Registration number: 00786418

Costain Oil, Gas & Process Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Costain Oil, Gas & Process Limited

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Costain Oil, Gas & Process Limited

Company Information

Directors	A O Bickerstaff
	M D Hunter
	A J Vaughan
	T A Wood
Company secretary	T A Wood
Registered office	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
Independent auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

Costain Oil, Gas & Process Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Fair review of the business
Revenue for the year was £96.8 million (2018: £69.6 million).

Operating loss was £2.4 million (2018: operating profit £2.1 million). This includes a provision against an intercompany debtor of £1.6m (2018: £Nil) (see note 5).

Loss before tax was £2.4 million (2018: profit before tax £2.2 million).

Total shareholders' funds decreased in the year to £25.8 million (2018: increased to £28.0 million).

Operational review
We continue to work with the industry, transport and energy utilities to shape the energy systems of the future, developing hydrogen and other low carbon solutions to support the UK's journey towards net zero carbon. In 2019, we helped industrial clusters set out their road map for carbon capture and storage (CCS) deployment and are currently providing strategic consultancy for a proposed CCS demonstration project in Scotland.

We are working with Scottish and Southern Electricity Networks and E.ON to improve network resilience in rural parts of the UK by focussing on resilience as a service, in a first of its kind project in the UK. Following a successful bid into Ofgem's Network Innovation Competition, which provides funding of over £9.5 million, we are developing a leading-edge digital energy solution to maintain and improve reliability, providing customers with a low carbon, cost-effective and secure electricity supply.

Our Sellafield decommissioning framework contract continues to perform in line with expectations and provides access to significant future revenue streams in support of the legacy clean-up mission. We continue to support this client through our Decommissioning Delivery Partnership Framework contract across several decommissioning, engineering and construction contracts.

Our contract for the upgrade of National Grid's Peterborough and Huntingdon compressor stations has experienced significant change and additional scope. This has impacted on the forecast target cost and schedule for the completion of the works. The works are likely to take to 2022 to complete. However, on 27 June 2020, following detailed discussions between Costain and National Grid, both parties have mutually agreed to exit the contract and release Costain from its contractual obligations to complete the works.

Costs on the project have doubled due to additional scope and at this stage only a limited proportion of the £90 million reforecast outturn cost has been formally agreed. We, and the client, are working to an agreed project level escalation process that includes a requirement to demonstrate our entitlement regarding the compensation events and supported by external advice, we believe that we have strong entitlement to recovery of our costs.

In the period we have continued to secure new consulting contracts for our gas process technology service offering and a number of strategic development consultancy services, with some £4.0 million of consultancy contracts for the energy market. This will see Costain shaping the future for sustainable operations and improved efficiencies at several UK onshore gas terminals by providing engineering design services. The contract awards also include topside modification projects for several subsea tie-backs in the North Sea, both at front-end engineering design (FEED) and pre-FEED phases. Other work secured involved the pre-FEED for a carbon capture usage and storage project that includes onshore and offshore dimensions.

We also continue to secure and provide a range of asset management, programme management, training, commercial, engineering and other advisory services for strategic contracts with National Grid and Cadent.

Impact of Covid-19

We are closely monitoring the coronavirus situation, are following Government guidelines and sharing these with colleagues. We have robust business continuity procedures in place to cover all aspects of our operations in a scenario such as this which are regularly tested. We are prepared to take action to deal with this situation as it changes.

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 where relevant.

Employees

In 2019, we focused on three key methods of engagement: staff roadshows, monthly leadership briefings and site visits and continued the biannual leadership impact days, which require directors and senior leaders to visit every live project for a half-day shutdown to discuss a key industry theme. This year's themes were "this year I would like to do more of...", which focused on different ways of working to achieve personal goals, and decarbonisation. We extended our employee networks and launched our new religion, ethnicity and cultural heritage networks part of our inclusion strategy.

Shareholders

The company is a wholly owned subsidiary of Costain Group PLC and the directors have regular reviews with directors of the parent regarding performance of the company.

Clients

We obtain regular feedback from our clients to ensure that we are consistently delivering high performance standards and hosted numerous site visits, inviting our clients to attend project stand down days. We also attended client events and meetings and have representatives on numerous forums and boards. We conducted a materiality assessment with clients and stakeholders to help us to align our sustainability priorities.

Supply chain

We have a dedicated management team responsible for supply chain relationships and continued investing in these relationships in 2019, including holding regular business-to-business meetings to enhance our collaborative relationships. Supplier performance reviews are completed quarterly on all contracts for all strategic and preferred supply chain partners. Our supply chain academy continues to offer best practice guidance across a range of topics to our supply chain partners.

Communities and Environment

All contracts have an appointed community relations representative, with many having a dedicated engagement specialist. We use social media and provide public hotlines. We are a partner of the Considerate Constructors scheme and our projects sign up to their code of practice, ensuring we maintain exceptional standards of community engagement. Many projects have visitor centres allowing the community to meet with the site team. We want to make a positive contribution to our local communities and create partnerships with external organisations to help maximise our impact. In 2019, we worked with The Prince's Trust, Centrepoint, STEM Learning, Career Ready, Samaritans and The Wildlife Trust.

Principal risks and uncertainties

The principal risks and uncertainties facing the ultimate parent company, Costain Group PLC ("Costain"), and its ability to achieve its strategic objectives are set out below.

Costain Oil, Gas & Process Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Title	What is the Risk?
Failure to prevent a major accident or incident for which Costain is held primarily accountable.	Costain operates in complex and hazardous environments, which have the potential to result in significant loss, including the loss of life, widespread acute ill health or damage to the environment. Failure to manage these risks has the potential to result in personal or environmental harm, or operational loss. Significant SHE events could also have regulatory, legal, financial and reputational impacts with all stakeholders.
Failure to deliver the business strategy.	Failure to manage this risk could result in the transformation and diversification of the business being unsuccessful, new market opportunities may be missed, work in diversified markets may not be won and/or loss of stakeholder confidence.
Failure to maintain a strong balance sheet may limit our ability to grow.	We may fail to win work due to an inability to demonstrate the required level of financial resource.
Failure to identify and secure new work.	Failure to manage this risk could mean that we do not win work from current clients or new clients/markets.
Failure to attract and transform the skills, capabilities and competence of our resources	Failure to manage our skills and capabilities risk may result in an inability to grow the business as anticipated and consequently in a short term impact on performance.
Failure to deliver projects effectively.	Failure to maintain discipline in delivering projects could result in contract disputes, design faults that result in additional works to rectify, failure of our supply chain to complete the works, refusal of claims by insurers following a loss, compensation events or increase in scope not being fully reimbursed by our clients.
Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to its capital base.	Failure to manage this exposure adequately could lead to Costain being exposed to significant additional liabilities under the legacy defined benefit pension scheme and hence significantly higher deficit contributions adversely impacting the Group's operational results.
Failure to ensure that our technology is robust, our systems are secure and our data protected.	Failure to manage our technology and data risks could result in loss of confidential client or personal data, breaches of legislation and subsequent fines, breach of contract, inappropriate release of commercially sensitive data, business systems suffer a cyber-attack.
Failure to respond to changes in client circumstances resulting from different market, regulatory or political conditions.	Failure to adequately understand and respond to our clients' needs may result in a reduction in work won, loss of repeat clients, an inability to win work in diversified markets and/or a reduction in profitability and cash flow.
Failure to respond to COVID-19 (coronavirus) outbreak	Failure to manage the risk could threaten the safe operation of our operational activities, loss of life, and impact the well-being of our people. It could also have a material adverse effect on our earnings, cash flows and financial condition.

Approved by the Board on 29 June 2020 and signed on its behalf by:

DocuSigned by:

T A Wood

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T A Wood

Company secretary

Costain Oil, Gas & Process Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

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 Wyllie (resigned 7 May 2019)

A O Bickerstaff

M D Hunter

A J Vaughan

D G James (resigned 31 March 2020)

The following director was appointed after the year end:

T A Wood (appointed 31 March 2020)

Dividends
The directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: £Nil).

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.

Costain Cares
The management of Safety, Health and Environment is a core value at Costain. Through the dedicated and diligent efforts of the whole team, the company's Accident Frequency Rate (AFR) in the year was nil. We also received a RoSPA Patron's Award in 2019.

We remain committed to further improvement in our safety performance are also increasing emphasis on the health and wellbeing of the team and initiatives include recognising and supporting improved mental health, encouraging flexible working and fundamentally re-evaluating traditional working practices.

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.

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. Reviews of the debtors ledger are carried out with the finance 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 are monitored by the Costain Group's central Treasury team and projections of future cash requirements are reviewed by the directors and the treasury team. Deposits and loans 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.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the directors are required to consider whether the company can continue in operational existence for the foreseeable future. The directors have concluded that after taking account of the enhanced financial capability of the Costain Group following the receipt of the proceeds of the equity raise and the bank and bonding facilities available to the Costain Group, and after having received an undertaking from Costain Group PLC that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the Company, it is appropriate to adopt the going concern basis in preparing these financial statements.

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 auditors are 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 auditors are 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 29 June 2020 and signed on its behalf by:

DocuSigned by:

T A Wood

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T A Wood

Company secretary

Costain Oil, Gas & Process Limited

Statement of Directors' Responsibilities

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 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 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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;
- 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 also 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 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.

Independent auditors' report to the members of Costain Oil, Gas & Process Limited

Report on the audit of the financial statements

Opinion

In our opinion, Costain Oil, Gas & Process Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss 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 Balance Sheet as at 31 December 2019; the Profit and Loss Account, the Statement of Comprehensive Income, 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 the Directors' Responsibilities set out on page 8, 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.

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 received 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.

Diane Walmsley

Diane Walmsley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2020

Costain Oil, Gas & Process Limited

Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £	2018 £
Revenue	4	96,831,785	69,606,309
Cost of sales		(91,427,547)	(60,626,246)
Gross profit		5,404,238	8,980,063
Administrative expenses		(7,777,509)	(6,877,441)
Operating (loss)/profit	5	(2,373,271)	2,102,622
Finance income	9	69,685	111,225
Finance costs	10	(78,138)	-
Net finance (cost)/income		(8,453)	111,225
(Loss)/profit before tax		(2,381,724)	2,213,847
Income tax credit/(expense)	11	179,161	(675,510)
(Loss)/profit for the financial year		(2,202,563)	1,538,337

The above results were derived from continuing operations.

Costain Oil, Gas & Process Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £	2018 £
(Loss)/profit for the financial year		(2,202,563)	1,538,337
Items that may be reclassified subsequently to profit or loss			
Loss on cash flow hedges (net)		-	(5,074)
Total comprehensive (expense)/income for the year		(2,202,563)	1,533,263

Costain Oil, Gas & Process Limited

(Registration number: 00786418)
Balance Sheet as at 31 December 2019

	Note	31 December 2019 £	31 December 2018 £
Fixed assets			
Intangible assets	12	331,808	544,606
Tangible assets	13	1,001,738	197,834
		1,333,546	742,440
Current assets			
Debtors	15	39,818,553	44,162,399
Cash at bank and in hand	16	10,468,445	4,373,732
		50,286,998	48,536,131
Creditors: Amounts falling due within one year			
Trade and other payables	17	(24,871,165)	(21,241,357)
Lease liabilities		(689,880)	-
Creditors: Amounts falling due within one year		(25,561,045)	(21,241,357)
Net current assets		24,725,953	27,294,774
Total assets less current liabilities		26,059,499	28,037,214
Creditors: Amounts falling due after more than one year			
Trade and other payables	17	(36,347)	(36,347)
Lease liabilities		(224,848)	-
Creditors: Amounts falling due after more than one year		(261,195)	(36,347)
Net assets		25,798,304	28,000,867
Capital and reserves			
Called up share capital	18	35,500,001	35,500,001
Share premium		1,512,393	1,512,393
Profit and loss account		(11,214,090)	(9,011,527)
Total shareholders' funds		25,798,304	28,000,867

The financial statements on pages 12 to 35 were approved by the Board of directors on 29 June 2020 and signed on its behalf by:

DocuSigned by:

M D Hunter

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M D Hunter

Director

Costain Oil, Gas & Process Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £	Share premium £	Profit and loss account £	Total £
At 1 January 2019	35,500,001	1,512,393	(9,011,527)	28,000,867
Loss for the financial year	-	-	(2,202,563)	(2,202,563)
Total comprehensive expense	-	-	(2,202,563)	(2,202,563)
At 31 December 2019	35,500,001	1,512,393	(11,214,090)	25,798,304

	Called up share capital £	Share premium £	Hedging reserve £	Profit and loss account £	Total £
At 1 January 2018	35,500,001	1,512,393	5,074	(10,549,864)	26,467,604
Profit for the financial year	-	-	-	1,538,337	1,538,337
Other comprehensive expense	-	-	(5,074)	-	(5,074)
Total comprehensive (expense)/income	-	-	(5,074)	1,538,337	1,533,263
At 31 December 2018	35,500,001	1,512,393	-	(9,011,527)	28,000,867

The notes on pages 16 to 35 form an integral part of these financial statements.

Costain Oil, Gas & Process Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The company is a private company limited by share capital, incorporated in England and Wales and domiciled in England.

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

These financial statements were authorised for issue by the Board on 29 June 2020.

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. See note 21.

Basis of preparation
These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared in accordance with the Companies Act 2006 and under the historical cost convention, as modified by revaluation of derivative financial assets and liabilities measured at fair value through OCI, and in accordance with Companies Act 2006.

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.

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 financial statements, are disclosed in note 3.

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)

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;

(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)

Going concern

The financial statements have been prepared on a going concern basis.

The ultimate parent company, Costain Group PLC, manages its United Kingdom cash balances using a centralised cash system and surplus cash held by the Company, outside of joint arrangements, is loaned at interest to a fellow subsidiary on a day-to-day basis. These loans are repaid or new loans advanced daily to satisfy any cash requirements.

As explained in note 23, subsequent to the statement of financial position date, on 7 May 2020, Costain Group PLC announced an equity raise of £100m of new ordinary shares. The net cash proceeds of the equity raise were received on 29 May 2020.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the directors are required to consider whether the company can continue in operational existence for the foreseeable future. The directors have concluded that after taking account of the enhanced financial capability of the Costain Group following the receipt of the proceeds of the equity raise and the bank and bonding facilities available to the Costain Group, and after having received an undertaking from Costain Group PLC that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the Company, it is appropriate to adopt the going concern basis in preparing these financial statements.

2 Accounting policies (continued)

New standards and changes in accounting policy
The accounting policies set out below have been applied consistently by the company to each period presented in these financial statements, except for the adoption of the new accounting standards noted below.

The following standards and interpretations are effective for the year ended 31 December 2019:

- IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The standard is mandatory for reporting periods beginning on or after 1 January 2019.

Under the new standard, an asset (the right-of-use asset) and a financial liability are recognised. The only exceptions are short term and low value leases.

The company has applied the modified retrospective approach to the transition to IFRS 16, recognising the cumulative effect at the date of initial application (1 January 2019). On transition, for leases previously accounted as operating leases with a lease term of less than 12 months and for leases of low-value assets, the company has applied the optional exemptions in the standard to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16. The company also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the company has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 and has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases. The company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

The impact of the adoption of this standard is discussed in note 21.

- IFRIC 23 - Uncertainty over Income Tax Treatments which clarifies the accounting for uncertainties in income tax.
- Prepayment Features with Negative Compensation - Amendments to IFRS 9.
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle.

The other 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.

2 Accounting policies (continued)

Revenue recognition

Recognition

The Company recognises revenue when performance obligations have been satisfied and for the Company, this is when control over the service or product is transferred to the customer. 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. 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. 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.

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 policy

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.

Research and development

Research and development activities are usually directly attributable to a project and accounted within project costs. In 2018, in line with common practice, the company has adopted the research and development expenditure credit (RDEC) regime as these credits have characteristics similar to government grants and has changed its accounting policy to offset the credit against the relevant expenditure rather than reflect them in the tax charge.

2 Accounting policies (continued)

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 cashflow 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 year comprises current and deferred tax. Tax is recognised in profit or loss, except that of 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.

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.

Tangible assets

Property, plant and equipment is stated in the balance sheet 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:

Asset class	Depreciation method and rate
Plant and equipment, fixtures and fittings	Straight Line - 10% to 50%

Intangible assets

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 rate
Patents	Straight Line - 5%
Software	Straight Line - 20% to 33%

2 Accounting policies (continued)

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.

Trade debtors

Trade debtors 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 non-current assets.

Trade debtors 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 debtors 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 debt.

The Company applies the IFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade debtors and contract assets. Please refer to 'impairment of financial assets' below.

Financial instruments

Initial recognition

Financial assets

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. Where borrowings are the hedged item in an effective fair value hedge relationship, the carrying value is adjusted to reflect the fair value movements associated with the hedged risk.

Derecognition

Financial assets

A financial asset is derecognised only when the contractual rights to the cash flows from that asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities are derecognised only when the obligations are discharged, cancelled or expire.

2 Accounting policies (continued)

Impairment of financial assets

Impairment of financial assets is based on an expected credit loss model applying the simplified approach permitted under IFRS 9. The company calculates an allowance for credit losses based on the nature of the customer, experience of collecting receivables from similar customers and modelling default scenarios and applying probabilities of such scenarios.

To measure the expected credit losses, trade debtors 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 credit risk characteristics as the trade debtors for the same types of contracts. The Group has concluded that the expected loss rates for trade debtors are a reasonable approximation of the loss rates for the contract assets.

The loss rates will be adjusted to reflect current and forward-looking information on macroeconomic factors that might affect the ability of the customers to settle the receivables.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, primarily 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.

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 statement of 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.

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits.

Trade and other payables

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are recognised initially at the fair value and subsequently measured at amortised cost using the effective interest method. Trade creditors 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.

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.

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.

IFRSs not applied

The following IFRSs and amendments having been endorsed, will be applicable from 1 January 2020:

- Definition of Material - Amendments to IAS 1 and IAS 8.

- Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the company.

Except for the above, the directors do not currently anticipate that the adoption of any other standard or interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the company in future periods.

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 policy and significant area of estimation arises from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers'. There are no significant areas of judgement.

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. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates both positive and negative is then reflected in the financial statements.

Management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year could require material adjustment. Given the pervasive impact of judgements and estimates on revenue, cost of sales and related balance sheet amounts, it is difficult to quantify the impact of taking alternative assessments on each of the judgements above.

Our contract for the upgrade of National Grid's Peterborough and Huntingdon compressor stations has experienced significant change and additional scope. This has impacted on the forecast target cost and schedule for the completion of the works. The works are likely to take to 2022 to complete.

Costs on the project have doubled due to additional scope and at this stage only a limited proportion of the £90 million reforecast outturn cost has been formally agreed. We, and the client, are working to an agreed project level escalation process that includes a requirement to demonstrate our entitlement regarding the compensation events and supported by external advice, we believe that we have strong entitlement to recovery of our costs.

4 Revenue

The whole of the revenue is attributable to the principal activity of the business.

All revenue arose within the UK.

Contract assets is made up of a portfolio of contracts and represents unbilled amounts and includes amounts arising from changes to the scope of works that have been recognised as revenue but not yet billed to the customer. There are no significant one-off factors outside of normal trading.

Contract liabilities result when cumulative cash received exceeds cumulative revenue on any particular contract.

On contracts undertaken by the company, this typically results from work being undertaken in a different order to the programme envisaged in the contractual payments schedule. Revenue recognised in 2019 from performance obligations satisfied in previous periods was immaterial.

5 Operating (loss)/profit

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

	2019 £	2018 £
Depreciation of owned property plant and equipment	81,248	84,005
Depreciation of leased property, plant and equipment	860,811	-
Amortisation of other intangible assets	254,672	261,399
Foreign exchange (gains)/losses	(117)	235
Profit on disposal of property, plant and equipment	(5,620)	-
Provision against amount owed by a group undertaking	1,552,964	-

2019 operating loss includes RDEC Grant income of £900,000 relating to the current year and £515,669 relating to the prior year.

2018 operating profit includes RDEC Grant income of £500,400 relating to 2018 and £639,886 relating to 2017.

2019 operating loss includes a provision of £1,552,964 against the amount owed by a fellow group subsidiary Costain Abu Dhabi CO WLL.

6 Auditors' remuneration

	2019 £	2018 £
Audit of the financial statements	65,706	55,360

6 Auditors' remuneration (continued)

There are no fees paid to PricewaterhouseCoopers LLP for other services other than the statutory audit of the company. The audit fee was borne by another group company.

7 Staff costs

The aggregate payroll costs, paid to a fellow subsidiary in relation to seconded staff were as follows:

	2019 £	2018 £
Wages and salaries	12,596,988	12,290,713
Social security costs	1,375,965	1,343,054
Other pension costs	2,302,624	2,267,429
	16,275,577	15,901,196

The average number of persons seconded to the company from a fellow group subsidiary during the year, analysed by category was as follows:

	2019 No.	2018 No.
Production	34	38
Administration and support	45	46
Other departments	108	107
	187	191

8 Directors' remuneration

No emoluments were paid to directors of the company during the period (2018: £Nil).

9 Finance income

	2019 £	2018 £
Interest income from group undertakings	69,685	111,225

10 Finance costs

	2019 £	2018 £
Interest expense on lease liabilities	78,138	-

11 Income tax

Tax charged/(credited) in the profit and loss account

	2019 £	2018 £
Current taxation		
UK corporation tax	(284,362)	422,330
UK corporation tax adjustment to prior periods	96,290	59,243
	(188,072)	481,573
Deferred taxation		
Arising from origination and reversal of temporary differences	11,298	22,300
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(2,387)	171,637
Total deferred taxation	8,911	193,937
Tax (credit)/expense in the profit and loss account	(179,161)	675,510

The tax on (loss)/profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £	2018 £
(Loss)/profit before tax	(2,381,724)	2,213,847
Corporation tax at standard rate	(452,528)	420,631
Increase (decrease) in current tax from adjustment for prior periods	96,290	59,243
Increase (decrease) from effect of different UK tax rates on some earnings	-	(2,624)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	299,670	26,623
Increase (decrease) in current tax from unrecognised temporary difference from a prior period	(2,387)	171,637
Deferred tax expense (credit) relating to changes in tax rates or laws	(1,329)	-
Increase (decrease) from effect of adjustment in research development tax credit	(118,877)	-
Total tax (credit)/charge	(179,161)	675,510

11 Income tax (continued)

A reduction in the UK corporation tax rate from 19% to 17%, effective from 1 April 2020, was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget, it was announced that the UK tax rate will remain at the current 19% and this was substantively enacted on 17 March 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £32,067.

Deferred tax

Deferred tax asset

The elements of the deferred taxation asset at 17.0% (2018: 19.0%) are as follows:

	2019 £	2018 £
Accelerated tax depreciation	272,565	281,476
Other timing differences	-	-
	272,565	281,476

The movement in the deferred taxation was as follows:

	2018 £	2018 £
Asset at the beginning of the year	281,476	474,223
Amount charged to the profit and loss account	(11,298)	(22,300)
Adjustment in respect of prior year	2,387	(171,637)
Amount credited to reserves	-	1,190
Asset as end of year	272,565	281,476

12 Intangible assets

	Patents £	Computer software £	Total £
Cost			
At 1 January 2019	371,077	1,235,535	1,606,612
Additions	41,874	-	41,874
At 31 December 2019	412,951	1,235,535	1,648,486
Amortisation			
At 1 January 2019	85,002	977,004	1,062,006
Charge for the year	19,670	235,002	254,672
At 31 December 2019	104,672	1,212,006	1,316,678
Carrying amount			
At 31 December 2019	308,279	23,529	331,808
At 31 December 2018	286,075	258,531	544,606

13 Tangible assets

	Owned plant and machinery £	Right-of-use plant and machinery £	Total £
Cost			
At 1 January 2019	553,556	-	553,556
Adjustment on transition to IFRS 16	-	1,841,753	1,841,753
At 1 January 2019 as restated	553,556	1,841,753	2,395,309
Additions	-	224,955	224,955
Disposals	-	(562,131)	(562,131)
At 31 December 2019	553,556	1,504,577	2,058,133
Depreciation			
At 1 January 2019	355,722	-	355,722
Charge for the year	81,248	860,811	942,059
Eliminated on disposals	-	(241,386)	(241,386)
At 31 December 2019	436,970	619,425	1,056,395
Carrying amount			
At 31 December 2019	116,586	885,152	1,001,738
At 31 December 2018	197,834	-	197,834

14 Investments

Subsidiaries	**£**
Cost	
At 1 January 2018	8,512,393
At 31 December 2018	8,512,393
At 1 January 2019	8,512,393
At 31 December 2019	8,512,393
Provision for impairment	
At 1 January 2018	8,512,393
At 31 December 2018	8,512,393
At 1 January 2019	8,512,393
At 31 December 2019	8,512,393
Carrying amount	
At 31 December 2019	-
At 31 December 2018	-
At 1 January 2018	-

Details of the subsidiaries as at 31 December 2019 and 31 December 2018 are as follows.

Name of subsidiary	**Principal activity**	**Registered office**	**Holding**	**Proportion of ownership interest and voting rights held 2019**	**2018**
Costain Oil, Gas & Process (Overseas) Limited	Dormant	Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB UK	Ordinary shares	100%	100%

15 Debtors

	31 December 2019 £	31 December 2018 £
Trade debtors	3,378,076	5,947,684
Amounts owed by group undertakings	20,237,221	31,697,117
Contract assets	12,374,028	4,377,086
Other debtors	2,534,499	1,250,286
Prepayments	682,267	608,750
Income tax receivable	55,535	-
Group relief receivable	284,362	-
Deferred tax assets	272,565	281,476
	39,818,553	44,162,399

Amounts receivable from other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 0%-0.5%.

Due to the short-term nature of the current debtors, their carrying amount is considered to be the same as their fair value.

16 Cash and cash equivalents

	31 December 2019 £	31 December 2018 £
Cash at bank	10,468,445	4,373,732

The company's bankers have the right to set off the company's principal bank balances when in credit against borrowings by, a fellow subsidiary, Richard Costain Limited. In addition one of these arrangements requires that all cash balances are transferred to 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 from Richard Costain Limited.

The sweeping of the company's cash balance is used to offset the company's inter-company payable to Richard Costain Limited of £377,780 at 31 December 2019 (2018: receivable from Richard Costain Limited £10,119,380).

17 Trade and other payables

Current

	31 December 2019 £	31 December 2018 £
Trade creditors	19,990,986	16,719,500
Accrued expenses	1,959,795	1,203,320
Amounts owed to group undertakings	2,694,657	2,136,763
Group relief payable	-	481,573
Other creditors	225,727	700,201
	24,871,165	21,241,357

Amounts payable to other group undertakings is unsecured, repayable on demand and do not accrue interest.

18 Called up share capital

Allotted, called up and fully paid shares

	31 December 2019 No.	31 December 2019 £	31 December 2018 No.	31 December 2018 £
Ordinary shares of £0.01 each	3,550,000,100	35,500,001.00	3,550,000,100	35,500,001.00

19 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.

20 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 2019 these liabilities amounted to £116.0 million (2018: £69.8 million).

These include contingent liabilities in respect of guarantees of performance bonds and other undertakings entered into in the ordinary course of business by fellow Group undertakings.

21 Impact of adoption of new accounting standards and changes to accounting policy

IFRS 16 'Leases' - impact of adoption

The company has adopted IFRS 16 'Leases' using the modified retrospective approach as described in the standard.

The company does not have any non-cancellable operating leases and thus no total operating lease commitments were recognised and reported under IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease' in the Annual Report and financial Statements at 31 December 2018.

Lease liabilities

On adoption of IFRS 16, the company recognised liabilities in relation to leases and short-term cancellable leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the company's lease assets was 3.2%.

Right-of-use assets

The associated right-of-use assets were measured at amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position as at 31 December 2018.

The recognised right-of-use assets are included in note 13.

Adjustment to balance sheet items

The change in accounting policy increased tangible fixed assets at 1 January 2019 (right-of-use assets) as above by £1,841,753 and increased liabilities by a matching credit (current liabilities: £379,893 and non-current liabilities £1,461,860).

22 Parent and ultimate parent undertaking

The company's immediate parent is Costain Engineering & Construction 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.

23 Non adjusting events after the financial period

On 7 May 2020, the Company's ultimate parent, Costain Group PLC, announced an equity capital raise of £100m of new ordinary shares subject to approval by shareholders at an extraordinary general meeting on 27 May 2020. The capital raise was approved, and the proceeds less related costs were received on 29 May 2020.

On 27 June 2020, following detailed discussions between Costain and National Grid, both parties have mutually agreed to exit the contract for the upgrade of National Grid's Peterborough and Huntingdon compressor stations ("the Contract") and release Costain from its contractual obligations to complete the works.

As previously disclosed, the Contract had experienced significant change and additional scope, which had impacted on the forecast target cost and schedule for the completion of the works. The termination agreement entered into by Costain and National Grid includes an agreed scope of work to be completed after termination and the commercial matters to be resolved through a continuing commercial resolution process. As part of the agreement, Costain will now start to fully demobilise all of its remaining activity relating to the Contract. The demobilisation is expected to be complete by 31 August 2020.