Registration number: 00610201

Costain Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

Costain Limited

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Costain Limited

Company Information

Directors	A J Vaughan
	D R Taylor
	H M Willis
	C Warbrick
	S M Kershaw
	M Higham
	S M White
	N Geoghegan
Company secretary	N Geoghegan
Registered office	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
Independent auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

Costain Limited

Strategic Report for the Year Ended 31 December 2021

The directors present their strategic report for the year ended 31 December 2021.

Fair review of the business
Our purpose at Costain Limited is to improve people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures.

Revenue for the year was £1,133,435,247 (2020: £940,787,534). Statutory operating profit for the year was £5,343,786 (2020: loss £59,731,024). Net assets at 31 December 2021 were £106,010,298 (2020: £103,174,675).

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. In 2020, an arbitration decided that Costain was responsible for design information for a specific retaining wall and that the additional building cost associated with the wall was not a compensation event under the contract. As a consequence of the decision, at 30 June 2020, the company adjusted the revenue recognised based on the level of cash received to that date and reflected a write down of the £45,400,000 contract asset. The Group continued to fulfil its obligations under the contract, which was largely completed during the current year. The final costs to complete were lower than forecast at the end of 2021 and accordingly a profit of £8,400,000 is recognised in the year.

The 2021 results also reflect £13,005,658 write-down of investments and intra-group loan provisions, net of dividends received. 2020 also reflects £5,000,000 write-down of the ASF South contract and £9,300,000 write-down of investments and intra-group loan provisions, net of dividends received.

Adjusted operating profit (as explained in note 4) was £10,971,771 (2020: loss £31,024).

Contract awards
The range of contracts we have secured reflects the progress being made in the transition in Costain's market positioning, the increasing breadth of our service offering and recognition as a leading and valued smart infrastructure solutions provider. Ongoing programmes and work within our order book of £3.3 billion (2020: £4.2 billion) include the following, demonstrating the breadth of our services:

• Formal contracts – construction delivery phase:
--- M1 smart motorway programme
--- A19 Testo's scheme
--- Thames Tideway Tunnel – East
• Early contractor involvement (ECI phase):
--- HS2 Southern section main works
--- Highways England routes to market
--- M6 smart motorway
• Framework contracts:
--- Water AMP frameworks
• Service based contracts:
--- United Utilities maintenance services
--- Highways England maintenance contracts
--- East Sussex highway services
• Consultancy and technology contracts:
--- Smart motorway signage
--- Connected vehicle technology
--- EDF project controls

We have delivered an improved operating performance, including significant growth in adjusted operating profit and margin, and good free cash flow generation.

Adjusted revenue for Road increased by 29.7% in FY21 on the prior year. As a strategic partner for National Highways, we are working with our client on two of their ten-year key investment programmes; the Regional Delivery Partnerships (RDP) major projects framework and the SMP Alliance, delivering smart motorway upgrades. We work on a number of projects across our capabilities of complex programme delivery, consulting and digital services. We successfully delivered the A19 Testo's scheme in Tyneside and the adjacent A19 Down Hill Lane Junction improvement scheme, providing a safer, more accessible and fluid road network with extra capacity to support economic growth. We have also been upgrading parts of the A1 around Newcastle under the RDP framework and during the year we commenced construction on the A30 in Cornwall.

Pre-construction and design activities have been progressing well on the A12 Chelmsford to A120 scheme. While the response to the Transport Select Committee Report into the rollout and safety of smart motorways has paused elements of the smart motorways programme, our work delivering the upgrade to the M6 Junctions 21a/26 continues, and we have been supporting National Highways to upgrade stopped vehicle detection and deliver more emergency areas.

Adjusted revenue for Rail increased by 16.3% in FY21 on the prior year, principally as a result of HS2 which increased in the year as a substantial completion of the enabling works was achieved and the full year impact of the construction phase of the main works programme. We will commence the main tunnel bores this summer, and in total we will operate seven tunnel boring machines providing HS2 with 26 miles of running tunnel between Euston and West Ruislip with scheduled contract completion in 2027. In relation to our joint venture with Skanska and Strabag SE on the HS2 Main Works contract we understand that Strabag have taken actions to terminate any ability to pay dividends to their Russian shareholder and have exited their Russian activities in line with Public Procurement Regulations and in accordance with Government policy. We have been providing consulting services to support the Hybrid Bill for the route from Birmingham to Crewe and Manchester, connecting the HS2 network with the North, which are a key part of the Rebalancing Britain initiative. Our work on the Gatwick Airport Station Project for Network Rail was augmented by the client in the year, and being on site also enabled us to unlock a significant consulting opportunity to upgrade the Brighton mainline, improving travel times. During the year we also completed the handover of the Paddington Elizabeth line station.

Adjusted revenue for Integrated Transport declined by 3.6% in FY21 on the prior year. Integrated Transport includes work for devolved and local governments, and aviation. Work we undertook in the year includes Newquay Airport for the G7 Summit and commencing the revitalisation of the A40 Westway for Transport for London (TfL). We have continued to grow our consulting services to central and local government in support of accelerating progress to net zero carbon, green economic recovery and levelling up the UK and have secured places on all our targeted frameworks.

In February 2021 we reached a settlement agreement with the Welsh Government in relation to the A465 contract and completed the works in November 2021.

Adjusted revenue for Water declined by 10.3% on the prior year. This was driven by lower volumes of activity in the AMP7 water programmes as clients adjusted their year-one projects due to COVID-19. As the year progressed, volumes improved as the year-two programmes commenced, and we are now undertaking work with key clients including Severn Trent Water, Southern Water, Thames Water and United Utilities under their five-year programmes through to 2025. We have made good progress on the Thames Tideway project, where in a joint venture, we are responsible for the eastern section. We are also working with Anglian Water on its eight-year Strategic Pipeline Alliance to develop an enterprise-ready digital twin, which will replicate all activity and interactions across the operational system allowing Anglian Water to create predictive "what-if" scenarios and their impact on operations. In addition, we are providing bespoke consulting services to Yorkshire Water, South Staffs Water and Welsh Water.

Confidence in Delivery
As a result of the commercial issues faced on legacy contracts within the Costain group, we have conducted a root cause review and upgrade of our contract risk management and delivery assurance processes. As a result, we have implemented a programme of improvements, including:

Work winning
• Contract selection - contracts are not pursued where the risk is considered inappropriate
• Independent review - expert risk review of contracts by specialist teams outside the bid team
• Enhanced legal process - restructured and strengthened legal team to ensure contracts are rigorously assessed, and terms documented to the highest standards

Operational contract delivery
• Operational Excellence Model (OEM) - developed an OEM which is being implemented across the construction contract portfolio. The OEM ensures rigorous process management and consistent practices are applied across the Group. Compliance is assessed and reviewed monthly

Financial performance
• Financial oversight - financial performance of every contract is reviewed monthly, including a holistic assessment of the risks and range of potential outcomes to ensure timely action is taken where performance might deviate from that in the bid process

Senior management ownership
• Review process - rigorous and clear guidelines in place to ensure timely and proactive communication to executive management and, if necessary, Board level of on-the-ground delivery issues.

Engaging with our stakeholders
The paragraphs below show how the directors have performed their duty under Section 172 Companies Act 2006 to have regard to various stakeholder factors. The Costain group tries to have consistent policies in effect across its operating subsidiaries as and were relevant.

Employees
• To stay connected with our colleagues during the pandemic, we have used face-to-face, virtual and hybrid methods. Board members took part in several site visits.
• We held two safety, health and environment leadership impact days where our people stopped their usual activities and took part in discussions related to the day's themes.
• We held our annual employee roadshow virtually in 2021.
• We conducted a Group-wide wellbeing survey.
• We launched a series of live Transportation division quarterly briefings for all employees.
• We refreshed our new joiner induction programme and annual code of conduct compliance training for all employees.

Shareholders
• For the first time, our Annual General Meeting (AGM) was broadcast live.
• We issued other regular announcements and streamed webcasts to accompany results announcements.
• We wrote to our largest shareholders describing the Directors' Remuneration Report in the 2020 annual report and the basis of the 2021 LTIP grants to executive directors.
• We had a refreshed focus on shareholder engagement, with the assistance of our brokers. The chair, CEO and CFO met with shareholders on a number of occasions.

Clients
• We conducted client satisfaction surveys to help monitor our performance.
• We take our clients on site visits, helping to showcase our capabilities and the quality of work across our portfolio.
• We attended strategic client events such as the opening of the HS2 logistics hub and the A19.
• We organised a series of client roundtables exploring key aspects of programme management.
• We held our annual leadership day and safety, health and environment (SHE) behavioural management conferences.
• We hosted an online conference, our 'Race to Zero: The Power of Collaboration', attended by clients from across our business.

Supply chain
• Our supply chain managers provide a crucial link with our 3,000+ suppliers, conducting supplier performance reviews with our strategic partners.
• We held our biennial supply chain conference virtually in 2021.
• We held another virtual intake to our supply chain academy, training 84 SME businesses on a variety of topics such as safety, commercial, carbon and social value.
• We facilitated a series of virtual supplier roundtables focused on our wellbeing, innovation, inclusion, safety and environmental (WiiSE) strategy and responsible business commitments.

Communities and Environment
• As COVID-19 restrictions eased, our community engagement teams, where appropriate, began to meet with local communities in person.
• We continued to use the digital tools we have developed over the past few years to inform, and engage with, our communities.
• Through our position as a Business in the Community (BITC) member, we have worked with the charity to discuss matters such as climate change, wellbeing and skills and employment.

COVID-19

We have continued to operate effectively throughout 2021, despite the challenges to our business operations from the pandemic. We continue to listen to the views of our people regarding our COVID-19 safety measures, which we kept in place on all our sites and offices throughout the year. This approach has enabled us to maintain effective operations in all parts of our business, as well as prioritise the safety of our people.

Safeguarding our workforce and supporting our stakeholders

Doing the right thing by our people, our clients, society and protecting our business have guided our decision-making during COVID-19. Our Executive COVID-19 task force was formed to direct our response, supported by our COVID-19 steering group. These have been pivotal in leading our successful response to the pandemic and in enabling us to continue to deliver services for critical national infrastructure programmes. These continue to operate.

Outlook

Looking ahead, we have already secured more than £1bn of revenue for 2022 and have entered the new year with good momentum. We are mindful of the macro-economic backdrop, and we continue to monitor and work to mitigate headwinds in commodity and energy costs, as well as challenges in the supply chain. We expect to deliver further progress in 2022 and remain confident in the Group's strategy and longer-term prospects.

Principal risks and uncertainties
The principal risks and uncertainties facing the ultimate parent company, Costain Group PLC and Costain Limited, and their ability to achieve their strategic objectives are set out below.

Title	What is the Risk?
Failure to prevent a major accident, hazard, or incident.	Costain operates in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards, including pandemics, may result in illness, loss of life or significant damage to the environment. Failure to manage this risk could result in reputational damage, loss of business and financial penalties.
Failure to increase the profitability and margin performance of the Group	The effective implementation of our strategy is critical to the Group's ability to increase profitability and margin performance of the Group and effectively align our services to meet the changing needs of our clients.Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value.
Failure to maintain a strong balance sheet.	A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our clients. Failure to manage this risk could affect our ability to achieve our business goals and our resilience to withstand economic downturns.
Failure to secure new work.	Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our clients and investors.
Failure to attract and transform the skills, capabilities and competence of our resources	The successful implementation of our strategy is dependent on our ability to attract and retain talent, grow the capabilities of our employees and maintain a high-performing, ethical and inclusive culture where our team can be at their best.
Failure to deliver projects effectively.	Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our clients and investors.
Failure to manage the legacy defined benefit pension scheme.	Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base and do not adversely impact our balance sheet.
Failure to ensure that our technology is robust, our systems are secure and our data protected.	Our ability to enable safe, secure, and resilient business operations (including finding, winning, and delivering work supported by efficient corporate services) is dependent on the delivery of our core IT strategy. The delivery of this strategy is also key to our ability to safely and securely acquire, host, use, and dispose of Costain, client, and third-party data.
Failure to anticipate and respond to changes in client circumstances.	We have seen changes in the business operations and investment priorities of our core clients and clients challenged by ever evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our clients and respond effectively, could restrict our ability to grow margins and increase market share.
Failure of climate change resilience	The risk that we lack the resilience to survive and thrive amid the impacts of climate change on a local, national and international level.

Approved by the Board on 7 July 2022 and signed by its order by:

DocuSigned by:

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N Geoghegan
Company secretary

Costain Limited

Directors' Report for the Year Ended 31 December 2021

The directors present their report and the audited financial statements for the year ended 31 December 2021.

Directors of the Company
The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

A J Vaughan

D R Taylor

M D Hunter (resigned 18 March 2022)

H M Willis

S Harris (appointed 18 February 2021 and resigned 5 July 2022)

C Warbrick

S M Kershaw

M E Mayhew (resigned 31 December 2021)

M Higham (appointed 1 December 2021)

N A Marsh (resigned 1 April 2021)

The following directors were appointed after the year end:

S M White (appointed 4 January 2022)

N Geoghegan (appointed 5 July 2022)

Principal activity
The principal activity of the Company is the improvement of people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures.

Dividends

The directors do not recommended the payment of a dividend during the year (2020: £Nil).

Future developments
The directors do not expect any significant changes to the principal activities of the Company in the foreseeable future.

Objectives and policies

The Company's operations expose it to a variety of financial risks, including the effects of credit risk, liquidity risk, cash flow risk and interest rate risk. The policies to mitigate the potential impact of these financial risks are set by the directors, who monitor their effectiveness on a monthly basis during board meetings.

Where appropriate, credit checks are made prior to the acceptance of a new customer and these are reviewed on a periodic basis together with ongoing checks in respect of existing customers. Weekly reviews of the receivables ledger are carried out with the finance and sales teams and action initiated, as appropriate, to collect any overdue amounts, thus optimising the Company's liquidity position. The rates of interest earned or paid on the Group's cash balances and loans and overdrafts are monitored on an ongoing basis with regular reviews of the Costain group banking arrangements. Deposits, loans and overdrafts are made with reference to these facilities, in conjunction with projections of future cash requirements.

The Costain Group actively maintains an appropriate level of cash reserves that are available for operations and planned expansions of the Group as a whole. The Group ensures that sufficient cash reserves are made available to its subsidiary undertakings.

Additional information on the Group's financial risk management can be found in the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

Charitable donations

During the year the Company made charitable donations of £94,267. The largest individual donations were:

	£
Water Aid	7,000
Princes Trust	25,000
The Soldiers, Sailors, Airmen and Families Assoc.	2,000
Business in the Community	53,250

Diversity

Apart from ensuring that an individual has the ability to carry out a particular role, the Company does not discriminate in any way. The Company endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the Company and Costain Group. The Company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

Employee involvement

The Costain group provides information to its employees both of a general company nature and to encourage awareness of financial and economic factors, which affect the company in various ways. These include regular videos and updates from the Chief Executive and other senior managers, a Costain online news service, information via our electronic mail system, circulation of press releases, management briefings on company results, a report to employees on the annual financial statements of the Group and annual pension scheme reports. Participation and involvement are encouraged through regular management meetings with employees.

Environmental matters

We are mindful of the macro-economic backdrop and market conditions due to the pandemic, and wider economic and geopolitical challenges, and we continue to monitor and work to mitigate headwinds in commodity and energy costs, as well as challenges in the supply chain.

Social and community issues

Operating responsibly and sustainably is a business imperative for Costain and the safety and wellbeing of our people, our clients, partners and the general public is our highest priority. In line with the United Nation's Sustainable Development goals, we deliver on our purpose to improve people's lives, helping to build a sustainable future and ensuring that Costain is a safe, inclusive and great place to work.

Information on the Group and company's commitment to reponsible business during the year can be found on pages 38 to 41 of the 2021 Annual Report and Accounts of Costain Group PLC (available at www.costain.com).

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to the auditors

The directors confirm that, so far as they are aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the company's external auditor is unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Reappointment of independent auditors
The independent auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 7 July 2022 and signed by its order by:

DocuSigned by:
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N Geoghegan
Company secretary

Independent auditors' report to the members of Costain Limited

Report on the audit of the financial statements

Opinion

In our opinion, Costain Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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 company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Health and Safety, Data Protection laws, pension obligations, environmental obligations and relevant construction legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and relevant tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential posting ofinappropriate journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates, particularly in relation to contract accounting; and
- Identifying and testing journal entries, in particular any journals entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 July 2022

Income Statement
for the year ended 31 December

	Note	2021 £	2020 £
Revenue	5	1,133,435,247	940,787,534
Cost of sales		(1,074,829,343)	(955,330,554)
Gross profit/(loss)		58,605,904	(14,543,020)
Administrative expenses		(42,689,734)	(37,195,950)
Other operating income	6	2,433,274	1,307,946
Other gains and losses	7	(13,005,658)	(9,300,000)
Operating profit/(loss)	8	5,343,786	(59,731,024)
Finance income	12	390,276	497,246
Finance costs	13	(2,115,031)	(3,719,711)
Net finance costs		(1,724,755)	(3,222,465)
Profit/(loss) before tax		3,619,031	(62,953,489)
Taxation	14	(1,945,725)	11,995,266
Profit/(loss) for the financial year		1,673,306	(50,958,223)

The above results were derived from continuing operations.

Costain Limited

Statement of Comprehensive Income
for the year ended 31 December

	2021 £	2020 £
Profit/(loss) for the financial year	1,673,306	(50,958,223)
Items that may be reclassified subsequently to profit or loss		
Profit on cash flow hedges (net)	31,645	331,045
Total comprehensive income/(expense) for the year	1,704,951	(50,627,178)

Costain Limited

(Registration number: 00610201)
Statement of Financial Position
as at 31 December

	Note	2021 £	2020 £
Fixed assets			
Intangible assets	15	16,083;987	15,045,842
Property, plant and equipment	16	31,622,895	39,523,924
Investments	17	31,181,029	44,609,014
		78,887,911	99,178,780
Current assets			
Inventories	18	174,022	512,449
Trade and other receivables	19	280,469,437	264,523,089
Cash and cash equivalents	20	60,605,775	69,681,302
		341,249,234	334,716,840
Creditors - amounts falling due within one year	21	(237,927,736)	(258,889,784)
Net current assets		103,321,498	75,827,056
Total assets less current liabilities		182,209,409	175,005,836
Creditors - amounts falling due after more than one year	21	(69,999,111)	(71,831,161)
Provisions for liabilities	22	(6,200,000)	-
Net assets		106,010,298	103,174,675
Equity			
Called up share capital	23	9,392,858	9,392,858
Share premium account		76,500,000	76,500,000
Hedging reserve	24	25,396	(6,249)
Retained earnings		20,092,044	17,288,066
Total shareholders' funds		106,010,298	103,174,675

The financial statements on pages 17 to 58 were approved by the Board of directors on 7 July 2022 and signed on its behalf by:

DocuSigned by:
H M Willis
DC2F7502FAC34BE...

H M Willis

Director

Costain Limited

Statement of Changes in Equity
for the year ended 31 December

	Called up share capital £	Share premium account £	Hedging reserve £	Retained earnings £	Total shareholders' funds £
At 1 January 2021	9,392,858	76,500,000	(6,249)	17,288,066	103,174,675
Profit for the financial year	-	-	-	1,673,306	1,673,306
Other comprehensive income	-	-	31,645	-	31,645
Total comprehensive income	-	-	31,645	1,673,306	1,704,951
Equity-settled share-based payment	-	-	-	1,130,672	1,130,672
At 31 December 2021	9,392,858	76,500,000	25,396	20,092,044	106,010,298

	Called up share capital £	Share premium account £	Hedging reserve £	Retained earnings £	Total shareholders' funds £
At 1 January 2020	3,892,858	-	(337,294)	67,301,289	70,856,853
Loss for the financial year	-	-	-	(50,958,223)	(50,958,223)
Other comprehensive income	-	-	331,045	-	331,045
Total comprehensive expense	-	-	331,045	(50,958,223)	(50,627,178)
New share capital subscribed	5,500,000	-	-	-	5,500,000
Premium on issue of shares	-	76,500,000	-	-	76,500,000
Equity-settled share-based payment	-	-	-	945,000	945,000
At 31 December 2020	9,392,858	76,500,000	(6,249)	17,288,066	103,174,675

The notes on pages 21 to 58 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

The company is a private company limited by share capital, incorporated in the United Kingdom and domiciled in England and registered in England.

The address of its registered office is:
Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB
United Kingdom

These financial statements were authorised for issue by the Board on 7 July 2022.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Interests in unincorporated joint arrangements, which are not subsidiary undertakings, are accounted for by recognising the company's share of the assets and liabilities, profits, losses and cash flows, measured according to the terms of the arrangement.

The company is a wholly-owned subsidiary of Costain Group PLC and is included in the consolidated financial statements of Costain Group PLC, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Functional and presentation currency
Items included in the financial statements of the company are measured using the currency of the primary economic environment which the company operates. The financial statements are presented in 'pounds sterling' (£), which is also the company's functional currency.

2 Accounting policies (continued)

Going concern

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report.

The Company's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities. These borrowing facilities give the Group access to an RCF cash drawdown component of £131m and a £40m five-year Term Loan, which reduces by £4m every six months on 30 June and 31 December.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2021, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Company has adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements.

In assessing the going concern assumptions, the Board reviewed the base case plans and also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The base case assumes delivery of the Board approved strategic and financial plans. These severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, future contractual issues, higher working capital requirements and adverse contract settlements.

These forecasts show significant headroom and support that the Company will be able to operate within its available banking facilities and covenants throughout this period. Covenants are calculated on a rolling 12-month basis each quarter and therefore for all quarters until Q4 of FY22, and Q1 and Q2 of FY23, a portion of the EBITDA/EBITA has already been earned, reducing the risk of a potential breach. Taking this into account along with the forecasts reviewed, it is considered that the EBITA/net interest covenant for the rolling 12 months to Q4 of FY22 and Q1 of FY23 is the limiting factor, given the Company's net cash position. The Board concluded that there is liquidity headroom in severe but plausible downside scenarios, as well as headroom on the committed facilities and on the associated financial covenants.

2 Accounting policies (continued)

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of IAS 1 to provide a Balance Sheet at the beginning of the year in the event of a prior year adjustment;

(b) The requirements of IAS 1 to provide a Statement of Cash flows for the year;

(c) The requirements of IAS 1 to provide a statement of compliance with IFRS;

(d) The requirements of IAS 1 to disclose information on the management of capital;

(e) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRS's that have been issued but are not yet effective;

(f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

(g) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;

(h) The requirements of IFRS 7 to disclose financial instruments;

(i) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs;

(j) IAS 7, 'Statement of Cash Flows';

(k) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
• paragraph 79(a)(iv) of IAS 1;
• paragraph 73(e) of IAS 16 Property, Plant and Equipment;
• paragraph 118(e) of IAS 38 Intangible Assets;
• paragraphs 76 and 79(d) of IAS 40 Investment Property;

(l) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;

(m) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and

(n) 'The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.'

Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements. Where required, equivalent disclosures are given in the Group financial statements of Costain Group PLC.

2 Accounting policies (continued)

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2021 have had a material effect on the financial statements. These include:

• Covid-19-Related Rent Concessions - amendments to IFRS 16, and
• Interest Rate Benchmark Reform - Phase 2 - amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The company also elected to adopt the following amendments early:
• Annual Improvements to IFRS Standards 2018-2020,
• Deferred Tax related to Assets and Liabilities arising from a Single Transaction - amendments to IAS 12, and
• Covid-19-Related Rent Concessions beyond 30 June 2021.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions..

Revenue recognition

Recognition

The company recognises revenue when control over the service or product is transferred to the customer and revenue is measured at the fair value of the consideration received or receivable, net of value added tax. Where the consideration is variable, the amount recognised is highly probable not to suffer a significant reversal in future.

The principal source of revenue relates to work on the UK's infrastructure across transportation, water and energy. Over 90% arises under long-term contracts, which require delivery of a specified item to the customer, increasingly involve a technology element, with a large element of the works undertaken on the customer's land and perhaps taking a number of years to complete. The majority are structured in a cost reimbursement or target cost form, typically with incentive and penalty arrangements. Generally, the works specified within the contract are integrated and the customer procures the one complete package, which may incorporate design, engineering and advisory work into the scope. Where a contract comprises distinct performance obligations, each is accounted separately. The scope of the works will be often subject to change and in the majority of contracts, the terms specify that changes are handled through compensation events. These are considered on a case-by-case basis to determine whether they are a new separate performance obligation and accounted as such, or part of the original works and dealt with on a cumulative catch-up basis. On the majority of contracts, the compensation events relate to clarifications or revisions of the original works. Other design, advisory and consulting contracts requiring production of a specified scope or provision of other services, some of which may lead to the construction of the designed product, can be structured as inter-dependant or standalone contracts and the resulting performance obligations depends on how the customer procures the contract.

Revenue includes the company's share of revenue of joint operations. This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

2 Accounting policies (continued)

Research and development

Research and development activities are usually directly attributable to a project and accounted within project costs. The company has adopted the research and development expenditure credit (RDEC) regime as these credits have characteristics similar to government grants and recognises the credits in other operating income rather than reflecting them in the tax charge.

Long-term contracts

Revenue arises from the increase in the value of work performed and the value of services provided during the year. Where the outcome of an individual long-term contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs. Contract costs are recognised as expenses in the period in which they are incurred.

Compensation events, variations and claims, gain from pain/gain arrangements and other bonus assessments are included in revenue where it is highly probable that the amount, which can be measured reliably, will be recovered from the customer and will not reverse. Pain from pain/gain arrangements is included where incurred or expected to be incurred. Revenue in respect of these items is determined on the most likely outcome method. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred, where it is highly probable those costs will be recoverable and will not reverse.

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

Contract work in progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and less amounts billed and is included in contract assets. Amounts valued and billed to customers are included in trade receivables. Where cash received from customers exceeds the value of work performed, the amount is included in contract liabilities.

Finance income and costs

Interest receivable and payable on bank deposits and between group undertakings is credited or charged to the profit and loss as incurred, using the effective interest method.

Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at year-end exchange rates. Exchange differences on such items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities except when deferred in other comprehensive income as qualifying cash flow hedges. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

2 Accounting policies (continued)

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date.

Deferred tax is measured at the rates that are expected to apply in the periods when the timing differences are expected to reverse, based on the tax rates and law enacted at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Trademarks, licences (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation begins when an asset is available for use and is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives as follows:

Asset class	Amortisation method and life
Acquired intangibles	Straight Line 3 - 4 years
Other intangibles	Straight Line 3 to 5 years

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost or valuation of assets other than land over their estimated useful lives on a straight-line basis, as follows:

2 Accounting policies (continued)

Asset class	Depreciation method and rate
Freehold Buildings	Straight Line 4%
Computer Equipment	Straight Line 20% - 33.33%
Fixtures & Fittings	Straight Line 10% - 33.33%
Plant & Machinery	Straight Line 5% - 20%

Investments
Fixed asset investments are stated at historical cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Impairments are reversed in line with improvements in the recoverable amount of the investment.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as Fixed assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for intercompany balances. To measure the expected credit losses, intercompany balances have been grouped based on shared credit risk characteristics and the days past due.

Financial instruments

Initial recognition
The Company recognises financial assets and financial liabilities in the Balance Sheet when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of directly attributable premiums, discounts and transaction costs.

Subsequent to initial measurement, financial assets and financial liabilities are measured at amortised cost.

2 Accounting policies (continued)

Derecognition

Financial assets

The Company derecognises a financial asset when;
- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Impairment of financial assets

The Company recognises loss allowances for expected credit losses on financial instruments, namely financial assets that are debt instruments and accounts and other receivables.

Provisions for credit-impairment are recognised in the Profit and Loss Account and are reflected in accumulated provision balances against each relevant financial instruments balance.

For trade receivables and contract assets, the Company applies IFRS 9 the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include forwards in the foreign exchange markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

Hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The Company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedge items.

These hedging relationships are discussed below.

2 Accounting policies (continued)

Cash flow hedges

The Company makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

2 *Accounting policies (continued)*

Leases

Where the Company is party to a lease, except for short-term leases or leases of low value assets (as noted below), the Company recognises a right-of-use asset and a lease liability upon lease commencement. The major categories of leased items within the scope of IFRS 16 are properties, vehicles and some site plant. Changes to contract scope can lengthen or shorten contract programmes and result in extensions or early terminations to site plant lease terms.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which is located, less any lease incentives received.

The asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability associated with changes to the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate.

The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.
Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

2 Accounting policies (continued)

Share based payments
These comprise equity-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed over the vesting period, based on the estimate of awards that will eventually vest. Fair value is measured by the use of a Black-Scholes option pricing model.

Where options are granted over shares in the Company to employees of subsidiaries, the Company recognises in its financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Defined contribution pension obligation
The Company participates, on a defined contributions basis, in several pension schemes for the benefit of its own and seconded employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

The cost of pensions, in respect of the pension schemes in which the Company participates, is charged to the profit and loss account and is equal to the contributions payable in the accounting period.

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's directors.

3 Critical accounting judgements and key sources of estimation uncertainty

The estimates and underlying assumptions used in the preparation of these financial statements 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 period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of estimation arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers', the carrying value of goodwill and acquired intangible assets, the recognition of deferred tax assets in relation to tax losses and the items classified as other items and contract adjustments.

Contract in the water sector
During the year Costain recognised a £6.2m provision in respect of the expected future costs of probable rectification works required at a customer's facility where the company had been prime contractor. Costain has engaged with its insurers and other stakeholders to explore routes for recovery and to minimise the company's ultimate exposure. However, as at 31 December 2021, the expected recoveries do not yet meet the virtually certain criteria, and accordingly no reimbursement asset has been recognised.

The company has identified a range of potential solutions to expedite the required rectification works, with an estimated cost ranging between £5.5m to £12.2m. The company's best estimate cost of the single most likely solution as at 31 December 2021 is £6.2m. A provision for this probable economic outflow has been recognised and disclosed in note 22.

Carrying value of goodwill and intangible assets
Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires estimation, principally, in respect of growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values are set out in note 15.

The company carries investments in some subsidiaries at above net asset value. In reviewing the recoverability of the carrying values estimates are required about their values.

Deferred tax
Included in deferred tax assets is an asset for tax losses recorded in the year. The asset is recognised on the basis that the losses will be used against future taxable profits of the Group over the next 6 years. Details of deferred tax assets are shown in note 14.

Other items and adjusted profit
Management has used judgement to determine the items classified as other items and to determine the contract adjustments set out in note 4.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Long- term contracts
The majority of the company's activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted individually. The most common type of contracts undertaken by the company with multiple performance obligations are framework contracts. In most cases, the obligations are satisfied over time and estimates are made of the total contract costs and revenues. In many cases, these obligations span more than one financial period. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims and assessments of the impact of pain/gain arrangements to the extent that the amounts the company expects to recover or incur can be reliably estimated and are highly probable not to reverse based on most likely outcome.

Management bases its estimates of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations, progress on discussions over compensation events, variations and claims with customers, progress against the latest programme for completing the works, forecasts of the costs to complete and, in certain limited cases, assessments of recoveries from insurers. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered highly probable to be agreed.

During the course of the contract, there is often significant change to the scope of the works and this has an impact on the programme and costs on the contract. The amount of resulting compensation events can be substantial and at any time these are often not fully agreed with the customer due to the timing and requirements of the contractual process. Also many will relate to work yet to be undertaken or completed. Therefore, assessments are based on an estimate of the potential cost impact of the compensation events.

The Company's five largest compensation events (2020: five) positions included in contracts assets at the year end are summarised in aggregate below.

	2021 £m	2020 £m
Overall contract value	1,501.9	1,135.6
Revenue in year	146.3	176.9
Total estimated end of contract compensation events	135.4	83.1
Total estimated unagreed end of contract compensation events (included in the above)	96.1	51.3
Total unagreed compensation events valued at year end and included in contract assets	22.9	22.5

4 Reconciliation of reported operating (loss)/profit to Adjusted operating profit/(loss)

Adjusted revenue and operating profit are being used as non-GAAP alternative performance measurements. These measurements were introduced in 2020 and exclude the impact of significant one-off remeasurements of two contracts, the A465 Heads of the Valley road (A465) and the ASF South contract, as described below, as well as the other items that the Board considers to be of a one-off and unusual nature or related to the accounting treatment of acquisitions. The Board considers the adjusted measures better reflect the underlying trading performance of the company.

The profit adjustments represent the amounts included in the income statement. The revenue adjustments represent the reversal of the contract asset recorded in the statement of financial position immediately prior to the initial write down and any subsequent adjustment to overall contract revenue.

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. In 2020, an arbitration decided that Costain was responsible for design information for a specific retaining wall and that the additional building cost associated with the wall was not a compensation event under the contract. As a consequence of the decision, at 30 June 2020, the company adjusted the revenue recognised based on the level of cash received to that date and reflected a write down of the £45.4m contract asset. The company continued to fulfil its obligations under the contract, which was largely completed during the current year. The final costs to complete were lower than forecast at the end of 2020 and a profit of £8.4m is recognised in the year. 2021 adjusted Group revenue includes £nil (2020: £18.0m) of revenue on the A465 contract.

The ASF South contract was in respect of works undertaken for Highways England that were completed in 2016. Following an extensive contract review in 2020, the company took a one-off charge of £5.0m to close out this legacy contract in the 2020 results.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

Year to 31 December 2021	**Adjusted**	**A465**	**ASF South**	**Other items**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue before contract adjustments	**1,133.4**	**-**	**-**	**-**	**1,133.4**
Contract adjustments	-	-	-	-	-
Company revenue	**1,133.4**	**-**	**-**	**-**	**1,133.4**
Cost of sales	(1,083.2)	8.4	-	-	**(1,074.8)**
Gross profit	**50.2**	**8.4**	**-**	**-**	**58.6**
Admin and other income/(expenses)	(40.3)	-	-	(13.0)	**(53.3)**
Operating profit	**9.9**	**8.4**	**-**	**(13.0)**	**5.3**
Net finance expense	(1.7)	-	-	-	**(1.7)**
Profit before tax	**8.2**	**8.4**	**-**	**(13.0)**	**3.6**
Taxation	(0.3)	(1.6)	-	-	**(1.9)**
Profit/(loss) for the year	**7.9**	**6.8**	**-**	**(13.0)**	**1.7**

2021: The company recognised an £8,400,000 profit with regards to the lower costs to complete than forecast on the A465 contract.

Admin and other income/(expenses) Other items include £13,427,985 subsidiary investment and £600,000 loan write-downs, net of dividends received of £1,022,327 as detailed in note 7.

Year to 31 December 2020	**Adjusted**	**A465**	**ASF South**	**Other items**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Revenue before contract adjustments	**990.9**	-	-	-	**990.9**
Contract adjustments	-	**(45.4)**	**(4.7)**	-	**(50.1)**
Company revenue	**990.9**	**(45.4)**	**(4.7)**	**-**	**940.8**
Cost of sales	(955.0)	-	(0.3)	-	**(955.3)**
Gross profit/(loss)	**35.9**	**(45.4)**	**(5.0)**	**-**	**(14.5)**
Admin and other income/(expenses)	(35.9)	-	-	(9.3)	**(45.2)**
Operating profit/(loss)	**-**	**(45.4)**	**(5.0)**	**(9.3)**	**(59.7)**
Net finance expense	(3.2)	-	-	-	**(3.2)**
Loss before tax	**(3.2)**	**(45.4)**	**(5.0)**	**(9.3)**	**(62.9)**
Taxation	2.4	8.6	1.0	-	**12.0**
Loss for the year	**(0.8)**	**(36.8)**	**(4.0)**	**(9.3)**	**(50.9)**

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

2020: The company recognised a £45,400,000 reduction in revenue and operating profit with regards to the A465 contract arbitration and a £5,000,000 reduction in operating profit with regards to the ASF South contract.

Admin and other income/(expenses) Other items include £9.3m subsidiary investment and loan write-downs, net of dividends received, as detailed in note 7.

5 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2021 £	2020 £
External turnover	1,129,902,642	932,288,921
Intra-group turnover	3,532,605	8,498,613
	1,133,435,247	940,787,534

6 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2021 £	2020 £
RDEC grant income	2,433,274	1,307,946

7 Other gains and losses

	2021 £	2020 £
Amounts written off fixed asset investments	(13,427,985)	(32,250,000)
Amounts written off loans to subsidiaries	(600,000)	(300,000)
Dividends received	1,022,327	23,250,000

Items included in operating profit

2021

Other items
- the company provided £12,500,000 against the investment in Costain Integrated Services Limited;
- the company disolved its investments in Promanex Group Holdings (loss £241,050), Promanex Holdings (loss £474,321) and Rhead Holdings Limited (loss £212,614);
- the company received a dividend of £255,965 from Promanex Group Holdings Limited;
- the company received a dividend of £480,063 from Rhead Group Holdings Limited;
- the company received a dividend of £286,299 from Rhead Holdings Limited;
- the company provided a further £600,000 against the Inter Company Loan of £5,840,611 due from Costain Upstream Limited.

2020

Other items
- the company provided £11,000,000 against the investment in Costain Integrated Services Limited;
- the company received a dividend of £2,750,000 from Promanex Group Holdings Limited and provided £2,750,000 in respect of its investment in the subsidiary;
- the company received a dividend of £15,500,000 from Rhead Group Holdings Limited and provided £17,500,000 in respect of its investment in the subsidary;
- the company received a dividend of £5,000,000 from Rhead Holdings Limited and provided £1,000,000 in respect of its investment in the subsidiary;
- the company provided a further £300,000 against the Inter Company Loan of £5,840,611 due from Costain Upstream Limited.

The above items are excluded from the Adjusted operating profit included in note 4 as the Board considers them to be of a one-off and unusual nature and, hence, will not reflect the long-term performance of the company, or are related to the accounting treatment of acquisitions.

8 Operating loss

Operating profit/(loss) is stated after charging/(crediting):

	2021 £	2020 £
Depreciation of owned property plant and equipment	2,335,561	2,275,653
Depreciation of leased property, plant and equipment	10,466,704	12,189,676
Amortisation of intangible assets	406,309	246,991
Foreign exchange losses /(gains)	1,389	(90,819)
Lease expense - property (short-term leases)	1,329,630	351,719
Hire of plant and machinery (short-term leases and low value assets)	52,531,981	28,187,111

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

9 Auditors' remuneration

	2021 £	2020 £
Audit of the financial statements	686,500	510,000

Fees paid to PricewaterhouseCoopers LLP for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent, Costain Group PLC, are required to disclose non-audit fees on a consolidated basis.

10 Staff costs

The aggregate payroll costs (including staff seconded from a fellow subsidiary, as referenced below, and directors' remuneration) were as follows:

	2021 £	2020 £
Wages and salaries	171,532,601	153,290,225
Social security costs	19,162,548	16,870,522
Other pension costs	29,142,342	25,387,841
Share-based payment expenses	1,130,672	945,000
	220,968,163	196,493,588

The monthly average number of persons employed by or seconded to the company (including directors) during the year, analysed by category was as follows:

	2021 No.	2020 No.
Operational personnel employed by the company	257	354
Administration and support seconded from a group undertaking	630	575
Operational staff seconded from a group undertaking	1,993	1,823
	2,880	2,752

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

11 Directors' remuneration

The directors' remuneration for the year was as follows:

	2021 £	2020 £
Remuneration	2,320,018	2,327,125

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2021 No.	2020 No.
Received or were entitled to receive shares under long term incentive schemes	9	9
Accruing benefits under money purchase pension scheme	3	4

In respect of the highest paid director:

	2021 £	2020 £
Remuneration	436,593	399,985

12 Finance income

	2021 £	2020 £
Interest income on bank deposits	33,896	363,731
Interest income from group undertakings	356,380	133,515
	390,276	497,246

13 Finance costs

	2021 £	2020 £
Interest expense on lease liabilities	854,801	997,226
Other finance costs	1,269	53,489
Interest expense payable to group undertakings	1,258,961	2,668,996
	2,115,031	3,719,711

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

14 Taxation

Tax (credited)/charged in the income statement

	2021 £	2020 £
Current tax		
UK corporation tax	3,328,449	-
UK corporation tax adjustment to prior periods	-	(2,991,781)
Total current tax	3,328,449	(2,991,781)
Deferred tax		
Arising from origination and reversal of temporary differences	(2,286,411)	(11,157,694)
Deferred tax adjustment relating to previous years	903,687	2,154,209
Total deferred tax	(1,382,724)	(9,003,485)
Tax expense/(credit) in the income statement	1,945,725	(11,995,266)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - lower than the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £	2020 £
Profit/(loss) before tax	3,619,031	(62,953,489)
Corporation tax at standard rate	687,616	(11,961,163)
Decrease in current tax from adjustment for prior periods	-	(2,991,781)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2,947,391	6,017,905
(Decrease)/increase from effect of exercise employee share options	(37,135)	105,133
Deferred tax credit from other tax effects	-	(623,204)
Deferred tax expense from unrecognised temporary difference from a prior period	903,687	2,154,209
Deferred tax credit relating to changes in tax rates or laws	(2,361,592)	(278,865)
Decrease from effect dividends from UK companies	(194,242)	(4,417,500)
Total tax charge/(credit)	1,945,725	(11,995,266)

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

14 Taxation (continued)

The elements of deferred taxation at 19.0% (2020: 19.0%) are as follows:

	2021 £	2020 £
General Provisions	1,377,049	1,234,657
Tax Losses	13,154,094	11,422,704
Accelerated capital allowances	263,397	736,251
Share Awards	116,232	60,113
Other timing differences	-	74,322
Hedging reserve	(8,465)	1,187
Deferred tax asset	14,902,307	13,529,234

The movement in the deferred taxation asset was as follows:

	2021 £	2020 £
Asset at the beginning of the year	13,529,234	4,588,648
Amount credited to the profit and loss account	2,286,411	11,157,694
Adjustments in respect of prior year	(903,687)	(2,154,209)
Amount debited to reserves	(9,651)	(62,899)
Asset as end of year	14,902,307	13,529,234

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This rate was substantively enacted on 24th May 2021 and therefore is reflected in these financial statements. Deferred tax balances in these financial statements have been calculated at the rate of 25% or at 19% where the asset will unwind prior to April 2023.

The Company has other deferred taxation assets of £112,065 (2020: 64,659) that have not been recognised on the basis that their future economic benefit was not assured as at the balance sheet date. Tax relief will be obtained if suitable profits arise in future accounting periods.

15 Intangible assets

	Goodwill £	Acquired intangibles £	Other intangibles £	Total £
Cost or valuation				
At 1 January 2020	9,826,526	3,158,742	7,955,860	20,941,128
Additions	-	-	3,297,721	3,297,721
At 31 December 2020	9,826,526	3,158,742	11,253,581	24,238,849
At 1 January 2021	9,826,526	3,158,742	11,253,581	24,238,849
Additions	-	-	1,444,454	1,444,454
Disposals	-	-	(24,079)	(24,079)
At 31 December 2021	9,826,526	3,158,742	12,673,956	25,659,224
Amortisation				
At 1 January 2020	-	3,158,742	5,787,274	8,946,016
Charge for the year	-	-	246,991	246,991
At 31 December 2020	-	3,158,742	6,034,265	9,193,007
At 1 January 2021	-	3,158,742	6,034,265	9,193,007
Charge for the year	-	-	406,309	406,309
Amortisation eliminated on disposals	-	-	(24,079)	(24,079)
At 31 December 2021	-	3,158,742	6,416,495	9,575,237
Carrying amount				
At 31 December 2021	9,826,526	-	6,257,461	16,083,987
At 31 December 2020	9,826,526	-	5,219,316	15,045,842
At 1 January 2020	9,826,526	-	2,168,586	11,995,112

Discount rates when assessing the goodwill carrying value have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows was 13.2% (2020: 12.4%).

There is no reasonably possible change in key estimates that would result in an impairment,

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

16 Property, plant and equipment

	Owned plant and machinery £	Right-of-use land and buildings £	Right-of-use plant and machinery £	Total £
Cost				
At 1 January 2021	25,545,775	20,556,954	30,259,472	76,362,201
Additions	605,292	1,049,007	16,987,636	18,641,935
Disposals	(702,608)	(7,505,356)	(17,826,395)	(26,034,359)
At 31 December 2021	25,448,459	14,100,605	29,420,713	68,969,777
Depreciation				
At 1 January 2021	18,733,745	8,432,117	9,672,415	36,838,277
Charge for the year	2,335,561	3,349,903	7,116,801	12,802,265
Eliminated on disposals	(696,666)	(5,631,672)	(5,965,322)	(12,293,660)
At 31 December 2021	20,372,640	6,150,348	10,823,894	37,346,882
Carrying amount				
At 31 December 2021	5,075,819	7,950,257	18,596,819	31,622,895
At 31 December 2020	6,812,030	12,124,837	20,587,057	39,523,924

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

Property, plant and equipment (continued)

	Owned land and buildings £	Owned plant and machinery £	Right-of-use land and buildings £	Right-of-use plant and machinery £	Total £
Cost					
At 1 January 2020	200,000	27,358,516	19,543,769	19,702,593	66,804,878
Additions	-	309,276	1,214,055	19,059,989	20,583,320
Disposals	(200,000)	(2,122,017)	(200,870)	(8,503,110)	(11,025,997)
At 31 December 2020	-	25,545,775	20,556,954	30,259,472	76,362,201
Depreciation					
At 1 January 2020	107,950	18,473,614	4,318,152	6,140,198	29,039,914
Charge for the year	-	2,275,653	4,278,156	7,911,520	14,465,329
Eliminated on disposals	(107,950)	(2,015,522)	(164,191)	(4,379,303)	(6,666,966)
At 31 December 2020	-	18,733,745	8,432,117	9,672,415	36,838,277
Carrying amount					
At 31 December 2020	-	6,812,030	12,124,837	20,587,057	39,523,924

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

17 Investments

	2021 £	2020 £
Investments in subsidiaries	31,181,002	44,608,987
Investments in joint ventures	27	27
Total Investments	31,181,029	44,609,014

Subsidiaries	£
Cost or valuation	
At 1 January 2020	105,454,007
At 31 December 2020	105,454,007
At 1 January 2021	105,454,007
Disposals	(22,893,102)
At 31 December 2021	82,560,905
Impairment	
At 1 January 2020	28,595,020
Provision	32,250,000
At 31 December 2020	60,845,020
At 1 January 2021	60,845,020
Provision	12,500,000
Eliminated on disposals	(21,965,117)
At 31 December 2021	51,379,903
Carrying amount	
At 31 December 2021	31,181,002
At 31 December 2020	44,608,987
At 1 January 2020	76,858,987

17 Investments (continued)

Investments

2021
- the company provided £12,500,000 against the investment in Costain Integrated Services Limited;
- the company dissolved its investments in Promanex Group Holdings (loss £241,050), Promanex Holdings (loss £474,321) and Rhead Holdings Limited (loss £212,614);
- the company received a dividend of £255,965 from Promanex Group Holdings Limited;
- the company received a dividend of £480,063 from Rhead Group Holdings Limited;
- the company received a dividend of £286,299 from Rhead Holdings Limited;

2020
- the company provided £11,000,000 in respect of the investment in its investment in Costain Integrated Services Limited;
- the company received a dividend of £5,000,000 from Rhead Holdings Limited and provided £1,000,000 in respect of its investment in the subsidiary;
- the company received a dividend of £15,500,000 from Rhead Group Holdings Limited and provided £17,500,000 in respect of its investment in subsidiary;
- the company received a dividend of £2,750,000 from Promanex Group Holdings Limited and provided £2,750,000 in respect of the investment in the subsidiary;

Details of the subsidiaries as at 31 December 2021 and 31 December 2020 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held 2021	2020	Registered office
Costain Integrated Technology Solutions Ltd*	Consulting	100%	100%	(1)
Costain Integrated Services Ltd*	Professional services	100%	100%	(1)
Calvert & Russell Ltd	Consulting	100%	100%	(1)
Construction Study Centre Ltd	Consulting	100%	100%	(1)
Brunswick Infrastructure Services Ltd	Consulting	100%	100%	(1)
Costain Upstream Ltd*	Engineering and design services	100%	100%	(2)
Promanex (Civils & Industrial Services) Ltd*	Not trading	100%	100%	(1)
Promanex (Construction & Maintenance Services) Ltd*	Not trading	100%	100%	(1)
Promanex Group Holdings*	Holding company	100%	100%	(1)
Promanex Group Ltd	Not trading	100%	100%	(1)
Promanex (Total FM & Environmental Services) Ltd*	Support services	100%	100%	(1)
Rhead Group Holdings Ltd*	Holding company	100%	100%	(1)

17 Investments (continued)

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held 2021	2020	Registered office
RG Bidco Ltd	Holding company	100%	100%	(1)
Rhead Holdings Ltd*	Holding company	100%	100%	(1)
JBCC Rhead PTE Ltd	Not trading	100%	100%	(3)

* indicates direct investment of Costain Limited.

Key to registered office/principal place of business:

(1) Costain House, Vanwall Business park, Maidenhead, Berkshire, SL6 4UB, England
(2) 56 Carden Place, Aberdeen, AB10 1UP, Scotland
(3) Peninsula Plaza #27-01, 111 North Bridge Road, 179098, Singapore

Joint ventures	£
Cost or valuation	
At 1 January 2020	27
At 31 December 2020	27
At 1 January 2021	27
At 31 December 2021	27
Carrying amount	
At 31 December 2021	27
At 31 December 2020	27
At 1 January 2020	27

17 Investments (continued)

Joint ventures

Details of the joint ventures as at 31 December 2021 and 31 December 2020 are as follows:

Name of Joint-ventures	Principal activity	Proportion of ownership interest and voting rights held 2021	2020
4Delivery Ltd *	Civil engineering	40%	40%
Brighton & Hove 4Delivery Ltd *	Civil engineering	49%	49%
ABC Electrification Ltd *	Rail electrification	33.3%	33.3%
ACM Health Solutions Limited *	Not trading	33.3%	33.3%
Gravitas Offshore Limited *	Engineering Services	45%	45%

* indicates direct investment of Costain Limited

18 Inventories

	31 December 2021 £	31 December 2020 £
Raw materials and consumables	174,022	512,449

19 Trade and other receivables

	31 December 2021 £	31 December 2020 £
Trade receivables	115,061,394	76,092,341
Amounts owed by group undertakings	73,023,038	42,515,616
Amounts owed by joint ventures	517,543	5,276,750
Contract assets	36,096,541	95,098,380
Other receivables	9,863,612	9,467,196
Prepayments	28,945,936	20,208,848
Income tax receivable	2,059,067	2,014,417
Group relief receivable	-	320,307
Deferred tax assets	14,902,306	13,529,234
	280,469,437	264,523,089
Less non-current portion	(7,962,897)	(6,799,510)
	272,506,540	257,723,579

19 Trade and other receivables (continued)

Amounts receivable from other group undertakings is unsecured, repayable on demand but accrues interest at rates between 0.5%-2.5% (2020: 0.5%-2.5%).

20 Cash and cash equivalents

	31 December 2021 £	31 December 2020 £
Cash at bank	60,605,775	69,681,302

The Company's bankers have the right to set off the company's principal bank balances when in credit against any overdraft borrowings by, a fellow subsidiary of the Costain group, Richard Costain Limited. In addition, one of the arrangements requires that certain cash balances, whether in credit or debit, are swept to/from Richard Costain Limited on a daily basis; such arrangements are commonplace in large groups and facilitate effective cash management. The company's cash balance is replaced with an inter-company receivable/payable from/to Richard Costain Limited.

The cash balance of £60,605,775 (2020: £69,681,302) represents uncleared items and cash held in separate accounts within joint arrangements and project specific bank accounts.

21 Creditors

Amounts falling due within one year

	31 December 2021 £	31 December 2020 £
Trade creditors	80,009,658	76,117,975
Accrued expenses	81,603,198	116,067,873
Amounts owed to group undertakings	31,416,179	33,719,280
Amounts owed to associated undertakings	425,637	425,637
Contract liabilities	11,416,249	5,512,083
Social security and other taxes	1,347,771	1,031,973
Group relief payable	3,328,449	60,626
Other creditors	19,766,852	13,449,336
Lease liabilities	8,613,743	12,505,001
	237,927,736	258,889,784

Amounts falling due after more than one year

	31 December 2021 £	31 December 2020 £
Amounts owed to group undertakings	50,000,000	50,000,000
Other creditors	1,764,337	1,023,131
Lease liabilities	18,234,774	20,808,030
	69,999,111	71,831,161

Amounts payable to other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 2.5% (2020: 2.5%).

22 Provisions for liabilities

	Other provisions £	Total £
Additional provisions	6,200,000	6,200,000
At 31 December 2021	6,200,000	6,200,000
Current liabilities	6,200,000	6,200,000

The provision held at 31 December 2021 relates to the expected future costs of probable rectification works required at a customer's facility where the company had been prime contractor. Costain has engaged with its insurers and other stakeholders to explore routes for recovery and to minimise the company's ultimate exposure. However, as at 31 December 2021, the expected recoveries do not yet meet the virtually certain criteria, and accordingly no reimbursement asset has been recognised.

The company has identified a range of potential solutions to expedite the required rectification works, with an estimated cost ranging between £5,500,000 to £12,200,000. The best estimate cost of the single most likely solution as at 31 December 2021 is £6,200,000. A provision for this probable economic outflow has been recognised as disclosed above.

23 Called up share capital

Allotted, called up and fully paid shares

	31 December 2021 No.	£	31 December 2020 No.	£
Ordinary shares of £1 each	9,392,858	9,392,858	9,392,858	9,392,858

On 9 June 2020, in order to strengthen its capital base, the Company issued 2 million new ordinary shares to its parent company, Costain Civil Engineering Limited, for a cash consideration of £40 million. On 23 December, the Company issued 3.5 million new ordinary shares to its parent company, Costain Civil Engineering Limited, for a cash consideration of £42 million.

24 Reserves

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

25 Share-based payments

Certain staff seconded to the company have been granted options over the shares in Costain Group PLC. The options are exercisable three years after the date of grant, and expire five years after the date of grant. Staff are required to remain in employment with the group until the options become exercisable. The group makes annual grants in April each year.

The company recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution.

On exercise of the shares by the employees, the company is charged the intrinsic value of the shares by Costain Group PLC. This amount is treated as a reduction of the capital contribution, and it is recognised directly in equity.

The outstanding LTIPs (exercise price £1 per individual grant), AIP (Nil-cost option) and DSBPs (Nil-cost option), which arrange for the grant of shares to executive directors and senior management, and the outstanding SAYE schemes are shown below.

	LTIP Number (m)	DSBP Number (m)	AIP Number (m)	SAYE Number (m)	SAYE Weighted average exercise price (p)
Outstanding at 1 January 2020	1.6	0.1	0.5	3.2	243.0
Adjusted during the year	0.2	(0.1)	0.2	0.1	229.3
Forfeited during the year	(0.7)	-	(0.8)	(1.2)	265.3
Exercised during the year	(0.1)	-	(0.3)	-	-
Granted during the year	2.8	-	0.8	-	-
Outstanding at 31 December 2020	3.8	-	0.4	2.1	229.5
Outstanding at 1 January 2021	**3.8**	-	**0.4**	**2.1**	**229.5**
Adjusted during the year	-	-	-	-	-
Forfeited during the year	**(1.0)**	-	-	**(0.8)**	**286.3**
Exercised during the year	**(0.2)**	-	**(0.2)**	-	-
Granted during the year	**2.9**	-	-	-	-
Outstanding at 31 December 2021	**5.5**	-	**0.2**	**1.3**	**191.9**
Exercisable at the end of the year	**0.1**	-	**0.1**	-	-

25 Share-based payments (continued)

Long-Term Incentive Plans (LTIP)

Shareholders approved a new Long-Term Incentive Plan at the 2014 AGM that allows for conditional awards with a maximum face value of up to 100% of base salary to be awarded. Performance conditions, such as those based on earnings per share, are determined by the Remuneration Committee of the Board at the time of grant.

Annual Incentive Plan (AIP)

Executive directors and other senior management are eligible to participate in the Company's Annual Incentive Plan, under which one third of the award is payable in shares. The total AIP award of up to 150% of base salary has performance conditions based on adjusted EBIT (Earnings before interest, tax and other items) (at least 50% of the award) and other measures. The share award element vests on the second anniversary of the date of grant and will be satisfied by shares purchased by a trust on behalf of the Group. It will not lead to any dilution of shareholder interest. Participants must be in employment with the Company and not under notice of termination (either given or received) on the date of vesting.

Deferred Share Bonus Plan (DSBP)

Prior to 2014, executive directors and other senior management were eligible to participate in the Company's Deferred Share Bonus Plan which allowed for conditional awards with a face value of up to 50% of base salary with a performance condition based on adjusted EBIT (Earnings before interest, tax and other items). The deferred bonus award was satisfied by shares purchased by a trust on behalf of the Group, so did not dilute shareholder interests. The last grant under the DSBP was made in 2014 and vested on 31 March 2016.

Save As You Earn Scheme (SAYE)

The Company operates a SAYE scheme that is open to all eligible employees who pay a fixed amount from salary into a savings account each month and elect to save over three years. At the end of the savings period, employees have six months in which to exercise their options (after which the options expire) using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

Share-based payment expense

The amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £1.1 million (2020: £0.9 million).

26 Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow Group undertakings for borrowing facilities made available to the Group. At 31 December 2021, these liabilities amounted to £40,000,000 (2020: £48,000,000).

These are also contingent liabilities in respect of guarantees of bonds and guarantees of £7,600,000 and other undertakings entered into in the ordinary course of business by fellow Group undertakings (2020: £6,700,000).

27 Related party transactions

Income and receivables from related parties

2021	**Joint arrangements £**	**Joint ventures £**
Sale of goods	118,370,003	449,545

2020	**Joint arrangements £**	**Joint ventures £**
Sale of goods	190,981,780	1,540,820

Major Joint Arrangements		**Activity**	**Percentage interest**
Alstom-Babcock-Costain Joint Venture	Edinburgh to Glasgow Rail Improvement Programme	Rail Engineering	33.3%
Alstom-Costain C644 Joint Venture	Traction power - Crossrail	Rail Engineering	32.5%
Alstom-Costain C650 Joint Venture	HV power supply - Crossrail	Rail Engineering	32.5%
A-one+ Joint Venture	ASC area 12 - Highways England	Engineering & Maintenance	33.3%
A-one+ Joint Venture	ASC area 4 - Highways England	Engineering & Maintenance	33.3%
ATC Joint Venture - C610	Crossrail	Rail Engineering	32.5%
CH2M-Costain Joint Venture	Area 14 M&R Contract	Engineering & Maintenance	50%
Costain-CH2M UK - ESCC JV	East Sussex highway maintenance	Engineering & Maintenance	50%

27 Related party transactions (continued)

Costain-Atkins Black & Veatch Joint Venture	Thames Water AMP6	Civil Engineering	70%
Costain-Galliford Try Joint Venture	M1 Smart Motorways	Civil Engineering	70%
Costain-MWH Joint Venture	Southern Water AMP6	Civil Engineering	50%
Costain-Skanska C360 Joint Venture	Eleanor Street - Crossrail	Rail Engineering	50%
Costain-Skanska C405 Joint Venture	Paddington - Crossrail	Rail Engineering	50%
Costain-Skanska C412 Joint Venture	Bond Street - Crossrail	Rail Engineering	50%
Costain-Skanska Joint Venture	HS2 Enabling Works	Civil Engineering	50%
Costain-Skanska Joint Venture	A14 Cambridge to Huntingdon Improvement Scheme	Civil Engineering	50%
Costain-Skanska Joint Venture	Balfour Beatty Joint Venture - A14	Civil Engineering	33.3%
CVB Joint Venture	Thames Tideway Tunnel East	Civil Engineering	40%
Skanska Costain Strabag SCS S1 Joint Venture	HS2 Main Works	Rail Engineering	34%
Skanska Costain Strabag SCS S2 Joint Venture	HS2 Main Works	Rail Engineering	34%
The ASP Batch Joint Venture	Severn Trent - Large capital schemes outside AMP6	Civil Engineering	33.3%
Other Joint arrangements, including completed		**Activity**	**Percentage interest**
ACTUS Joint Venture	Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25%
Amec-Costain-Jacobs Joint Venture	Magnox ILW Management Programme	Civil Engineering	33.3%
A-one+ Integrated Highway Services	MAC 7	Engineering & Maintenance	33.3%
A-one+ Integrated Highway Services	MAC 10	Engineering & Maintenance	25%

27 Related party transactions (continued)

A-one+ Integrated Highway Services	MAC 12	Engineering & Maintenance	33.3%
A-one+ Integrated Highway Services	MAC 14	Engineering & Maintenance	33.3%
Bachy Soletanche-Costain Skanska Joint Venture	CTRL 240 - Stratford Box	Rail Engineering	33.3%
Balfour Beatty-BmJV-Carillion-Costain Joint Venture	National Major Projects - Highways England	Civil Engineering	22%
Black & Veatch-Costain Joint Venture	Margate & Broadstairs UWWTD Scheme - Southern Water	Civil Engineering	50%
CosMott Joint Venture	Devonport Major Infrastructure Programme - Construction Delivery Partner	Consultancy	50%
Costain Arup Joint Venture	Yorkshire Water	Consultancy	50%
Costain-Carillion Joint Venture	M1 Widening and A5/M1 Link	Civil Engineering	100%
Costain-Dalekovod Joint Venture	National Grid HV Overhead Line System	Engineering	60%
Costain-Hochtief Joint Venture	Reading Station	Rail Engineering	50%
Costain-John Mowlem-Skanska Joint Venture	A2/M2 widening (Cobham to Jct.2)	Civil Engineering	30%
Costain-Lafarge Joint Venture	East and South East Framework	Civil Engineering	50%
Costain-Lafarge Joint Venture	Midlands Framework	Civil Engineering	50%
Costain-Laing O'Rourke Joint Venture	Bond Street station	Civil Engineering	50%
Costain-Laing O'Rourke Joint Venture	Farringdon station	Civil Engineering	50%
Costain-Laing O'Rourke Joint Venture	King's Cross Eastern Range Refurbishment	Civil Engineering	50%
Costain-Skanska C411 Joint Venture	Bond Street - Crossrail	Civil Engineering	50%
Costain-Skanska Joint Venture	A14 Ellington to Fen Ditton	Civil Engineering	50%

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

27 Related party transactions (continued)

Costain-Skanska Joint Venture	A43 Silverstone	Civil Engineering	50%
Costain-Skanska Joint Venture	Crossrail Civils Framework Enabling Works	Rail Engineering	50%
Costain-Skanska Joint Venture	Kings College Hospital, London	Building	50%
Costain-Skanska Joint Venture	Lower Precinct Shopping Centre, Coventry	Building	50%
Costain-Skanska Joint Venture	NGT Tunnels, London	Civil Engineering	52.6%
Costain-Skanska Joint Venture	Paddington Station Bakerloo Line Link Project	Civil Engineering	50%
Costain-Skanska Joint Venture	The new Met Office	Building	50%
Costain-Taylor Woodrow Joint Venture	King's cross re-development & Phase II Northern Works	Civil Engineering	50%
Costain-Vinci Construction Joint Venture	Shieldhall	Civil Engineering	50%
Costain-Vinci Joint Venture	M4 corridor around Newport	Civil Engineering	50%
Costain-VWS Joint Venture	Mersey Valley Processing centre (Shell Green) Extension Project stage 2	Engineering	50%
Educo UK Joint Venture	Bradford Schools	Building	50%
Galliford-Costain-Atkins Joint Venture	United Utilities	Engineering	50%
Lagan-Ferrovial-Costain Joint Venture	A8	Civil Engineering	45%
The e5 Joint Alliance Joint Venture	Severn Trent Framework	Engineering	25%
TSIF-ILW Joint Venture	Trawsfynydd nuclear power station decommissioning	Civil Engineering	33.3%

28 Parent and ultimate parent undertaking

The company's immediate parent is Costain Civil Engineering Limited.

The ultimate parent is Costain Group PLC.

The parent of the largest and smallest group producing publicly available financial statements in which these financial statements are consolidated is Costain Group PLC. These financial statements are available upon request from Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB.

The ultimate controlling party is Costain Group PLC.