company's reported financial instruments such as cash and cash equivalents, interest-bearing receivables, borrowing and derivatives.

Each year, based on the Skanska Group’s Financial Policy, Skanska AB’s Board of Directors establishes guidelines, objectives and limits for the management of financial risks within the Group. Skanska Financial Services AB (publ) has operational responsibility for securing Skanska Group’s financing and for managing liquidity, financial assets and liabilities.

Credit risk
Credit risk is the risk associated with the financial assets and arises if a counterparty does not fulfill its contractual obligations to Skanska Financial Services AB (publ).

Financial credit risk - the risk associated with interest-bearing assets
Financial credit risk is the risk Skanska Financial Services AB (publ) is exposed to in relation to financial counterparties in the investment of surplus funds, bank account balances and investments in financial assets. Credit risk also arises in the use of derivative instruments and consists of the risk that a potential gain will not be realized if a counterparty fails to fulfill its part of the contract.

Market risk
Market risk is the risk that the fair value of financial instruments or future cash flows from financial instruments will fluctuate due to changes in market prices. The main market risks for Skanska Financial Services AB (publ) are interest rate risk and foreign exchange rate risk.

Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely affect the Company´s financial items and cash flow (cash flow risk) or the fair value of financial assets and liabilities (fair value interest rate risk). For Skanska Financial Services AB (publ), exposure to fair value interest rate risk arises primarily from interest-bearing borrowing.

Foreign exchange rate risk
Foreign exchange rate risk is defined as the risk of a negative impact on the income statement and statement of financial position of Skanska Financial Services AB (publ) due to fluctuations in foreign exchange rates. Foreign exchange rate risk arises mainly in connection with the company's transaction exposure, i.e. net operating and financial (interest/principal payment) flows.

For more information on financial risks, see Note 3 Financial instruments and financial risk management.

Significant events after the closing day
There were no significant events after the closing day.

Employees
To attract and retain employees, the Skanska Group has, among other things, developed an employee ownership program, Seop. All indefinite-term employees of the Skanska Group are entitled to participate in the program.

Every year an employee survey is carried out at Skanska Financial Services AB (publ) to get an idea of employee satisfaction and well-being, and of the need for development measures. The survey results over the years have been consistently positive and stable.

Skanska Financial Services AB (publ) works according to a plan for equal treatment that is revised annually. The plan for equal treatment is based on Swedish laws and is supported by Skanska AB's Code of Conduct. The plan for equal treatment is a plan for rights, responsibilities and opportunities regardless of gender, age, ethnic group, religion or other belief system, sexual orientation, disability, or part-time or temporary employment.

The employee turnover rate for the year was 14 percent (13).
The average number of employees in 2018 was 37 (41).

Proposed allocation of Company earnings
The Board of Directors proposes that the available profit of SEK 212 325 701 be allocated as follows:

To be carried forward: SEK 212 325 701

For information on the company's results and position in general, please refer to the following income statement and balance sheet and the accompanying notes, as well as the cash-flow statement.

Corporate Governance Report

Corporate governance principles
Skanska AB owns 100 percent of Skanska Financial Services AB (publ), which is a Swedish public limited company. Skanska Financial Services AB (publ) has bonds listed on Nasdaq OMX Stockholm.

Skanska Financial Services AB (publ) is governed in accordance with the Articles of Association, the Swedish Companies Act, the Nasdaq Stockholm Rule Book for Issuers and other applicable Swedish and foreign laws.

Articles of Association
The Articles of Association are adopted by the shareholders' meeting and are required to contain a number of mandatory disclosures about the company of a more fundamental nature. They state, for example, the nature of the company's business, the size of the Board of Directors and the location of the registered office, the size of the share capital, number of shares and how shareholders' meetings are to be convened. The Articles of Association do not contain any provisions concerning discharging board members or amending the Articles of Association. The Articles of Association state that the Board of Directors is to have a minimum of three and a maximum of twelve members, with up to two deputy members. The members and deputy members are to be elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting.

Internal control and risk management
The Board's Procedural Rules stipulate the duties of the Board and which tasks and decision-making powers the Board has delegated to the President. The Board makes decisions on general company issues while the President is responsible for the day-do-day management of the company and is to inform the Board of Directors on an ongoing basis of any non-compliance issues.

Important governing documents with which Skanska Financial Services AB (publ) complies are the Skanska Group's Financial Policy, which is adopted by the Board of Skanska AB, and the accompanying SFS Procedure, BU Financial Management Procedure, Skanska Tender Approval Procedure, among other documents.

Middle Office is a risk function within the company that is responsible for risk management within Skanska Financial Services AB (publ) and the Skanska Group's various Business Units. The main risks identified and managed by Middle Office are risks relating to liquidity, interest rates, foreign exchange rates and counterparties, as well as the operational risk relating to dealing with the above risks. Middle Office reports on compliance to the President of the company and to the Group CFO of Skanska AB. To ensure that limits are not exceeded, Middle Office consults with the company's Head of Treasury when risks are believed to exceed 90 percent of the established limit.

In addition to the governing documents mentioned above, more detailed instructions regarding documentation and monitoring of financial reporting are provided in the Documentation of Financial Processes for Skanska Financial Services AB (publ).

Financial reporting is carried out in compliance with rules and regulations in effect and with Skanska AB's Accounting Manual which describes in more detail the Skanska Group's interpretation of accounting rules, and in accordance with Skanska AB's quarterly instructions. As mentioned above, the President of Skanska Financial Services AB (publ) has reporting responsibility.

Sustainability report
The operations of Skanska Financial Services AB have no material environmental impact and are covered by the sustainability report prepared by Skanska AB (publ) (556000-4615), registered in Stockholm municipality. SFS does not therefore prepare its own report.

Income statement

SEK M	Note	2 018	2 017
Operating revenue			
Interest income[1]	4	943	764
Interest expense	5	-408	-224
Net profit/loss from financial transactions	6	-2	31
Other operating revenue	7	42	53
Total operating revenue		**575**	**624**
Operating expenses			
General administrative expenses	8, 9	-95	-91
Depreciation/amortization and impairment losses of property, plant and equipment and intangible non-current assets	13, 14	-2	-1
Total operating expenses		**-97**	**-92**
Income from holdings in Group companies	10	-	32
Impairment of financial assets	14	-	-31
Credit losses, net	11	6	-
Operating revenue		**484**	**533**
Tax on profit for the year	12	-107	-125
Profit for the year		**377**	**408**

1 The recognized interest income is essentially the same as the interest income estimated based on the effective interest method.

Report of other comprehensive income

SEK M		
Profit for the year	**377**	**408**
Items that have been or will be reclassified to profit or loss for the period		
Changes in the fair value of cash flow hedges for the year	11	-
Changes in the fair value of cash flow hedges transferred to profit for the year	1	-
Tax related to items that have been or will be reclassified to	-3	-
profit for the year		-
Other comprehensive income after taxes	**9**	**-**
Total comprehensive income	**386**	**408**

Balance sheet

SEK M	Note	2 018	2 017
ASSETS			
Non-current assets			
Intangible non-current assets			
Capitalized expenses for development and similar work	13	1	3
		1	**3**
Property, plant and equipment			
Equipment, tools and installations	14	0	0
		0	**0**
Financial non-current assets			
Holdings in Group companies	15	-	382
Receivables from Group companies	16	6 911	16 918
Other non-current receivables	17	2	17
Deferred tax assets		1	-
		6 914	**17 317**
Total non-current assets		**6 915**	**17 320**
Current assets			
Current receivables			
Receivables from Group companies	3	21 885	14 690
Other receivables	3	106	206
Prepaid expenses and accrued income	19	19	28
		22 010	**14 924**
Short-term investments			
Other short-term investments	3	2 460	1 316
		2 460	**1 316**
Cash		5 032	3 320
Total current assets		**29 502**	**19 560**
TOTAL ASSETS		**36 417**	**36 880**
of which interest-bearing financial non-current assets		6 910	16 918
of which interest-bearing current assets		29 351	19 320
		36 261	36 238

EQUITY AND LIABILITIES

SEK M	Note	2 018	2 017
Restricted equity			
Share capital	20	50	50
Statutory reserve		10	10
Reserve for development costs		1	1
Unrestricted equity			
Hedge reserve		9	-
Retained earnings or loss		-174	-196
Profit for the year		377	408
		273	**273**
Provisions			
Provisions for pensions and similar obligations	21	17	16
Other provisions	21	5	2
		22	**18**
Non-current liabilities			
Bonds	3, 22	1 002	850
Liabilities to credit institutions	3, 22	2 401	2 228
Liabilities to Group companies	3, 22	2 064	17
Other liabilities	3, 22	3	26
		5 470	**3 121**
Current liabilities			
Bonds	3, 22	850	1 500
Liabilities to credit institutions	3, 22	17	-
Trade accounts payable		8	9
Liabilities to Group companies	3, 22	29 643	31 677
Other liabilities	3, 22	80	240
Accrued expenses and prepaid income	23	54	42
		30 652	**33 468**
Total liabilities		**36 144**	**36 607**
TOTAL EQUITY AND LIABILITIES		**36 417**	**36 880**
of which interest-bearing financial liabilities		35 935	36 272
of which interest-bearing pensions and provisions		17	18
		35 952	36 290

Change in equity (SEK M)

	Share capital	Statutory reserve	Reserve for development costs	Reserve for cash flow hedges	Retained profit/loss incl. profit for the year	Total equity
Equity, January 1, 2017	**50**	**10**	**-**	**-**	**640**	**700**
Profit for the year	-	-	-	-	408	408
Dividends provided	-	-	-	-	-400	-400
Group contributions	-	-	-	-	-558	-558
Group contributions, taxes	-	-	-	-	123	123
Reserve for development costs	-	-	1	-	-1	-
Equity, December 31, 2017/ Equity, January 1, 2018	**50**	**10**	**1**	**-**	**212**	**273**
Effect of transition to IFRS 9 (net after tax)		-	-	-	-9	-9
Profit for the year	-	-	-	-	377	377
Other comprehensive income	-	0	-	9	-	9
Dividends provided	-	-	-	-	-	-
Group contributions	-	-	-	-	-484	-484
Group contributions, taxes	-	-	-	-	107	107
Reserve for development costs	-	-	0	-	0	0
Equity, December 31, 2018	**50**	**10**	**1**	**9**	**203**	**273**

Cash flow statement

SEK M	2 018	2 017
Operating activities		
Operating income	484	533
Adjustments for items not included in cash flow, see supplementary information 2.	184	-29
Tax paid	-2	-4
Cash flow from operating activities before change in working capital	666	500
Contributions to pension fund	-4	0
Cash flow from change in working capital		
Change in interest-bearing receivables, Group companies	2 886	-4 692
Change in other interest-bearing receivables	15	-17
Change in other non-interest-bearing receivables	109	90
Change in interest-bearing liabilities, Group companies	13	4 936
Change in other non-interest-bearing liabilities	-172	153
Cash flow from operating activities	3 513	970
Investing activities		
Group contributions/shareholder contributions provided	-	-5
Investments in intangible non-current assets	0	-1
Divestment of subsidiaries	382	-
Cash flow from investing activities	382	-6
Financing activities		
Group contributions	-558	-365
Dividend to Parent Company	-	-400
Borrowings	1 019	1 720
Repayment of debt	-1 500	-1 315
Cash flow from financing activities	-1 039	-360
Cash flow for the year	**2 856**	**604**
Cash and cash equivalents, January 1, see supplementary information 3.	4 636	4 032
Cash and cash equivalents, December 31, see supplementary information 3.	7 492	4 636

Supplementary information

		2 018	2 017
1.	*Interest paid and dividends received*		
	Income from holdings in Group companies	-	32
	Interest received	943	779
	Interest paid	-395	-260
2.	*Adjustments for items not included in cash flow*		
	Depreciation/amortization and impairment losses, assets	2	33
	Provisions for pensions	5	2
	Other provisions	3	-
	Unrealized exchange rate differences, financial liabilities	172	-64
	Impairment in accordance with IFRS 9	-6	-
	Unrealized change in value, derivatives, liabilities	-96	-
	Unrealized change in value, derivatives, assets	104	-
		184	-29
3.	*Cash and cash equivalents, December 31*		
	Other short-term investments	2 460	1 316
	Cash	5 032	3 320
		7 492	4 636

Note 1. Accounting and valuation principles

Conformity with laws and standards
Skanska Financial Services AB (publ) has prepared its annual accounts according to the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's Recommendation RFR 2 Accounting for Legal Entities. According to RFR 2 Skanska Financial Services AB (publ) must apply the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS), issued by the International Accounting Standards Board (IASB), to the extent these have been approved by the EU and within the framework of the Swedish Annual Accounts Act taking into account the connection between accounting and taxation. The income statement is prepared in compliance with the Act (1995:1559) on Annual Reporting for Credit Institutions and Securities Companies as the company's business is financial in nature and this provides a more fair and true representation of the company's operations.

The Annual Report was approved for issuance by the Board of Directors on March 18, 2019. The income statement and balance sheet will be subject to adoption by the Annual General Meeting on March 25, 2019.

Considerations in the preparation of the Group's financial statements
The functional currency of Skanska Financial Services AB (publ) is Swedish kronor (SEK), which is also the reporting currency. The financial statements are therefore presented in Swedish kronor. All amounts are rounded off to the nearest million, unless otherwise stated. Preparing the financial statements in accordance with IFRS requires management to make judgements and estimates, and to make assumptions that affect the application of the accounting principles and the recognized amounts of assets, liabilities, revenue and expenses. Actual outcomes may deviate from these estimates and judgments. Estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period the change is made if the change only affects this period, or in the period the change is made and future periods if the change affects both the current period and future periods. Judgments made by management when applying IFRS that have a material impact on the financial statements and estimates that may lead to significant adjustments in the financial statements in subsequent years are described in more detail in Note 2.

The accounting principles below, with the exceptions described in more detail, have been applied consistently in all periods presented in the financial statements.

Measurement principles applied in the preparation of the financial statements
Assets and liabilities are recognized at historical cost, with the exception of certain financial assets and liabilities. Financial assets and liabilities measured at fair value consist of derivatives.

Changed accounting principles and effects of changes in accounting principles
The changes applied with effect from January 1, 2018 are described below. Other IFRS amendments applying from January 1, 2018 have not had any material effect on the company's financial reporting.

Two new standards, IFRS 15 and IFRS 9, apply from January 1, 2018. The accounting principles in IFRS 9 are described below. Implementation of the standard IFRS 9 Financial Instrument have had the following effects on the accounts of Skanska Financial Services AB (publ): As a result of the new impairment model for anticipated credit losses due to the possible future inability of customers to pay, the provision for credit losses has increased by SEK 11 M, SEK 3 M of which is for internal transactions in connection with the transition on January 1, 2018. In connection with the transition to IFRS 9 SFS has decided to change the accounting principle for derivatives. The change has affected the carrying amount of external and internal derivatives with a net amount of SEK -1 M before tax as a result of the transition from accounting according to the cost method to fair value. The transition to IFRS 9 has also resulted in an increase in deferred tax of SEK 2 M. The combined negative effect on equity of IFRS 9 is SEK 9 M after tax and is recognized as an adjustment of the opening balance on January 1, 2018. Skanska Financial Services AB has not restated any comparative figures for 2017.

IFRS 15 is the new revenue recognition standard that replaces IAS 18 and IAS 11. As revenue is mainly income from financial instruments, the transition to IFRS 15 has therefore not had any material impact for Skanska Financial Services AB (publ).

Early adoption of new or revised IFRSs and interpretations
There has been no early adoption of new or revised IFRSs or interpretations.

New standards and amendments of standards that have not yet begun to be applied
New and amended IFRSs, such as IFRS 16, to be applied prospectively are not expected to have any material effect on the company's financial statements.

Classification
Non-current assets and non-current liabilities essentially consist of amounts that are expected to be recovered or paid after more than 12 months have passed since the closing day. Current assets and current liabilities essentially consist of amounts that are expected to be recovered or paid within 12 months of the closing day.

Operating segment reporting
An operating segment is a part of the company's operations that can generate revenue and incur costs and about which separate financial information is available. An operating segment's results are monitored by the company's chief operating decision-maker in order to be able to allocate resources to the operating segment. Skanska Financial Services AB (publ) has no separable parts that meet the definition of an operating segment.

Subsidiaries

Subsidiaries are companies over which Skanska Financial Services AB has a controlling influence. There is a controlling influence if Skanska Financial Services AB has power over the investment object, is exposed to or has a right to variable returns from its involvement, and can use its influence over the investment to impact the return. In determining if a controlling influence exists, potential shares with voting rights are taken into account, as well as whether de facto control exists. Subsidiaries are recognized at cost less any impairment losses.

Foreign currency transactions
Foreign currency transactions are translated into the functional currency at the exchange rate in effect on the transaction date. Functional currency is the currency of the primary economic environment where the companies operate. Monetary assets and liabilities in foreign currency are translated into the functional currency at the exchange rate in effect on the closing day. Exchange rate differences that arise in connection with translation are recognized in profit or loss for the year.

Operating leases
Expenses for operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Interest income and interest expense
Interest income and expense presented in the income statement consist of:

Interest on financial assets and liabilities measured at amortized cost according the effective-interest method
Interest from financial assets and liabilities measured at fair value through profit or loss
Paid and accrued interest on derivatives that are hedging instruments and where hedge accounting is applied
For interest rate derivatives used to hedge financial assets, the paid and accrued interest is recognized as interest income and for interest rate derivatives used to hedge financial liabilities, it is recognized as a portion of interest expense.
Unrealized changes in the value of derivatives are recognized in the item Net profit/loss from financial transactions.

Net profit/loss from financial transactions
The item Net profit/loss from financial transactions contains realized and unrealized changes in value that have arisen in financial transactions. Net profit/loss from financial transactions consists of:

Realized and unrealized changes in fair value of the assets and liabilities that are recognized at fair value through profit or loss
Capital gains/losses from the divestment of financial assets and liabilities
Realized and unrealized changes in the value of derivatives that are economic hedging instruments but where hedge accounting is not applied
Ineffective portions of hedging instruments in cash flow, other than the part of the change in value that is recognized as interest
Exchange rate fluctuation
Bank costs and the cost of borrowing programs

General administrative expenses
This item consists of personnel expenses, including salaries and fees, bonuses, pension costs, payroll costs and other social insurance contributions. It also includes rental, audit, training, IT, telecom, travel and entertainment expenses.

Taxes

Income taxes consist of current tax and deferred tax. Income taxes are recognized in profit/loss for the year except when the underlying transaction is recognized in other comprehensive income or in equity, in which case the accompanying tax effect is recognized in other comprehensive income or in equity. Current tax is tax to be paid or received in the current year, applying the tax rates that have been enacted or substantively enacted as of the closing day. Current tax includes adjustments of current tax from previous periods. Deferred tax is calculated according to the balance sheet method based on temporary differences between the reported and tax base amounts of assets and liabilities. Deferred tax is measured based on how the underlying assets or liabilities are expected to be realized or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been enacted or substantively enacted as of the closing day. Deferred tax assets relating to deductible temporary differences and loss carryforwards are recognized only where it is probable that they will be able to be utilized. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilized.

IFRS 9 Financial Instruments: Applied after January 1, 2018

The effects of the implementation of IFRS 9 on January 1, 2018 are described under the heading "Changed accounting principles and effects of changes in accounting principles." Skanska Financial Services AB (publ) is not exercising the option to observe the limitations stated RFR 2 with respect to IFRS 9.

IFRS 9 Financial Instruments addresses the recognition of financial assets and liabilities. Categories exempt from application according to IFRS 9 include holdings in subsidiaries, associated companies and joint ventures, leases, rights under employment contracts, treasury shares, financial instruments as described in IFRS 2, and rights and responsibilities within IFRS 15 except for the rights in IFRS 15 where an impairment requirement according to IFRS 9 applies. All financial instruments, including derivatives, are recognized as a financial asset or financial liability in the statement of financial position when the entity becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of a financial asset is recognized in and derecognized from the statement of financial position using trade date accounting. A financial asset is derecognized from the statement of financial position when the contractual rights to cash flows from the financial asset expire or when the entity 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 derecognized from the statement of financial position only when the contractual obligation is fulilled, cancelled or expires.

Presentation of financial assets is based on the entity’s business model and the contractual cash flows of the asset. A financial asset is measured at amortized 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 though profit or loss if it is not measured at amortized cost or at fair value through other comprehensive income.

All financial liabilities are measured at amortized cost with the exception of: a) financial liabilities measured at fair value through profit or loss (such liabilities, including derivatives that are liabilities, are thereafter to be measured at fair value); b) financial liabilities arising when a transfer of a financial asset does not meet the criteria for derecognition from the statement of financial position or where a continued commitment is appropriate; c) financial guarantee contracts; d) a loan commitment with and interest rate below the market interest rate; and e) a contingent consideration acknowledged by an acquiring party in connection with a business combination covered by IFRS 3 (the contingent consideration is thereafter measured at fair value with changes recognized through profit or loss).
An entity is only entitled to reclassify all relevant financial assets when the entity 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 accounts receivable 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 amortized cost, fair value through other comprehensive income or fair value through profit or loss. Subsequent measurement of financial liabilities is at amortized cost or fair value through profit or loss.

An entity is to apply the impairment requirement to expected credit losses on financial assets and a loss provision for these is to be recognized 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 recognized. If the credit risk has not increased significantly since it was first recognized, the loss provision is to be equivalent to 12 months of expected credit losses. For trade receivables, contractual assets and lease receivables, SFS measures the loss provision at an amount equivalent to the remaining time to maturity. An entity is to measure 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.

The purpose of hedge accounting is that, in its financial statements, an entity can report the effect of its risk management where financial instruments are used to manage exposure from specific risks that would impact results. A derivative that is measured at fair value through profit or loss can be identified as a hedging instrument. A financial asset or liability that is not a derivative measured at fair value through profit or loss can be identified as a hedging instrument unless it is a financial liability identified as measured at fair value through profit or loss for which the amount of the change in fair value arising from changes in credit risk for the liability is recognized in other comprehensive income. In hedge accounting, only contracts with an external party can be identified as hedging instruments. A hedged item may be a recognized asset or liability, an unrecognized binding commitment, a highly likely forecast transaction or a net investment in foreign operations. A hedging relationship only qualifies for hedge accounting when the following criteria have been met: the hedging relationship consists only of eligible hedging instruments and eligible hedged items, where there is a formal designation and documentation for the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, and where the effectiveness requirement for the hedges has been met. The effectiveness requirement is met when there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the changes that result from the economic relationship, and the hedge ratio of the hedging relationship is the same as the ratio between the quantity of the hedged item that the entity actually hedges and the quantity that the entity actually uses to hedge that quantity of hedged items.

Skanska Financial Services AB uses hedge accounting for cash flow hedging. Hedge accounting is used for cash flow hedges when a future cash flow is attributable to a recognized asset or liability or a highly probable future transaction.

A cash flow hedge is recognized as follows:
a) the separate component in equity, cash flow hedge reserve, which is linked to the hedged item is to be adjusted to the lower of the following: the cumulative gains or losses from the hedging instrument from the date the hedge was entered into or the cumulative change in fair value for the hedged item from the date the hedge was entered into;
b) the portion of the gain or loss for a hedging instrument that has been determined to be an effective hedge is recognized in other comprehensive income; c) the remaining gain or loss for the hedge instrument is hedging ineffectiveness that is to be recognized through profit or loss; d) the amount accumulated in the cash flow hedge reserve derived from the cash flow hedged in accordance with a) is to be recognized as follows: i) if a hedged forecast transaction subsequently leads to recognition of a non-financial asset or liability, or a hedged forecast transaction for a non-financial asset or liability becomes a binding commitment for which hedge accounting of fair value is used, the entity is to deduct this from the reserve originating from the cash flow hedge and include it directly in the initial cost or other recognized value for the asset or liability;
ii) for all cash flow hedges except those covered by i) this amount is to be reclassified from the reserve originating from the cash flow hedge to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss;
iii) if this amount is a loss and an entity is expecting all or part of the loss not to be recovered during one or more future periods, the amount not expected to be recovered is to be immediately reclassified to profit or loss as a reclassification adjustment.

IAS 39 Financial Instruments was applied prior to January 1, 2018

Financial instruments reported in the statement of financial position include, on the assets side, cash and cash equivalents, loan receivables, trade accounts receivable, financial investments and derivatives. On the liabilities side are trade accounts payable, borrowings and derivatives. A financial asset or financial liability is recognized in the statement of financial position when the entity becomes a party to the contractual provisions of the instrument. A receivable is recognized when the entity has performed and there is a contractual obligation to pay, even if the invoice has not yet been sent. Trade accounts receivable are recognized in the statement of financial position when an invoice has been sent. A liability is recognized when the counterparty has performed and there is a contractual obligation to pay, even if the invoice has not yet been received. Trade accounts payable are recognized when an invoice has been received. A financial asset is derecognized from the statement of financial position when the contractual rights are realized or expire, or the company loses control of them. The same applies to a portion of a financial asset. A financial liability is derecognized from the statement of financial position when the contractual obligation is fulfilled or otherwise extinguished. The same applies to a portion of a financial liability. A financial asset and a financial liability are offset and reported net in the statement of financial position only where there is a legal right to offset the amounts and there is an intention to settle the items at a net amount or where the asset will be realized and the liability settled simultaneously. Acquisitions and disposals of financial assets are recognized on the settlement date. The settlement date is the day on which an asset is delivered to or from the entity. Financial instruments other than derivatives are recognized initially at cost, corresponding to the instrument's fair value plus transaction costs for all financial instruments, except those in the category of financial assets measured at fair value through profit or loss, which are recognized at fair value excluding transaction costs. A financial instrument is classified upon initial recognition partly based on the purpose for which the instrument was acquired. Derivatives are recognized initially at fair value, with the result that transaction costs are charged to profit for the period. After initial recognition, derivatives are recognized as described below. Where derivatives are used in hedge accounting and to the extent that this is effective, changes in value of derivatives are recognized in other comprehensive income. Where hedge accounting is not applied, increases and decreases in the value of derivatives are recognized as income or expense in Net profit/loss from financial transactions.

Cash and cash equivalents consist of cash and immediately available deposits at banks and equivalent institutions, as well as short-term liquid investments with a maturity from the acquisition date of less than three months and which are subject to only an insignificant risk of fluctuation in value.

Financial assets measured at fair value through profit or loss consist of two subcategories: financial assets held for trading and other financial assets that the company initially chose to place in this category (according to the fair value option). Financial instruments in this category are measured on an ongoing basis at fair value with changes in value recognized in profit or loss for the year. The first subcategory includes derivatives with a positive fair value with the exception of derivatives identified and effective hedging instruments.

Loan receivables and trade accounts receivable are financial assets that have payment schedules that are established or can be established, and that are not quoted on an active market. These assets are measured at amortized cost. Amortized cost is determined based on the effective interest rate calculated at the time of acquisition. Trade accounts receivable are reported at the amounts expected to be received, i.e. after deductions for doubtful receivables. Held-to-maturity investments are financial assets with payments that are fixed or can be fixed and have a fixed term, and which the company has the express intention of holding to maturity and has the capacity to do so. Assets in this category are measured at amortized cost.

SFS's derivatives are acquired for the purpose of hedging the interest rate risk and currency risk to which the Skanska Group and SFS are exposed. To meet the requirements of hedge accounting under IAS 39 there must be a clear link to the hedged item. In addition, the hedge must effectively protect the hedged item, hedged documentation must have been prepared and the effectiveness must be measurable. Gains and losses on hedges are recognized in profit for the year at the same time as gains and losses are recognized for the items that are hedged.

Currency forward contracts are used to hedge receivables or liabilities against foreign exchange rate risk. Recognition of derivatives varies depending on whether hedge accounting in accordance with IAS 39 is applied or not. Currency derivatives used to hedge SFS's transaction exposure are measured at market levels and recognized at fair value in the statement of financial position. The entire change in value is recognized in Net profit/loss from financial transactions except when hedge accounting is applied. In hedge accounting, unrealized gains or losses are recognized under the item other comprehensive income. The effectiveness of hedging is assessed regularly, and hedge accounting is applied only for hedges that are deemed effective. If hedging is not deemed effective, the amount is adjusted for the hedging instrument.

Foreign exchange rate fluctuations for financial receivables and liabilities are recognized in Net profit/loss from financial transactions. Interest rate swaps are used to hedge the uncertainty in highly likely forecast interest flows relating to borrowing at variable rates of interest, where the company receives variable interest and pays fixed interest. The interest rate swaps are measured at fair value in the statement of financial position. The interest coupon portion is recognized in profit for the year as it arises, as part of interest expense. Unrealized changes in the fair value of the interest rate swaps are recognized in other comprehensive income and form part of the hedge reserve until the hedged item is recognized in profit or loss for the year and for as long as the criteria for hedge accounting and effectiveness are met. The gain or loss on the ineffective portion of unrealized changes in the value of the interest rate swaps is recognized in profit or loss for the year. Where hedge accounting is not applied, increases and decreases in the value of derivatives are recognized as income or expense in net profit from financial transactions.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment losses.
Depreciation is applied on a straight-line basis over the estimated useful life of the asset. Equipment is depreciated over a period of five years.

Intangible assets

Intangible assets are recognized at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over a period of five years.

Impairment losses

Recognized assets are assessed on every closing day to determine if there is any indication of impairment. IAS 36 is applied for depreciation of assets other than financial assets which are recognized according to IFRS 9, available-for-sale assets and divestment groups which are recognized according to IFRS 5, investment properties recognized at fair value according to IAS 40, inventories, plan assets used to finance employee benefits, biological assets and deferred tax assets. The carrying amounts of the assets in the exceptions above are assessed according to the respective standard. If there is any indication of impairment the asset's recoverable amount is calculated. For goodwill, other intangible assets with indefinite useful lives and intangible assets that are not yet ready for use, the recoverable amount is also calculated annually. If it is not possible to establish essentially independent cash flows linked to an individual asset and the asset's fair value less selling costs cannot be used, the assets are grouped when testing for impairment to the lowest level at which it is possible to identify essentially independent cash flows - a so-called cash-generating unit. An impairment loss is recognized when the carrying amount of the asset or the cash-generating unit (group of units) exceeds the recoverable amount. An impairment loss is recognized as an expense in profit or loss for the year.

Employee benefits

Short-term benefits

Short-term employee benefits are calculated without being discounted and are recognized as an expense when the related services are received. In addition to salary, bonuses may also be paid as short-term benefits to employees. Bonuses are paid out the year after they are earned and are recognized as an accrued expense in the balance sheet.

Reporting of pension plans

Defined contribution pension plans

Pension plans in which the company's obligations are limited to the contributions the company has undertaken to pay are classified as defined contribution pension plans. In such cases the size of the employee's pension is based on the contributions paid by the company into the plan or to an insurance company and the return on capital resulting from the contributions. Consequently, the employee bears the actuarial risk (that the benefit will be lower than expected) and the investment risk (that the invested assets will not be sufficient to provide the expected benefits). The company's obligations with respect to contributions in defined contribution plans are recognized as expenses in profit/loss for the year as they are earned through the employee performing services for the company over a period of time.

Defined benefit pension plans

The company reports defined benefit plans as defined contribution plans where a pension premium is paid to an insurance company, an insurance association or a similar entity. Skanska Financial Services AB (publ) complies with the regulations in the Pension Obligations Vesting Act and the instructions from Finansinspektionen as these are required for the right to make a tax deduction. The most important differences compared with the rules in IAS 19 are that the discount rate is established in a different way, that the calculation of the defined benefit obligation is done based on current salary levels without an assumption on future salary increases and that actuarial gains and losses are recognized in the income statement. Pension obligations secured by transferring funds to a pension fund are only reported as a provision if the market value of the fund's assets is less than the obligations. If the fund's assets exceed the obligations, no asset is reported.

Share-based payment

The Seop employee ownership program is recognized as share-based payment settled with equity instruments in accordance with IFRS 2. Social insurance contributions that are payable in connection with share-based payments are reported in compliance with statement UFR 7 issued by the Swedish Financial Reporting Board.

Provisions

A provision differs from other liabilities in that there is uncertainty concerning the time of payment or the sum required for settlement. A provision is reported in the statement of financial position when there is an existing legal or informal obligation as a result of a past event and it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are made in the amount that represents the best estimate of funds needed to settle the existing obligation on the closing day. In cases where the effect of when a payment is made is significant, provisions are calculated by discounting the expected future cash flow at an interest rate before tax that reflects current market assessments of the time value of money and, where applicable, the risks associated with the liability.

Contingent liabilities

Information on contingent liabilities is provided where there is a possible undertaking originating from events that have occurred and whose existence is only confirmed by one or more uncertain future events outside SFS's control or where there is an undertaking that is not recognized as a liability or provision because it is not likely that an outflow of resources will be required, or the amount cannot be estimated with sufficient reliability.

Reporting of Group contributions

Group contributions received from subsidiaries are recognized as financial income.
Group contributions provided to subsidiaries are recognized as an increase in holdings in Group companies.
Group contributions provided to sister companies are recognized in equity.
Group contributions received from sister companies are recognized in equity.

Note 2. Key estimates and judgments

Management has discussed with the Board of Directors the developments, choices and disclosures relating to the SFS's important accounting principles and estimates, as well as the application of these principles and estimates. SFS is an internal bank the purpose of which is to be responsible for investment and cash borrowing, and its financial statements therefore mainly consist of financial instruments. The balance sheet consists mainly of intra-group receivables and liabilities and other receivables and liabilities recognized at amortized cost. Additionally, there are internal and external derivatives measured at fair value, see Note 3.

Note 3. Financial instruments and financial risk management

Through its operations, aside from business risks, Skanska Financial Services AB (SFS) is exposed to various financial risks such as credit risk, liquidity risk and market risk.

Through the Skanska Group's Financial Policy, each year the Board of Directors of the Skanska Group adopts guidelines, objectives and limits for financial management and management of financial risks within the Group. The Financial Policy stipulates the division of responsibility between Skanska's Board, Group Leadership Team, SFS and the Business Units.

SFS has operational responsibility for securing financing for SFS and the Skanska Group and for managing cash liquidity, financial assets and financial liabilities. Guidelines and risk mandates are defined in risk instructions established for SFS.

The objectives and policies for each type of risk are described in the respective sections below.

Credit risk

Credit risk describes the risk from financial assets and arises if a counterparty does not fulfill its contractual payment obligations to SFS.

Financial credit risk - risk associated with interest-bearing assets

Financial credit risk is the risk SFS is exposed to in relation to financial counterparties in investing surplus funds, bank account balances and investments in financial assets. Credit risk also arises when using derivatives and consists of the risk that a potential gain will not be realized if the counterparty does not fulfill its part of the contract.

According to the Financial Policy SFS is to limit its exposure to financial counterparties by using banks and financial institutions that have been assigned a satisfactory rating by credit rating institutes Standard & Poors, Moody's or Fitch. The permitted exposure volume per counterparty is dependent on the counterparty's credit rating and the maturity of the exposure. To reduce the credit risk associated with derivative instruments, SFS has also signed standardized netting agreements (ISDA agreements) with all financial counterparties with whom Skanska has entered into derivative contracts. Most of SFS's interest-bearing assets consist of receivables from Group companies within Skanska. Lending to Group companies is not expected to expose SFS to any material credit risk.

When investing surplus funds with external counterparties the objective is to always attain a good spread of risk. As of the end of the year surplus funds were mainly invested with large banks with a global footprint, primarily in the Nordic region, Europe and the USA. SFS currently uses around 10 banks for derivative transactions.

The maximum exposure is equivalent the fair value of the assets and amounts to SEK 36 426 M. Of this amount, SEK 28 834 M consists of receivables from Skanska companies. Other external interest-bearing assets amounted to SEK 7 592 M.

Liquidity and refinancing risk

Liquidity and financing risk is defined as the risk of SFS not being able to meet its payment obligations due to lack of liquidity or due to difficulties in obtaining or rolling over external loans. SFS has operational responsibility for managing the Skanska Group's liquidity and employs a system of liquidity forecasting as a means of identifying and managing the fluctuations in short-term liquidity. Surplus liquidity is, if possible, to be used primarily to repay the principal on loan liabilities.

Financing
SFS has several borrowing programs in the form of both committed bank credit facilities and market funding programs. This provides good preparedness for temporary fluctuation in the Group's short-term liquidity requirements and ensures long-term financing.

In 2018 SFS implemented its second issue of green bonds under the medium-term note program, totaling SEK 1 000 M, of which SEK 500 M will mature in two and a half years and SEK 500 M in five years.

Also in 2018 an option was exercised under the syndicated credit agreements - both of which were obtained in 2017 - to extend for one year after the first year.

Short-term liquidity requirements due to seasonal variations in cash flow were covered during the year through short-term bank loans in SEK and USD.

2018

	Maturity	Currency		Limit in SEK	Utilized
Market funding programs					
Commercial paper (CP) program, maturities 0-1 year		SEK/EUR	SEK 6 000 M	6 000	-
Medium-term note (MTN) program, maturities 1-10 years		SEK/EUR	SEK 8 000 M	8 000	1 852
				14 000	1 852
Committed credit facilities					
Green syndicated bank loan	2020	SEK/EUR/USD	EUR M 200	2 051	-
Syndicated bank loan	2023	SEK/EUR/USD	EUR M 600	6 152	-
Bilateral loan agreements	2020	EUR	EUR 60 M	615	615
Bilateral loan agreements	2023/2024	USD	USD 200 M	1 786	1 786
Other credit facilities				428	17
				11 032	2 418

2017

	Maturity	Currency	Limit in foreign currency	Limit in SEK	Utilized
Market funding programs					
Commercial paper (CP) program, maturities 0-1 year		SEK/EUR	SEK 6 000 M	6 000	-
Medium-term note (MTN) program, maturities 1-10 years		SEK/EUR	SEK 8 000 M	8 000	2 350
				14 000	2 350
Committed credit facilities					
Green syndicated bank loan	2019	SEK/EUR/USD	EUR M 200	1 967	-
Syndicated bank loan	2022	SEK/EUR/USD	EUR M 600	5 901	-
Bilateral loan agreements	2020	EUR	EUR 60 M	590	590
Bilateral loan agreements	2023/2024	USD	USD 200 M	1 638	1 638
Other credit facilities				413	-
				10 509	2 228

Liquidity reserve and maturity structure

The objective is to have a liquidity reserve of at least SEK 4 billion available within one week in the form of cash liquidity or committed credit facilities. At year-end, SFS's cash and cash equivalents and committed credit facilities amounted to about SEK 16 (13) billion, of which around SEK 13 billion (12) is expected to be available within one week.

The Skanska Group's policy is for the central borrowing portfolio's maturity structure to be distributed over time and for the portfolio to have a weighted average residual term of three years, including unutilized committed credit facilities, with authorization to deviate within a 2-4 year interval. On December 31, 2018 the average maturity of the borrowing portfolio was 3.6 years (3.5), if unutilized credit facilities are weighed in.

The maturity structure, including interest payments, of SFS's financial interest-bearing liabilities and derivatives is distributed over the next few years according to the following table. Most of the interest-bearing financial liabilities are investments from Skanska companies in a cash pool with a contractual maturity within three months. Historically, however, the relationship between intra-Group liabilities and receivables has essentially remained at a stable level. In addition to intra-Group financing SFS, as mentioned above, also has access to committed bank credit facilities and market funding programs.

2018 Maturity		Carrying amount	Future payment amount	Maturity within 3 months	After 3 months within 1 year	After 1 year within 5 years	After 5 years
Interest-bearing financial liabilities		35 935	36 483	29 698	967	4 440	1 377
Derivatives: Currency forward contracts							
	Inflow		-14 627	-12 142	-2 073	-412	
	Outflow	109	14 745	12 214	2 107	424	
Derivatives: Interest rate swaps							
	Inflow		-3		1	-4	
	Outflow	4	15	2	9	4	
Trade accounts payable		8	8	8	0	0	0
Total		**36 056**	**36 621**	**29 780**	**1 011**	**4 452**	**1 377**

2017 * Maturity		Carrying amount	Future payment amount	Maturity within 3 months	After 3 months within 1 year	After 1 year within 5 years	after 5 years
Interest-bearing financial liabilities		35 902	36 335	32 331	550	1 719	1 735
Derivatives: Currency forward contracts							
	Inflow	-99	-10 296	-9 924	-330	-42	-
	Outflow	97	10 292	9 920	331	41	-
Derivatives: Interest rate swaps							
	Inflow	-1	-5	-	4	-9	-
	Outflow	59	63	24	25	14	-
Total		**35 958**	**36 389**	**32 351**	**580**	**1 723**	**1 735**

* Comparative figures for 2017 contain flows from derivatives with both positive and negative market value

Market risk
Market risk is the risk that the fair value of financial instruments or future cash flows from financial instruments will fluctuate due to changes in market prices. The main market risks for SFS are interest-rate risk and foreign exchange rate risk.

Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely affect SFS's financial items and cash flow (cash flow risk) or the fair value of financial assets and liabilities (fair value interest rate risk). For SFS, exposure to fair value interest-rate risk arises primarily from interest-bearing borrowing.

In 2018 Skanska's Board of Directors established a new strategy and policy for risk management involving a transition to net debt management instead of, as previously, based on a duration measure for central borrowing. As a consequence of the amended policy, interest swaps matured in 2018 have not been extended.

To limit the risk, the fixed interest periods for financial assets and liabilities are to be matched in the respective borrowing currency to the greatest extent possible. When calculating SFS sensitivity to changes in interest rates, all interest-bearing assets, liabilities and derivatives are included, with the exception of pensions and taxes. Analysis indicates that the position as of December 31, 2018 remains constant in terms of both size of net debt, in the ratio of fixed and variable interest rates as well as the percentage of financial instruments in foreign currencies.
Fair value sensitivity is measured using three different scenarios: a basic scenario involving an increase in the interest rate of one percentage point across all maturities, or an increase or decrease in the basic scenario of one half of a percentage point over the maturities. According to the policy, the change in fair value may not exceed SEK 150 M for any of these interest rate scenarios.

As of December 31, 2018 the change in fair value estimated with the scenarios above would impact net financial items within the range of SEK 42-54 M (38-61), as hedge accounting is not applied. All amounts are stated before tax. Equity would thus be affected by around SEK 30-39 (27-44) taking tax into account.

The average fixed interest period for external interest-bearing assets was 0.05 (0.0) years, taking derivatives into account. The interest rate for these was 0.05 (0.34) percent at year-end. Of SFS's external interest-bearing financial assets, 33 (28) percent carry fixed interest rates and 67 (72) percent variable interest rates.

The average fixed interest period for external interest-bearing liabilities, taking into account derivatives but excluding pension liabilities, was 0.6 (0.9) years. The interest rate for interest-bearing liabilities amounted to 1.97 (1.67) percent at year-end. Taking into account derivatives, the interest rate was 2.17 (2.45) percent. Of the total interest-bearing financial liabilities, after taking into account derivatives, 38 (39) percent carry fixed interest rates and 62 (61) percent variable interest rates.

On December 31, 2018 there were outstanding interest rate swap contracts amounting to a nominal value of SEK 1,610 M (3,585). All of the contracts were entered into by SFS in order to swap the borrowing from variable to fixed interest. The fair value of interest-rate swaps totaled SEK -12 M (-58) as of December 31, 2018. Changes in fair value are recognized through profit or loss.

Foreign exchange rate risk
Foreign exchange rate risk is defined as the risk of a negative impact on the income statement and statement of financial position of Skanska Financial Services AB (publ) due to fluctuations in foreign exchange rates. This risk refers to transaction exposure, i.e. net operating and financial (interest/principal payment) flows.

Transaction exposure
The foreign exchange rate risk for SFS is in general limited to a total of SEK 5 M, with risk calculated as the effect on earnings of a 5 percentage point shift in exchange rates. A higher risk level is permitted if it is within the total foreign exchange rate risk limit for the Skanska Group, which is SEK 50 M. As of December 31, 2018 foreign exchange rate risk accounted for SEK 8.1 M (14.8) of transaction exposure for SFS and SEK 29 M (35) for the Skanska Group.

SFS hedges foreign currency flows by matching critical factors such as nominal amount, currency and due date. By this means a qualitative evaluation of the efficiency of the relationship is made. The efficiency of a hedge is evaluated when the hedging relationship is entered into and on an ongoing basis. SFS uses hedge accounting for hedging of contracted future EUR and USD flows relating to long-term borrowing. The hedged contracted flows amount to EUR 4 M and USD 13 M. The hedges meet effectiveness criteria, which means that unrealized gains or losses are recognized under other comprehensive income. As of the closing day the hedge reserve amounted to SEK 9 (0) M.

Financial instruments in the balance sheet

The table below shows carrying amounts and fair value for financial instruments by category, and a reconciliation with total assets and liabilities in the statement of financial position.

Fair value
There are three different levels for establishing fair value.

The first level uses the official price quotation in an active market.
The second level, which is used when a price quotation in an active market does not exist, calculates fair value by discounting future cash flows based on observable market interest rates for each respective maturity and currency.
The third level uses substantial elements of input data that are not observable in the market.

All fair values in the table below have been calculated according to level two above. In calculating fair value in the borrowing portfolio, SFS takes into account current market interest rates, which include the credit risk premium that SFS is estimated to pay for its borrowing. The assessment of financial instruments with option elements is calculated using the Black-Scholes model. As of December 31, 2018 and December 31, 2017 SFS had no instruments with option elements.

For financial instruments, current intra-Group receivables and liabilities, other non-current and current receivables and liabilities, trade accounts receivable, short-term investments, cash and trade accounts payable, the fair value is the same as the carrying amount.

Assets	Fair value through profit or loss.	Fair value through other comprehen-sive income	Amortized cost	Total carrying amount	Total fair value
2018					
Financial assets at fair value					
Derivatives, external[1]	100	-	-	100	100
Derivatives, internal[2]	27	-	-	27	27
	127	**-**	**-**	**127**	**127**
Financial assets not recognized at fair value					
Non-current receivables, Group companies	-	-	6 910	6 910	6 950
Current receivables, Group companies	-	-	21 857	21 857	21 857
Other non-current and current receivables	-	-	-	-	-
Trade accounts receivable	-	-	2	2	2
Short-term investments	-	-	2 460	2 460	2 460
Cash	-	-	5 032	5 032	5 032
	-	**-**	**36 261**	**36 261**	**36 301**
Total financial instruments	**127**	**-**	**36 261**	**36 388**	**36 428**

Assets	Fair value through profit or loss.	Fair value through other comprehen-sive income	Amortized cost	Total carrying amount	Total fair value
2017					
Financial assets at fair value					
Derivatives, external[1]	-	-	-	-	-
Derivatives, internal[2]	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
Financial assets available for sale recognized at fair value					
Non-current receivables, Group companies	-	-	16 918	16 918	17 338
Current receivables, Group companies	-	-	14 685	14 685	14 685
Other non-current and current receivables	-	-	217	217	217
Trade accounts receivable	-	-	5	5	5
Short-term investments	-	-	1 316	1 316	1 316
Cash	-	-	3 320	3 320	3 320
	-	-	**36 461**	**36 461**	**36 881**
Total financial instruments	-	-	**36 461**	**36 461**	**36 881**

1 The carrying amount of external derivatives is included in “Other non-current receivables” in the amount of SEK 2 M (-) and “Other receivables” in the amount of SEK 98 M (-).

2 The carrying amount of internal derivatives is included in “Non-current receivables from Group companies” in the amount of SEK 1 M (-) and “Current receivables from Group companies” in the amount of SEK 26 M (-).

Reconciliation with the balance sheet

	2 018	2 017
Assets		
Financial instruments	36 388	36 461
Other assets		
Property, plant and equipment and intangible assets	1	3
Holdings in Group companies	-	382
Other non-current and current receivables	8	6
Tax assets	1	-
Prepaid expenses and accrued income	19	28
Total assets	**36 417**	**36 880**

Liabilities	Fair value through profit or loss.	Fair value through other comprehen-sive income	Amortized cost	Total carrying amount	Total fair value
2018					
Financial liabilities at fair value through profit or loss					
Derivatives, external[3]	71	-	-	71	71
Derivatives, internal[4]	42	-	-	42	42
	113	**-**	**-**	**113**	**113**
Financial liabilities at amortized cost					
Non-current liabilities to Group companies and credit institutions	-	-	4 461	4 461	4 494
Long-term and short-term bonds	-	-	1 852	1 852	1 849
Other non-current and current receivables	-	-	-	-	-
Current liabilities to Group companies and credit institutions	-	-	29 622	29 622	29 622
Trade accounts payable	-	-	8	8	8
	-	**-**	**35 943**	**35 943**	**35 973**
Total financial instruments	**113**	**-**	**35 943**	**36 056**	**36 086**

Liabilities	Fair value through profit or loss.	Fair value through other comprehen-sive income	Amortized cost	Total carrying amount	Total fair value
2017					
Financial liabilities at fair value through profit or loss					
Derivatives, external[3]	-	-	-	-	-
Derivatives, internal[4]	-	-	-	-	-
	-	**-**	**-**	-	-
Financial liabilities at amortized cost					
Non-current liabilities to Group companies and credit institutions	-	-	2 245	2 245	2 311
Long-term and short-term bonds	-	-	2 350	2 350	2 367
Other non-current and current receivables	-	-	247	247	247
Current liabilities to Group companies and credit institutions	-	-	31 677	31 677	31 677
Trade accounts payable	-	-	9	9	9
	-	**-**	**36 528**	**36 528**	**36 611**
Total financial instruments	**-**	**-**	**36 528**	**36 528**	**36 611**

3 The carrying amount of external derivatives is included in “Other non-current liabilities” in the amount of SEK 3 M (-) and “Other current liabilities” in the amount of SEK 68 M (-).

4 The carrying amount of internal derivatives is included in “Non-current liabilities to Group companies” in the amount of SEK 4 M (-) and Current liabilities to Group companies in the amount of SEK 38 M (-).

Reconciliation with the balance sheet

	2 018	2 017
Liabilities		
Financial instruments	36 056	36 528
Other liabilities		
Equity	273	273
Provisions	22	18
Other liabilities	12	19
Accrued expenses and prepaid income	54	42
Total liabilities	**36 417**	**36 880**

Disclosures concerning offsetting of financial instruments

	2018		2 017	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Gross amounts	36 428	36 056	36 881	36 528
Amounts offset	0	0	0	0
Recognized in balance sheet	36 428	36 056	36 881	36 528
Amounts covered by netting arrangements	-42	-42	-53	-53
Net amount after netting arrangements	36 386	36 014	36 828	36 475

Impact of financial instruments on the income statement, other comprehensive income and equity

Revenue and expenses from financial instruments recognized in the income statement

	2 018	2 017
Interest income on financial assets measured at fair value through profit or loss	59	-
Interest income on assets measured at amortized cost	882	762
Interest income on cash	2	2
Change in market value of financial assets/liabilities at fair value through profit or loss	37	-
Total revenue in operating revenue	980	764
Interest expense on financial liabilities measured at fair value through profit or loss	-118	-
Interest expense on financial liabilities measured at amortized cost	-290	-224
Change in market value of financial assets/liabilities at fair value through profit or loss *	-25	25
Financial expense, pensions	-1	-1
Net exchange rate differences	2	23
Expense for borrowing programs	-14	-15
Bank-related expenses	-1	-1
Total operating revenue in operating expenses	-447	-193
Net income and expense from financial instruments recognized in the income statement	533	571

* In 2017 the profit was from a reversal of a previous year's impairment of book value

Note 4. Interest income

	2 018	2 017
Interest income, external	61	9
Interest income from Group companies	882	755
	943	764
Geographic breakdown of interest income		
Sweden	176	247
USA	611	427
Poland	46	39
Other	110	51
	943	764

Note 5. Interest expense

	2 018	2 017
Interest expense, external	-141	-108
Interest expense Group company	-267	-116
	-408	-224

Note 6. Net profit/loss from other financial transactions

	2 018	2 017
Financial expense, pensions	-1	-1
Exchange gains/losses	2	23
Other financial expense	-15	-16
Other financial instruments	12	25
	-2	31

Note 7. Other operating revenue

	2 018	2 017
Fees for financial advice	42	53
	42	53

Note 8. Employees and personnel expenses

	2 018	2 017
Average number of employees	37	41
Number of women	18	22
Men and women on the Board of Directors and leadership team as of the closing day		
Board of Directors	3	10
Number of women	2	6
Other senior executives	3	3
Number of women	1	1
Paid as salaries and other remuneration	-38	-41
of which for senior executives	-6	-7
Social insurance contributions	-15	-15
	-58	-56
Bonuses included above		
of which for senior executives	-1	-2
Pension expenses amounted to	-11	-8
of which for senior executives	2	-2
Benefits for the President [1]		
Wages, salaries and other remuneration	-2	-2
Bonuses	0	-1
Pensions	-1	-1
	-3	-4

1 No fees are paid to other board members.

Skanska Employee Ownership Program (Seop)

The Skanska Employee Ownership Program (Seop) is the Skanska Group's share savings program. The purpose of the program is to strengthen the Group's ability to retain and recruit qualified personnel and to align employees more closely to the company and its shareholders. The program provides employees with the opportunity to invest in Skanska AB's shares while receiving an incentive in the form of possible allotment of additional shares. The allotment is predominantly performance-based. Shares are only allotted after a three-year vesting period. To be able to earn matching shares and performance shares, a person must be employed throughout the vesting period and have retained the shares purchased under the program. The initial program, Seop 1, with investment period 2008-2010, was concluded in 2013, when performance and matching shares were allocated. The investment period for Seop 2 was 2011-2013 and allocation began in 2014. Seop 3 was launched in 2014 and 2014-2016 was the investment period. Seop 4 started in January 2017. Seop 2, Seop 3 and Seop 4 are essentially the same as Seop 1. The costs of Seop 2, Seop 3 and Seop 4 are measured in accordance with IFRS 2 Share-based Payment. The amount has been reported as an operating expense and non-interest-bearing liability to Skanska AB. Social insurance contributions for Seop 2, Seop 3 and Seop 4 have been calculated in accordance with UFR 7, IFRS 2. This means that social insurance contributions for the cost for the year of Seop are recognized as operating expenses and other provisions this year.

Severance pay

The notice period for the President, in the case of termination by the company, is six months with retention of fixed salary and benefits, excluding variable remuneration. After the notice period, severance pay is payable for 18 months equivalent to fixed salary.

Note 9. Fees and expense compensation for auditors

Ernst & Young AB	2 018	2 017
Audit assignments	-1	-1
Tax advisory services	0	0
Total	-1	-1

Note 10. Income from holdings in Group companies

	2 018	2 017
Group contributions from Skanska Försäkrings AB	-	32
	-	32

Note 11. Credit losses, net

SFS's interest-bearing financial assets as of December 31, 2018 consisting mainly of receivables from Group companies, SEK 28 869 M and other bank balances, are expected to still carry a low credit risk as of the closing day as the assets have a high credit rating and thus the loss reserve for these assets is based on 12 months of anticipated credit losses.

Receivables at amortized cost

	2 018	2 017
Provisions - Step 1	6	-
	6	-

Interest-bearing assets and derivatives		
Outstanding receivables	36 431	36 876
Less adjustment from fair value	-40	-420
Impairment losses	-5	-
Carrying amount	**36 386**	**36 456**

Change in impairment losses on interest-bearing assets and derivatives		
January 1	-	-
Effect of translation to IFRS 9, see Note 1	-11	-
Reversal of impairment losses	6	-
Amount at year-end	**-5**	-

Note 12. Taxes

Recognized in the statement of income and other comprehensive income

Tax expense	**2 018**	**2 017**
Current taxes	-108	-125
Tax on previous years' profits	0	0
Deferred tax on temporary differences	1	-
Total	-107	-125

Taxes recognized in other comprehensive income	**2 018**	**2 017**
Deferred taxes attributable to derivatives for hedging	-3	-
Total	-3	-

Reconciliation of effective tax	**2 018**	**2 017**
Earnings before taxes	484	533
Tax based on tax rate in effect, 22 percent (22)	-106	-117
Tax attributable to previous years	0	0
Non-deductible costs	-3	-8
Non-taxable revenues	1	0
Recognized tax expense	-108	-125

Reported in the statement of financial position

Tax assets (+) and tax liabilities (-)

	2 018	**2 017**
Tax assets	4	4
Tax liabilities	0	0
	4	4

Deferred tax assets and deferred tax liabilities

	2 018	**2 017**
Deferred tax assets according to the statement of financial position	1	-
Deferred tax liabilities according to the statement of financial position	-	-
	1	-

Net deferred tax assets (+), deferred tax liabilities (-)

	2 018	**2 017**
Deferred tax assets for other assets	1	-
	1	-

Change in net deferred tax assets(+), liabilities (-)	**2 018**	**2 017**
Net assets, January 1	0	-
Effect of transition to IFRS 9	2	-
Deferred tax income/expenses	-1	-
Net assets, December 31	1	-

Note 13. Intangible non-current assets

	2 018	2 017
Cost, January 1	8	7
Purchases during the year	0	1
Cost, December 31	8	8
Accumulated amortization according to plan, January 1	-5	-4
Amortization for the year according to plan	-2	-1
Accumulated amortization according to plan, December 31	-7	-5
Book value	1	3

Note 14. Property, plant and equipment

	2 018	2 017
Cost, January 1	0	0
Purchases during the year	-	0
Retirements during the year	-	-
Cost, December 31	0	0
Accumulated depreciation according to plan, January 1	0	0
Retirements during the year	-	-
Depreciation for the year according to plan	0	0
Accumulated depreciation according to plan, December 31	0	0
Book value	0	0

Note 15. Holdings in Group companies

Subsidiaries	Registered office	Corp. reg. no.	Holding in %		Carrying amount, SEK M	
			2 018	**2 017**	**2 018**	**2 017**
Skanska Försäkrings AB	Stockholm	516401-8664	-	100	-	377
Skanska Project Finance AB	Stockholm	559067-6309	-	100	-	5

Accumulated cost	2 018	2 017
January 1	413	407
Purchases	-	-
Divestments	-413	-
Group contribution/unconditional shareholder contribution	-	6
December 31	**-**	**413**
Accumulated impairment losses		
January 1	-31	-
Impairment losses for the year	-	-31
Divestments	31	-
December 31	**-**	**-31**
Carrying amount, December 31	**-**	**382**

Pre-tax profit	2 018	2 017
Skanska Försäkrings AB	-	32
Skanska Project Finance AB	-	0

Equity	2 018	2 017
Skanska Försäkrings AB	-	330
Skanska Project Finance AB	-	5

Note 16. Non-current receivables from Group companies

Accumulated cost	2 018	2 017
January 1	16 918	9 085
Receivables added/settled	-10 007	7 833
Book value, December 31	6 911	16 918

Note 17. Other non-current receivables

Accumulated cost	2 018	2 017
January 1	17	0
Receivables added/settled	0	17
Reclassification to current receivables	-15	-
Book value, December 31	2	17

Note 19. Prepaid expenses and accrued income

	2 018	2 017
Prepaid administrative expenses	2	6
Prepaid financial expense	17	22
	19	28

Note 20. Equity

According to Swedish law, equity must be allocated between restricted and unrestricted equity. The share capital, statutory reserve and reserve for development costs constitutes restricted equity. Unrestricted equity consists of retained earnings, provisions for cash flow hedging and profit for the year. SFS's equity breaks down as SEK 50 M in share capital, SEK 10 M in the statutory reserve, SEK 1 M in reserve for development costs, SEK 9 M in cash flow reserve, SEK -174 M in retained earnings and SEK 377 M in profit for the year. The number of shares amounted to 500,000 (500,000) with a quota (par) value of SEK 100 (100).

Note 21. Provisions

	2 018	2 017
Provisions for pensions and similar obligations	17	16
Other provisions	5	2
	22	18

Other provisions consist of social insurance contributions for employee ownership programs, see Note 8. The normal cycle time for these is around one to three years.

Note 22. Maturity profile for liabilities

	> 5 years	>1 year ; < 5 years	> 3 months; <1 year	< 3 months	Total
Bonds	-	1 002	850	-	1 852
Liabilities to credit institutions	1 339	1 062	-	17	2 418
Liabilities to Group companies	-	2 064	-	29 643	31 707
Other liabilities	-	3	80	-	83
	1 339	4 131	930	29 660	36 060

Note 23. Accrued expenses and prepaid income

	2 018	2 017
Accrued administrative expenses	23	24
Accrued interest expense	31	18
	54	42

Note 24. Reconciliation of liabilities originating from financing activities

	UB 2017	Cash flow	Changes not affecting cash flow *Foreign exchange rate differences*	UB 2018
Financial non-current liabilities	3 078	154	171	3 403
Financial current liabilities	1 500	-634	1	867
Total	**4 578**	**-481**	**172**	**4 270**

	UB 2016	Cash flow	Changes not affecting cash flow *Foreign exchange rate differences*	UB 2017
Financial non-current liabilities	2 923	235	-80	3 078
Financial current liabilities	1 314	170	16	1 500
Total	**4 237**	**405**	**-64**	**4 578**

Note 25. Allocation of earnings

The Board of Directors proposes that the available profit of SEK 212 325 701 be allocated as follows:

To be carried forward: SEK 212 325 701

Note 26. Events after the closing day

There were no significant events after the closing day.

Note 27. Sustainability report

Skanska Financial Services AB is covered by the sustainability report prepared by Skanska AB (publ) (556000-4615), registered in Stockholm municipality and does not therefore prepare its own report.

Note 28. Contingent liabilities

	2 018	2 017
Capital coverage guarantee for Skanska Project Finance AB	-	10
PRI	1	1

Note 29. Transactions with related parties

SFS is related to all companies within the Skanska Group. 98.7 percent of SFS's interest income as well as operating revenue is revenue from other companies within the Skanska Group. 15.4 percent of general administrative expenses relates to purchases from other companies within the Skanska Group.

	2 018	2 017
Receivables from Group companies	28 796	31 608
Liabilities to Group companies	31 707	31 694
Interest income from Group companies	882	755
Interest expense to Group companies	-267	-116
Other operating revenue from Group companies	38	51
Purchases from Group companies	16	14

Note 30. Definitions of key indicators

Total operating revenue	Net of interest income, pension interest, interest expense, change in market value as well as other financial items.
Comprehensive income	Change in equity not attributable to transactions with owners.
Other comprehensive income	Comprehensive income minus profit according to the income statement. The item includes translation differences, the effect of cash flow hedges and tax attributable to other comprehensive income.

Assurance
The annual accounts have been prepared in compliance with the international accounting standards referred to in Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of IFRS and generally accepted accounting principles, and provide a true and fair view of the position and results of the company. The Report of the Directors provides a true and fair view of the company's activities, position and results and describes material risks and uncertainties faced by the company.

Stockholm, March 18, 2019

Therese Tegner
President & board member

Jamie Stanbury
Board member

Maria Almebäck
Chairman of the Board

Our Auditor's Report was submitted on March 19 , 2019

Ernst & Young AB

Mona Alfredsson
Authorized Public Accountant