

COSTAIN OIL, GAS & PROCESS LIMITED

Registered No : 786418

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2005



COSTAIN OIL, GAS & PROCESS LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 2005

BUSINESS REVIEW

The company continued to carry out its principal activities of process plant contracting and the execution of design and construct contracts in the field of environmental services.

The results for the year are set out in the Profit and Loss Account on page 4.

DIRECTORS AND SHARE INTERESTS

Directors who held office during the year and their disclosable interests in shares, according to the register of directors' interests were as follows:

	At 01.01.05	At 31.12.05
A Wyllie (appointed 12.09.05) *	-	*_
C J McCole *	*_	*_
C A Sweeney	a 156,716	156,716
	b -	155,744
C Winstanley	*_	-

S J Doughty (resigned 12.09.05)*

- a - Options granted on 21 April 2004 to acquire Costain Group PLC ordinary shares under the 2004 Long Term Incentive Plan.
- b - Options granted on 26 April 2005 to acquire Costain Group PLC ordinary shares under the 2005 Long Term Incentive Plan
- * - The interests of these directors in the shares of Costain Group PLC are disclosed in the accounts of that company.

CREDITOR PAYMENT POLICY AND PRACTICE

As a result of the nature of the company's business, the contractual relationships with the suppliers of goods and services and with subcontractors vary according to circumstances. It is the company's policy to enter into an appropriate form of contractual agreement on payment terms and to pay according to those terms. The company does not follow any particular code of practice for the payment of creditors. In practice, the company makes every effort to pay when it can be confirmed that the supplier has provided the goods or services in accordance with the relevant terms of the contract. The amount for trade creditors shown in the balance sheet at the end of the financial year represents 52 days of average daily purchases (2004 : 42 days).

AUDITORS

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

BY ORDER OF THE BOARD


C L FRANKS
SECRETARY
20 March 2006

REGISTERED OFFICE
Costain House, Nicholson's Walk,
Maidenhead, Berkshire, SL6 1LN

COSTAIN OIL, GAS & PROCESS LIMITED

DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of 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;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

COSTAIN OIL, GAS & PROCESS LIMITED

We have audited the financial statements of Costain Oil, Gas & Process Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

10 April 2006

COSTAIN OIL, GAS & PROCESS LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2005**

	Notes	2005 £000	2004 £000
Turnover	2	26,464	30,995
Cost of sales		(25,889)	(33,809)
Gross profit / (loss)		575	(2,814)
Administrative expenses before exceptional costs	(1,267)	(1,308)	
Exceptional credit /(costs)	3 1,209	(128)	
Total administrative (credit)/expenses		(58)	(1,436)
Operating profit / (loss)	2	517	(4,250)
Interest receivable	4	206	2
Interest payable	5	(1,267)	(889)
Loss on ordinary activities before taxation	3	(544)	(5,137)
Tax on loss on ordinary activities	8	211	2,746
<u>Loss for the financial year</u>	18	<u>(333)</u>	<u>(2,391)</u>

There were no recognised gains nor losses other than the loss for the year and the prior year and therefore no statement of total recognised gains and losses has been presented.

All amounts are derived from continuing activities.

The notes on pages 6 to 15 form part of these financial statements.

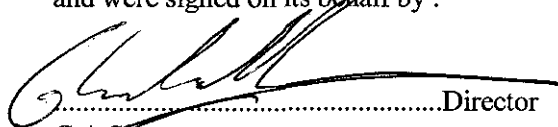
COSTAIN OIL, GAS & PROCESS LIMITED

BALANCE SHEET

As at 31 December 2005

	Notes	2005 £000	2004 £000
<u>Fixed Assets</u>			
Tangible assets	9	514	546
Investments	10	-	-
		-----	-----
		514	546
		-----	-----
<u>Current Assets</u>			
Debtors	11	41,244	48,384
Cash at bank and in hand	12	7,396	1,166
		-----	-----
		48,640	49,550
<u>Current Liabilities</u>			
<u>Creditors</u> : Amounts falling due within one year:			
Borrowings	13	(189)	(188)
Other creditors	14	(36,807)	(37,093)
		-----	-----
		(36,996)	(37,281)
		-----	-----
<u>Net Current Assets</u>		11,644	12,269
		-----	-----
<u>Total Assets less Current Liabilities</u>		12,158	12,815
<u>Provisions for Liabilities and Charges</u>	15	(239)	(563)
		-----	-----
<u>Net Assets</u>		11,919	12,252
		=====	=====
<u>Capital and Reserves</u>			
Called up share capital	16	35,500	35,500
Share premium account	17	1,512	1,512
Profit and loss account	17	(25,093)	(24,760)
		-----	-----
<u>Equity Shareholders' Funds</u>		11,919	12,252
		=====	=====

The financial statements were approved by the Board of Directors on 20 March 2006 and were signed on its behalf by :


.....Director
C A Sweeney

The notes on pages 6 to 15 form part of these financial statements.

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS

31 December 2005

1. Accounting Policies

Basis of accounting

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical cost convention.

The financial statements present information about the company as an individual undertaking and not about its Group. The company is exempt (under Section 228 of the Companies Act 1985) from preparing Group financial statements as it is a subsidiary undertaking of an EC parent.

Turnover

Turnover represents the amounts (excluding value added tax) receivable for goods and services provided and the value of work carried out during the year on long term contracts. Turnover includes the appropriate proportion of turnover of joint venture contracts.

Foreign currency transactions

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. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction.

Depreciation

Depreciation is provided to amortise the costs of tangible assets over their estimated useful economic lives on a straight line basis as follows:

	Percentage per annum
Long leasehold buildings	1 to 5
Improvements to leasehold premises	2 to 10
Plant and equipment, furniture and fittings	10 to 50
Motor vehicles	25

Interest

Interest and similar charges are recorded in the profit and loss account as incurred.

Taxation

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, except as otherwise required by FRS 19.

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

1. Accounting Policies - Continued

Leased assets

The annual rentals in respect of operating leases are charged evenly to the profit and loss account over the life of the lease.

Long term contracts

Amounts recoverable on long term contracts represent the excess of the value of work carried out over cumulative payments on account. Long term contracts are valued at cost plus attributable profit earned to date less provision for foreseeable losses.

Pensions

The company participates, on a defined contributions basis, in a pension scheme for the benefit of its seconded employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

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

Cashflow statement

A cashflow statement is included in the consolidated financial statements of the ultimate parent company, Costain Group PLC and complies with the conditions of Financial Reporting Standard No. 1 ("FRS 1"). Therefore, since the company was a wholly owned subsidiary of Costain Group PLC throughout the year, the company is exempt under FRS 1 from the requirement to prepare a separate cashflow statement.

2. Geographical segment information

	Turnover		Operating Profit/(loss)	
	2005	2004	2005	2004
	£000	£000	£000	£000
Continuing activities:				
United Kingdom	15,306	30,373	2,097	(4,212)
Rest of World	11,158	622	(1,580)	(38)
	-----	-----	-----	-----
	26,464	30,995	517	(4,250)
	=====	=====	=====	=====

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

3. Loss on Ordinary Activities before Taxation

The company's operating income and expenses are derived from ordinary activities. Loss on ordinary activities is after charging /(crediting):

	2005 £000	2004 £000
Staff costs (note 6)	6,316	6,775
Emoluments of directors (note 7)	250	219
Depreciation on assets owned by the company (note 9)	205	218
Hire of plant and machinery	85	84
Rent of land and buildings	1,222	1,135
Auditors' remuneration - audit	31	31
Auditors' remuneration - non audit	1	1
Provision for loss on unoccupied building (note 15)	-	128
Exceptional income	(1,209)	-

Exceptional income relates to funds recovered during the current year in relation to group activities in prior years.

4. Other Interest Receivable

	2005 £000	2004 £000
On amounts due from group undertakings	200	-
Late payment interest	2	2
Other interest receivable	4	-
	-----	-----
	206	2
	=====	=====

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

5. Interest Payable

	2005 £000	2004 £000
On amounts due to group undertakings	1,250	845
Amounts payable on bank loans and overdrafts	-	14
Other interest payable	17	30
	<u>1,267</u>	<u>889</u>

6. Staff Numbers and Costs

The average number of staff seconded from a group undertaking who worked for the company during the year was as follows:

	2005 No.	2004 No.
Administrative	25	27
Technical	101	107
	<u>126</u>	<u>134</u>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and Salaries	5,156	5,580
Social Security Costs	487	503
Pension Costs	673	692
	<u>6,316</u>	<u>6,775</u>

The company incurs pension costs in respect of employees seconded from a group undertaking. These seconded employees participate in the Costain Group's UK defined benefit pension scheme, which provides benefits based on final pensionable salary; details of this scheme are included in the accounts of Costain Group PLC.

The cost for the period of contributions to this scheme is included in the analysis above. There are no outstanding or prepaid contributions at the balance sheet date.

As the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme is accounted for by the company as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out at 31 March 2005 and was updated for FRS 17 purposes to 31 December 2005 by a qualified independent actuary, details can be found in the accounts of Costain Group Plc.

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

7. Emoluments of Directors

The emoluments excluding pension contributions of the highest paid director were £ 160,919 (2004 - £135,599). Total emoluments for the year are £208,762 (2004: £180,309).

Total paid in respect of company contributions to pension schemes was £29,084 (2004 - £27,318).

The highest paid director's accrued retirement benefits were £18,759 (2004 - £17,392).

Retirement benefits are accruing to 2 directors as at 31 December 2005 (2004 : 2) under defined benefit schemes.

8. <u>Taxation</u>	2005	2004
	£000	£000
On loss for the year:		
Group Relief	348	2,712
Prior year consortium relief	45	-
	<u>393</u>	<u>2,712</u>
Total current tax		
Deferred Taxation	(182)	34
	<u>211</u>	<u>2,746</u>
	<u>211</u>	<u>2,746</u>
Tax reconciliation	2005	2004
	£000	£000
Loss on ordinary activities before taxation	(544)	(5,137)
	<u>(544)</u>	<u>(5,137)</u>
Tax at 30%	163	1,541
Sundry disallowed expenditure	(9)	(15)
Other timing difference	239	1,186
	<u>393</u>	<u>2,712</u>
Total current tax	<u>393</u>	<u>2,712</u>

Accumulated tax losses carried forward are estimated at £5,900,000 (2004 : £6,300,000)

The elements of the deferred taxation asset are as follows:-

	2005	2004
	£000	£000
Accelerated capital allowances (note 11)	594	776
	<u>594</u>	<u>776</u>

There are other deferred tax assets that have not been recognised on the basis that their future economic benefit is not assured as at the balance sheet date.

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

9. Tangible Assets

	<u>Land & Buildings</u> <u>Leasehold</u> <u>Over 50 Years</u> £000	<u>Plant and</u> <u>Equipment</u> £000	<u>Total</u> £000
<u>Cost</u>			
At 1 January 2005	58	4,472	4,530
Additions	-	173	173
Disposals		(26)	(26)
At 31 December 2005	58	4,619	4,677
<u>Depreciation</u>			
At 1 January 2005	58	3,926	3,984
Charge in year	-	205	205
Disposed in year		(26)	(26)
At 31 December 2005	58	4,105	4,163
<u>Net Book Value</u>			
At 1 January 2005	-	546	546
At 31 December 2005	-	514	514

There were no capital commitments as at 31 December 2005 (2004 : Nil).

10. Investments

	<u>Subsidiaries &</u> <u>Participating Interests</u> £000
<u>Cost</u>	
At 1 January 2005 and 31 December 2005	8,512
<u>Amounts provided</u>	
At 1 January 2005 and 31 December 2005	8,512
<u>Net Book Value</u>	
At 1 January 2005 and 31 December 2005	-

All the investments are unlisted.

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

10. Investments (Continued)

Investments in subsidiaries and participating interests

	Percentage of equity capital held
<u>Subsidiary Undertakings</u>	
Costain Trade & Services Limited	100
Costain Oil, Gas & Process (Overseas) Limited	100
Costain Engineering Limited	100

Participating Interests

Costain Petrofac Ltd	50
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All companies are incorporated in Great Britain and registered in England and Wales. All holdings are of ordinary shares.

11. Debtors

	2005 £000	2004 £000
Trade debtors	3,302	6,032
Amounts recoverable on long term contracts	4,388	6,735
Amounts owed by group undertakings	29,890	29,603
Amounts owed by joint ventures	1,312	1,075
Group relief recoverable	348	2,712
Deferred tax (see note 8)	594	776
Other debtors	650	776
Prepayments and accrued income	760	675
	=====	=====
	41,244	48,384
	=====	=====

All amounts are due within one year except for the deferred tax balance.

The deferred tax assets that have been recognised are regarded as recoverable 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 within the group from which the future reversal of the underlying timing differences can be deducted.

12. Cash at bank and in hand

One of the company's bankers has the right to set off the company's bank balance when in credit against borrowings by Richard Costain Limited.

13. Borrowings

	2005 £000	2004 £000
Short term:		
Due within one year		
Bank loans and overdrafts	189	188
	=====	=====

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

14. Creditors : Amounts Falling Due Within One Year

	2005 £000	2004 £000
Credit balances on long term contracts	2,009	6,080
Trade creditors	7,331	5,783
Amounts owed to group undertakings	23,394	20,736
Amounts owed to joint ventures	83	74
Taxation	161	161
Other creditors including taxation and social security	387	537
Accruals and deferred income	3,442	3,722
	<u>36,807</u>	<u>37,093</u>

15. Provisions For Liabilities and Charges

	At beginning of year £000	Created in year £000	Utilised in year £000	At end of year £000
Onerous property lease costs	<u>563</u>	<u>-</u>	<u>(324)</u>	<u>239</u>

The provision for onerous contracts relates to a leased property, which is no longer used, and represents the shortfall between the lease cost and the income arising from subletting. The onerous lease provision created in 2004, plus other costs associated with the property are classed as exceptional in the Profit & Loss account for 2004.

16. Share Capital

	2005		2004	
	Authorised £000	Issued £000	Authorised £000	Issued £000
Ordinary shares of 1p each fully paid	<u>40,000</u>	<u>35,500</u>	<u>40,000</u>	<u>35,500</u>

17. Reserves

	Share premium account £000	Profit and loss account £000
At 1 January 2005	1,512	(24,760)
Loss for the year	-	(333)
At 31 December 2005	<u>1,512</u>	<u>(25,093)</u>

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

18. Reconciliation of movements in shareholders' funds

	2005 £000	2004 £000
Loss for the financial year	(333)	(2,391)
Opening shareholders' funds	12,252	14,643
	-----	-----
Closing shareholders' funds	11,919	12,252
	=====	=====

19. Contingent Liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for overdraft facilities made available to the group. At 31 December 2005 these liabilities amounted to £nil (2004: £nil) and are included in the group accounts of the ultimate parent company.

There are also contingent liabilities in respect of performance bonds and other undertakings entered into in the ordinary course of business.

20. Related Party Transactions

The company is exempt under Financial Reporting Standard No. 8 (FRS8) from the requirements to disclose related party transactions with other wholly owned subsidiaries on the basis that it is a wholly owned subsidiary of the ultimate parent company, Costain Group PLC.

The Company's related party transactions as defined by FRS8 and the nature of the relationships and the amounts involved are summarised below:

Joint Arrangements

The major joint arrangements in which the Company has an interest are:

	Activity	Percentage of equity held	Country of operation
COGAP Ltd/UK Construction Ltd Joint Venture	Engineering	50	UK
COGAP Ltd/Kharafi National Joint Venture	Engineering	42	Kuwait
COGAP Ltd/Kharafi National Joint Venture	Engineering	40	Kuwait

COSTAIN OIL, GAS & PROCESS LIMITED

NOTES ON THE FINANCIAL STATEMENTS Continued

31 December 2005

20. Related Party Transactions (Continued)

Sale of goods and services to joint arrangements:

	£
Staff	59,856
Management Services	-
Other	8,427
	<u>68,283</u>

Amounts due in relation to the sale of goods and services from joint arrangements amount to £735,597.

Participating Interests:

The major participating interests in which the Company has an interest are:

	Activity	Percentage of equity held	Country of Operation
Costain Petrofac Ltd	Engineering	50	UK

Sale of goods and services to participating interests:

	£
Staff	5,334,676
Management Services	481,497
Materials	1,670,228
Other	664,482
	<u>8,150,883</u>

Amounts due in relation to the sale of goods and services from participating interests amount to £1,151,900 (2004: £1,106,375)

21. Ultimate Parent Company

The Company is a subsidiary of Costain Engineering & Construction Limited incorporated in England and Wales. Group financial statements are drawn up for the ultimate holding company, Costain Group PLC, a company registered in England and Wales.

Copies of the Group financial statements of Costain Group PLC may be obtained from the registered office, Costain House, Nicholson's Walk, Maidenhead, Berkshire, SL6 1LN.