

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**

**REGISTERED NUMBER 2440829**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2001**

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
GATWICK



**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**REPORT OF THE DIRECTORS**  
**For the year ended 31 December 2001**

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**BUSINESS REVIEW**

The company is an investment company and a holding company for Costain Group's engineering and construction operations.

The results for the year are set out in the Profit and Loss Account on page 5.

**DIRECTORS AND SHARE INTERESTS**

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

		At 01.01.01	At 31.12.01
S Doughty*†	(appointed 01.07.01)		
P R Adams		-	-
J D Bevan	a	528	528
R K J Bruce	a	289	289
A J Handford	a	374	374
J A Armitt*	(resigned 30.06.01)		
M W Roberts*	(resigned 31.12.01)		

a - Costain Group PLC ordinary shares of 10p each.

\* - The interests of these directors in the shares of Costain Group PLC are disclosed in the accounts of that company.

† - At subsequent date of appointment

**EMPLOYMENT OF DISABLED PERSONS**

It is the company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue wherever possible the employment of and to arrange appropriate training for those who become disabled and to provide equal opportunities for the training and career development of disabled employees.

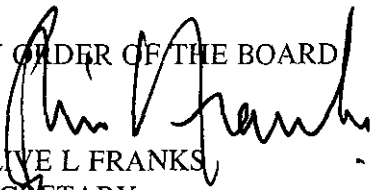
**EMPLOYEE INVOLVEMENT**

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 a house newspaper, information via our electronic mail system, circulation of press releases, management briefings on company results, a report to employees on the annual accounts of the Group and annual pension scheme reports. Participation and involvement are encouraged through regular management meetings with employees.

**CREDITOR PAYMENT POLICY AND PRACTICE**

As a result of the nature of the company's businesses, the contractual relationships with suppliers of goods and services and with subcontractors vary according to circumstances. It is the company's policy to enter into any 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. There are no trade creditors shown in the balance sheet at the end of the financial year, (2000: none).

BY ORDER OF THE BOARD

  
CLIVE L FRANKS  
SECRETARY

26 March 2002

**REGISTERED OFFICE**

Costain House, Nicholsons Walk,  
Maidenhead, Berkshire SL6 1LN

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF**  
**FINANCIAL STATEMENTS**

**For the year ended 31 December 2001**

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Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the applicable 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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.

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**INDEPENDENT AUDITORS REPORT TO THE MEMBERS**  
**For the year ended 31 December 2001**

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We have audited the financial statements on pages 5 to 16.

**Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

**Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs as at 31 December 2001 and of its profit 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  
GATWICK

*26 March 2002*  
.....  
Date

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
For the year ended 31 December 2001

	Notes	2001	2000
		£000's	£000's
Turnover	1	3,544	3,915
Cost of sales		(4,391)	(4,841)
		<hr/>	<hr/>
<b>Gross loss</b>		(847)	(926)
Income from shares in participating interests		248	325
		<hr/>	<hr/>
<b>Operating loss</b>		(599)	(601)
Interest receivable			
- on amounts due from fellow subsidiary undertakings		-	202
- external		135	137
		<hr/>	<hr/>
Other finance income	5	135 4,490	339 4,198
		<hr/>	<hr/>
Interest payable		4,026	3,969
- on amounts due to fellow subsidiary undertakings		(1,851)	-
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	2	2,175	3,936
Taxation	6	(1,256)	(1,474)
		<hr/>	<hr/>
<b>Profit for the financial year</b>	15	919	2,462
		<hr/>	<hr/>

All operating losses are attributable to continuing operations.

THE NOTES ON PAGES 8 TO 16 FORM PART OF THESE FINANCIAL STATEMENTS

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**BALANCE SHEET**  
**As at 31 December 2001**

	Notes	2001	2000
		£000's	£000's
<b>Fixed assets</b>			
Investments	7	103,774	103,790
		<hr/>	<hr/>
<b>Current assets</b>			
Debtors	8	26,120	26,637
		<hr/>	<hr/>
<b>Creditors: amounts falling due within one year</b>			
Bank loans and overdrafts	9	(2)	(15,257)
Other creditors	10	(101,528)	(86,662)
		<hr/>	<hr/>
		(101,530)	(101,919)
		<hr/>	<hr/>
<b>Net current liabilities</b>		(75,410)	(75,282)
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		28,364	28,508
		<hr/>	<hr/>
<b>Provision for liabilities and charges</b>	11	(2,696)	(1,215)
		<hr/>	<hr/>
<b>Net assets excluding pension asset</b>		25,668	27,293
		<hr/>	<hr/>
Pension asset	12	9,421	34,579
		<hr/>	<hr/>
<b>Net assets including pension asset</b>		35,089	61,872
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	13	41,204	41,204
Share premium account	14	19,804	19,804
Other reserves	14	12,425	12,425
Profit and loss account	14	(38,344)	(11,561)
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	15	35,089	61,872
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors on 26 March 2002 and were signed on its behalf by:

.....Director  
S J Doughty

THE NOTES ON PAGES 8 TO 16 FORM PART OF THESE FINANCIAL STATEMENTS

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**As at 31 December 2001**

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	2001	2000
	£000's	£000's
Profit for the financial year	919	2,462
Actuarial loss recognised in the pension scheme	(39,551)	(10,703)
Deferred tax arising thereon	11,849	3,211
Total recognised losses relating to the year	<u>(26,783)</u>	<u>(5,030)</u>

Historical cost profit is not materially different from reported profit.



1. Accounting policies

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

**BASIS OF ACCOUNTING**

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards 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 from preparing group accounts (under section 228 of the Companies Act 1985) as it is included in the consolidated accounts of its ultimate parent company.

**CASH FLOW STATEMENT**

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent company includes the company in its own published consolidated financial statements.

**TURNOVER**

Turnover represents the amounts (excluding value added tax) receivable for rental income and services provided.

**INTEREST PAYABLE**

Interest is normally written off to the profit and loss account as it is incurred.

**FOREIGN CURRENCY TRANSACTIONS**

Exchange differences on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities.

**LEASED ASSETS**

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

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS continued**  
**For the year ended 31 December 2001**

**1. Accounting policies - continued**

**PENSIONS**

The Company operates a pension scheme providing benefits based on final pensionable salary for employees of Costain Group PLC and its subsidiaries. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The increase in the present value of the liabilities of the Costain Group defined benefit pension scheme expected to arise from employee service in the period is charged to the operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the schemes liabilities arising from the passage of time are included in the other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

**2. Profit on ordinary activities before taxation**

	2001	2000
	£000's	£000's
Profit on ordinary activities is stated after charging		
Car leasing costs	2,674	2,755
Staff costs (note 3)	264	284

The auditor's remuneration was borne by another group company.

**3. Staff costs**

	2001	2000
	£000's	£000's
Wages and salaries	41,058	36,768
Social security costs	3,448	3,156
Pension costs	4,413	4,039
Total payroll costs	<u>48,919</u>	<u>43,963</u>
Less staff costs charged to fellow subsidiary undertakings in respect of seconded staff	(48,655)	(43,679)
	<u>264</u>	<u>284</u>

The average number of persons employed by the company during the year in the United Kingdom was 1,239 (Administrative: 287 Operational: 952) (2000: 1,165).

The average number of these staff seconded to fellow subsidiary companies during the year was 1,239 (2000: 1,165).

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS continued**  
For the year ended 31 December 2001

**4. Remuneration of directors**

No emoluments were paid to the directors of the company during the year (2000: £nil)

**5. Other finance income**

	2001 £000's	2000 £000's
Expected return on pension scheme assets	22,616	22,587
Interest on pension scheme liabilities	(18,126)	(18,389)
	<hr/>	<hr/>
Net return	4,490	4,198
	<hr/>	<hr/>

**6. Taxation**

	2001 £000's	2000 £000's
UK corporation tax at 30% (2000: 30%)	189	469
UK deferred tax	1,067	1,005
	<hr/>	<hr/>
	1,256	1,474
	<hr/>	<hr/>

**7. Investments**

	Subsidiary undertakings	Other investments	Investments in joint ventures	Loans to joint ventures	Other loans	Total
	£000's	£000's	£000's	£000's	£000's	£000's
<b>Cost</b>						
At 1 January 2001	137,376	350	50	1,947	1,049	140,772
Additions	-	-	-	384	-	384
Disposals	-	-	-	-	(16)	(16)
At 31 December 2001	<hr/> 137,376	<hr/> 350	<hr/> 50	<hr/> 2,331	<hr/> 1,033	<hr/> 141,140
<b>Provisions</b>						
At 1 January 2001	36,340	300	-	342	-	36,982
Provided in year	-	-	-	384	-	384
At 31 December 2001	<hr/> 36,340	<hr/> 300	<hr/> -	<hr/> 726	<hr/> -	<hr/> 37,366
<b>Net Book Value</b>						
At 31 December 2001	<hr/> 101,036	<hr/> 50	<hr/> 50	<hr/> 1,605	<hr/> 1,033	<hr/> 103,774
At 31 December 2000	<hr/> 101,036	<hr/> 50	<hr/> 50	<hr/> 1,605	<hr/> 1,049	<hr/> 103,790

Details of subsidiary undertakings and joint ventures are shown in note 20.

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS continued**  
For the year ended 31 December 2001

**8. Debtors**

	2001 £000's	2000 £000's
Amounts falling due within one year:		
Amounts owing by parent and fellow subsidiary undertakings	25,044	25,313
Trade debtors	-	42
Other debtors	1,076	999
Prepayments	-	283
	<u>26,120</u>	<u>26,637</u>

**9. Cash at bank**

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

**10. Creditors: amounts falling due within one year**

	2001 £000's	2000 £000's
Bank overdraft	2	-
Amounts owing to parent and fellow subsidiary undertakings	96,609	83,062
Social security	2,333	1,070
Taxation	189	469
Other creditors	2,378	1,339
Accruals and deferred income	17	722
	<u>101,528</u>	<u>86,662</u>

**11. Provision for liabilities and charges**

	At beginning of year £000's	Provided £000's	Utilised £000's	At end of year £000's
Other provisions	1,215	1,500	(19)	2,696
	<u>1,215</u>	<u>1,500</u>	<u>(19)</u>	<u>2,696</u>

Other provisions relate to litigation provisions and costs of vacant property. The provisions are expected to be utilised over the next two years.

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES ON THE ACCOUNTS continued**  
**For the year ended 31 December 2001**

**12. Pensions**

The company operates a number of pension schemes principally of the defined benefit type in the United Kingdom, under which contributions are paid by the company and its employees. The pension cost charge of these schemes amounted to £4.4m (2000: £4.0m).

A full actuarial valuation of the United Kingdom scheme was carried out at 31 March 2001 and was updated to 31 December 2001 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	31.12.2001	31.12.2000	31.12.1999
Rate of increase in pensionable salaries	4.0%	4.0%	4.4%
Rate of increase in pensions in payment	2.5%	2.5%	2.9%
Discount rate	6.0%	5.9%	6.2%
Inflation assumption	2.5%	2.5%	2.9%

The assets in the scheme and the expected rate of return (net of administrative expenses) were:

	31.12.2001	31.12.2001	31.12.2000	31.12.2000	31.12.1999	31.12.1999
		£000's		£000's		£000's
Equities	7.2%	206,424	7.4%	231,568	7.2%	240,189
Bonds	4.9%	123,776	4.6%	128,671	4.9%	117,225
Total market value of assets		<u>330,200</u>		<u>360,239</u>		<u>357,414</u>
Actuarial value of liability		<u>(316,741)</u>		<u>(310,840)</u>		<u>(300,661)</u>
Surplus in the scheme		<u>13,459</u>		<u>49,399</u>		<u>56,753</u>
Related deferred tax liability		<u>(4,038)</u>		<u>(14,820)</u>		<u>(17,026)</u>
Net pension asset		<u>9,421</u>		<u>34,579</u>		<u>39,727</u>

**Movement in surplus during the year**

	2001	2000	1999
	£000's	£000's	£000's
Surplus in scheme at beginning of year	49,399	56,753	21,180
Movement in year (current service cost)	(4,413)	(4,039)	(4,102)
Contributions	3,479	3,190	3,113
Net return on assets/ (interest cost)	4,490	4,198	3,166
Actuarial (loss)/gain	(39,496)	(10,703)	33,396
Surplus in scheme at end of year	<u>13,459</u>	<u>49,399</u>	<u>56,753</u>

The estimated actuarial valuation at 31 December 2000 showed a surplus of £49.4 million. The full actuarial valuation as at 31 March 2001 stated that the employer contribution rate could remain at 9.6% of pensionable salaries until the completion of the next full actuarial valuation to be carried out as at 31 March 2003, subject to actuarial review during this period. Employer contributions were paid at this rate in 2001.

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES ON THE ACCOUNTS continued**  
For the year ended 31 December 2001

**13. Share capital**

	2001 and 2000	
	Authorised	Issued and fully paid
	£000's	£000's
Ordinary shares of £1 each	50,000	41,204

**14. Reserves**

	Share premium Account £000's	Other reserves £000's	Profit and loss account £000's
At 1 January 2001	19,804	12,425	(11,561)
Profit for the year	-	-	919
Actuarial loss recognised	-	-	(39,551)
Deferred tax	-	-	11,849
At 31 December 2001	19,804	12,425	(38,344)

**15. Reconciliation of movement in shareholders' funds**

	2001 £000's	2000 £000's
Opening shareholders' funds	61,872	66,902
Profit for the financial year	919	2,462
Other recognised gains and losses	(27,702)	(7,492)
Closing shareholders' funds	35,089	61,872

**16. Other financial commitments**

Annual commitments under non-cancellable operating leases comprise:

	Land and buildings		Other	
	2001 £000's	2000 £000's	2001 £000's	2000 £000's
Leases expiring				
- within one year	-	-	821	457
- between one and two years	-	-	858	754
- between two and five years	381	53	748	584
- after five years	2,424	2,721	39	38
	2,805	2,774	2,466	1,833

**17. Contingent liabilities**

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for loans and overdraft facilities made available to the group and certain joint ventures. At 31<sup>st</sup> December 2001 these liabilities amounted to £0.2m (2000:£4.6m) 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.

**18. Related parties transactions**

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

**19. Ultimate parent company**

The largest and the smallest group of undertakings for which group accounts are drawn up is that of the ultimate parent undertaking, Costain Group PLC. A company registered in England and Wales.

Copies of the group accounts of Costain Group PLC may be obtained from the registered office of the company, Costain House, Nicholsons Walk, Maidenhead, Berks. SL6 1LN.

**20. Investments in subsidiary undertakings and participating interests**

Subsidiary undertakings	Percentage of equity capital held by		Nature of business	Country of incorporation
	The company	Subsidiary undertakings		
CLM Engineering Ltd	100		Marine Contracting	
CLM Eng (Overseas) Ltd	100		Marine Contracting	
Costain Abu Dhabi Co WLL		49*	Process Contracting	UAE
Costain (Africa) Ltd		100	Construction	Zimbabwe
Costain Building Products Ltd	100		Concrete Production	
Costain Building & Civil Engineering Ltd	100		Construction & Civil Eng.	
Costain Ltd		100	Construction & Civil Eng.	
Costain Construction Ltd		100	Construction	
Costain Construction (Botswana) Pty Ltd		100	Construction	Botswana
Costain de Venezuela C.A.		100	Dormant	Venezuela
Costain Dubai LLC		49*	Construction	UAE
Costain Engineering Ltd		100	Dormant	
Costain Engineering & Construction (Overseas) Ltd	100		Holding Company	
Costain Environmental Services Ltd	100		Process Contracting	
Costain Interiors Ltd		100	Dormant	

**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES ON THE ACCOUNTS continued**  
**For the year ended 31 December 2001**

**20. Investments in subsidiary undertakings and participating interests - continued**

Subsidiary undertakings	Percentage of equity capital held by		Nature of business	Country of incorporation
	The company	Subsidiary undertakings		
Costain Holdings (Botswana) Pty Ltd		100	Holding Co.	Botswana
Costain Holdings (Malaysia) Sdn Bhd		100	Holding Co.	Malaysia
Costain Holdings Zimbabwe (Pvt) Ltd		100	Holding Co.	Zimbabwe
Costain Housing Zimbabwe (Pvt) Ltd		100	Construction	Zimbabwe
Costain International Ltd		100	Construction	
Costain (Malaysia) Sdn Bhd		100	Construction	Malaysia
Costain Management Design Ltd		100	Dormant	
Costain Mining Zimbabwe (Pvt) Ltd		100	Dormant	Zimbabwe
Costain Oil, Gas & Process (Nigeria) Ltd		75	Process Contracting	Nigeria
Costain Oil, Gas & Process (Overseas) Ltd		100	Process Contracting	
Costain Oil, Gas & Process (Malaysia) Sdn Bhd		100	Process Contracting	Malaysia
Costain, Oil, Gas & Process Ltd	100		Process Contracting	
Costain Polska sp. zo.o		100	Construction	Poland
Costain Process Construction Ltd	100		Engineering	
Costain Properties Zimbabwe (Pvt) Ltd		100	Dormant	Zimbabwe
Costain Zimbabwe (Pvt) Ltd		100	Construction & Civil Engineering	Zimbabwe
Land & Marine Eng (India) Ltd		100	Dormant	India
LME Petroscope Ltd		100	Marine Contracting	
National Road Operators Ltd	100		Civil Engineering	
The E J Cook SCD Partnership Ltd	100		Dormant	
Westminster Land & Marine Pipelines Ltd		100	Dormant	Canada
Westminster Plant Co Ltd		100	Plant Hire	
Yahya Costain LLC		49*	Construction	Oman



**COSTAIN ENGINEERING & CONSTRUCTION LIMITED**  
**NOTES ON THE ACCOUNTS continued**  
**For the year ended 31 December 2001**

**20. Investments in subsidiary undertakings and joint ventures - continued**

	Issued share capital (£m)	Percentage of equity held	Nature of business	Country of incorporation
<b>Joint ventures</b>				
Budimex & Costain SP z.oo	-	50(a)	Construction	Poland
Hopewell Costain Ltd	0.4	50(a)	Dormant	Hong Kong
HpC King's College Hospital (Holdings) Ltd	0.2	33.3	Construction and operation of hospital	
Jalal Costain WLL	0.1	49(a)	Construction	Bahrain
Nesma-Costain Process Company Ltd	1.0	50(a)	Process Contracting	Saudi Arabia
Samols Rowson Ltd	0.3	50	Investment Company	
Stratus Integrated Services Ltd	-	25(a)	Controller of operation of Meteorological Office	

\* Treated as a subsidiary due to dominant influence.

(a) Investments held by subsidiary companies

All holdings are ordinary shares.

All companies are incorporated in Great Britain and registered in England except where stated.