

COSTAIN ENGINEERING & CONSTRUCTION LIMITED

REGISTERED NUMBER 2440829

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON



BUSINESS REVIEW

The company is a holding company and is the main employer for the Costain Group PLC in the United Kingdom. It operates a defined benefit and a separate defined contribution pension scheme. Revenue for the year was £103.1 million (2005: £83.8 million). As a result of developments during the year on certain contracts undertaken by its subsidiaries, the Company was required to take substantial write-downs against the value of its investments and make provisions in respect of future funding obligations that the company would be required to meet. Accordingly, the company recorded a loss of £26.1 million (2005: £78.5 million profit). The pension liability of the defined benefit scheme reduced by £21.4 million, reflecting market conditions at the balance sheet date. The overall shareholders' funds position has decreased to £17.1 million (2005: £25.1 million).

The principal risks, which could affect the operations and consequently the results of the company directly or impact the value of its investments, are

- **Pension scheme** – The company has a deficit on its defined benefit pension scheme. The amount of the deficit remains volatile and therefore there is a degree of uncertainty about future funding needs. The company has agreed with the Trustee of the Costain Pension Scheme an arrangement whereby the deficit is reduced over a period of years.
- **People** – A flexible, highly skilled and well-motivated work force is essential to meeting the company's business objectives.
- **Health and Safety** – Safety is the number one priority within the company. It is a responsibility both of the company and individual employees to ensure that the company and its subsidiaries' operations are managed in a safe and healthy manner.
- **Competition** – The markets in which the company's investments operate are highly competitive. They win work in these competitive markets by being customer focused and innovative.
- **Market and economic factors** – The company is dependent on a macro economic environment that encourages both private and public sector infrastructure investment.
- **Contract risk** – The company's investments are exposed to financial, brand and reputational risk if it fails to complete contracts on time or within the contract price or fails to comply with the contract specification.
- **Contract disputes** – The company's investments take a prudent view on valuing formal disputes on contracts. This will reduce the potential risk of over-valuation.
- **Supply chain** – The company's investments are reliant on their supply chains and if a sub-contractor or supplier failed financially or was responsible for late or inadequate delivery or poor quality of work on a project then it could impact the company.
- **Insurance** – The company believes it has robust, comprehensive and adequate insurance cover but it recognises that a claim could be made against the company, which exceeds the limits of insurance cover or is in respect of a matter that is uninsurable.
- **Environment** – The company recognises that the activities of its investments could potentially have a significant influence upon the quality and diversity of the environment and that a breach of its environmental obligations could be damaging to the company.

The company considers the following Key Performance Indicators are the most effective measures of progress toward achieving its objectives: Profit before tax, Cash flow from operating activities and the Assets and Liabilities of the defined benefit pension scheme.

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2006

DIRECTORS AND SHARE INTERESTS

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

		At 01 01 06	At 31 12 06
A Wyllie *			
A O Bickerstaff (appointed 05 06 06)*			
A J Handford	a	9,824	9,824
	b	5,639	5,639
	c	140,298	140,298
	d	140,425	140,425
	e	-	186,916
C J McCole (resigned 04 06 06)*			

- * - The interests of these directors in the shares of Costain Group PLC are disclosed in the accounts of that company
- a - Costain Group PLC ordinary shares of 5p each
- b - Options granted on 21 October 2004 to acquire Costain Group PLC ordinary shares under the 2004 Save As You Earn Share Option Scheme
- c - Options granted on 21 April 2004 to acquire Costain Group PLC ordinary shares under the 2004 Long Term Incentive Plan
- d - Options granted on 26 April 2005 to acquire Costain Group PLC ordinary shares under the 2005 Long Term Incentive Plan
- e - Options granted on 21 April 2006 to acquire Costain Group PLC ordinary shares under the 2006 Long Term Incentive Plan

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 an in-house magazine, information via our electronic mail system (including the monthly CEO Update), 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.

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 (2005: none).

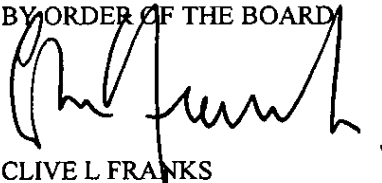
DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

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

BY ORDER OF THE BOARD



CLIVE L FRANKS
SECRETARY
25 April 2007

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

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND
THE FINANCIAL STATEMENTS
For the year ended 31 December 2006

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

company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COSTAIN ENGINEERING & CONSTRUCTION LIMITED

For the year ended 31 December 2006

We have audited the financial statements of Costain Engineering & Construction Limited for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

25 April 2007

Date

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	1	103,130	83,837
Cost of sales		(96,698)	(79,286)
Gross profit		6,432	4,551
Income from shares in participating interests		603	75,139
Operating profit		7,035	79,690
Profit on sale of investments	5	2,832	2,717
Interest receivable - external		506	489
Other finance income/(charges)	6	500	(2,812)
Interest payable - on amounts due to fellow subsidiary undertakings		(588)	(678)
Provisions against investments	8	(34,447)	-
(Loss)/profit on ordinary activities before taxation	2	(24,162)	79,406
Taxation	7	(1,964)	(954)
(Loss)/profit for the financial year	16	(26,126)	78,452

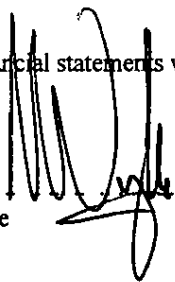
All operating profits and losses are attributable to continuing operations

THE NOTES ON PAGES 9 TO 19 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
BALANCE SHEET
As at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Investments	8	61,037	92,307
Current assets			
Debtors	9	59,436	106,575
Creditors: amounts falling due within one year	11	(55,023)	(104,008)
Net current assets		4,413	2,567
Total assets less current liabilities		65,450	94,874
Provisions for liabilities and charges	12	(800)	(860)
Net assets excluding pension liability		64,650	94,014
Pension liability	13	(47,534)	(68,954)
Net assets including pension liability		17,116	25,060
Capital and reserves			
Called up share capital	14	41,204	41,204
Share premium account	15	19,804	19,804
Other reserves	15	12,425	12,425
Profit and loss account	15	(56,317)	(48,373)
Equity shareholders' funds	16	17,116	25,060

The financial statements were approved by the Board of Directors on 25 April 2007 and were signed on its behalf by

 Director
A Wyllie

THE NOTES ON PAGES 9 TO 19 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2006

	2006	2005
	£000	£000
(Loss)/profit for the financial year	(26,126)	78,452
Actuarial gain recognised in the pension scheme	25,974	387
Deferred tax arising thereon	<u>(7,792)</u>	<u>(117)</u>
Total recognised (loss)/gain in the year	<u>(7,944)</u>	<u>78,722</u>

Historical cost profit is not materially different from the reported (loss)/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 except that turnover now includes amounts charged in respect of staff seconded to fellow subsidiary companies, previously the recoveries were included in cost of sales. The 2005 comparative figures have been revised to reflect this change, which has no impact on operating profit.

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 financial statements (under section 228 of the Companies Act 1985) as it is included in the consolidated financial statements 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.

TAXATION

Deferred taxation has been recognised a liability or an asset, except as otherwise required by FRS19 'Deferred Tax', if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

INTEREST PAYABLE

Interest is 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.

1. Accounting policies - continued

PENSIONS

The company operates a pension scheme providing benefits based on 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 charges/income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

2. (Loss)/profit on ordinary activities before taxation

	2006 £000	2005 £000
(Loss)/profit on ordinary activities is stated after charging		
Car leasing costs	2,760	3,181
Staff costs (Note 3)	99,288	72,892
Fees for the audit of the company	30	15

Fees paid to KPMG Audit Plc for services other than the statutory audit of the company are not disclosed in Costain Engineering & Construction Ltd's accounts since the consolidated accounts of Costain Engineering & Construction Ltd's ultimate parent, Costain Group PLC, are required to disclose non-audit fees on a consolidated basis.

3. Staff costs

	2006 £000	2005 £000
Wages and salaries	84,155	62,269
Social security costs	7,610	5,693
Pension costs	7,523	4,930
Total payroll costs	99,288	72,892

The average number of persons employed by the company during the year in the United Kingdom was 2,020 (2005 1,553). All staff were seconded to fellow subsidiaries and their costs charged.

4. Remuneration of directors

No remuneration was paid to the directors of the company during the year (2005 £Nil).

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

5. Profit on sale of investments

The Group sold half of its interest in HpC King's College Hospital (Holdings) Ltd for a consideration of £3 575m in 2005 and the remainder for a consideration of £3 574m in 2006. The profit on disposal after incidental costs of sale was £2 832m (2005 £2 717m)

6. Other finance income/(charges)

	2006 £000	2005 £000
Expected return on pension scheme assets	24,131	21,080
Interest on pension scheme liabilities	(23,631)	(23,892)
	<hr/>	<hr/>
Net income/(charge)	500	(2,812)
	<hr/>	<hr/>

7. Taxation

	2006 £000	2005 £000
On (loss)/profit for the year		
UK corporation tax at 30%	-	(127)
Group relief payable for capital losses	(823)	(810)
Adjustment for prior years	247	-
	<hr/>	<hr/>
Total current tax	(576)	(937)
Deferred taxation	(1,388)	(17)
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities	(1,964)	(954)
	<hr/>	<hr/>
Tax reconciliation	2006 £000	2005 £000
(Loss)/profit on ordinary activities before taxation	(24,162)	79,406
	<hr/>	<hr/>
Tax at 30%	7,249	(23,822)
Group income	181	22,542
Sundry disallowed expenditure	(43)	(84)
Pension timing differences	1,388	17
Other timing differences	43	410
Provisions against investment in subsidiaries	(10,484)	-
Group relief free of charge	843	-
Adjustments for prior years	247	-
	<hr/>	<hr/>
Total current tax	(576)	(937)
	<hr/>	<hr/>
The elements of deferred taxation are as follows		
Deferred tax asset on pension liability	20,371	29,551
	<hr/>	<hr/>

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

7. Taxation - continued

The movements in the deferred taxation balance were as follows

	2006 £000	2005 £000
Deferred taxation asset at the beginning of the year	29,551	29,685
Amount charged to profit and loss account	(1,388)	(17)
Amount credited to the statement of recognised gains and losses		
Actuarial gains on defined benefit schemes	(7,792)	(117)
Deferred taxation asset at the end of the year	20,371	29,551

The company has other deferred taxation assets that have not been recognised on the basis that the future economic benefit was not assured as at the balance sheet date. Tax relief will be obtained if suitable profits arise in future accounting periods.

The full potential deferred taxation assets not recognised at 30% were

	2006 £000	2005 £000
Other timing differences	870	913
Surplus ACT	1,000	1,000
Capital losses	71	71

8. Investments

	Subsidiary undertakings	Other investments	Investments in joint ventures	Loans to joint ventures	Other loans	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 January 2006	137,376	76	377	1,570	1,832	141,231
Additions	-	-	109	3,930	-	4,039
Disposals	-	(25)	-	(6)	(915)	(946)
At 31 December 2006	137,376	51	486	5,494	917	144,324
Provisions						
At 1 January 2006	48,840	-	-	-	84	48,924
Additions	34,447	-	-	-	-	34,447
Released in year	-	-	-	-	(84)	(84)
At 31 December 2006	83,287	-	-	-	-	83,287
Net Book Value						
At 31 December 2006	54,089	51	486	5,494	917	61,037
At 31 December 2005	88,536	76	377	1,570	1,748	92,307

Details of subsidiary undertakings and joint ventures are shown in Note 21

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

9. Debtors

	2006 £000	2005 £000
Amounts falling due within one year		
Amounts owing by parent and fellow subsidiary undertakings	57,412	101,500
Other debtors	2,024	5,075
	<u>59,436</u>	<u>106,575</u>

10. 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

11. Creditors: amounts falling due within one year

	2006 £000	2005 £000
Amounts owing to parent and fellow subsidiary undertakings	43,920	92,676
Social security	2,801	2,322
Taxation	823	937
Other creditors	4,607	8,023
Accruals and deferred income	2,872	50
	<u>55,023</u>	<u>104,008</u>

12. Provision for liabilities and charges

	At beginning of year £000	Provided £000	Released £000	At end of year £000
Other provisions	860	-	(60)	800
	<u>860</u>	<u>-</u>	<u>(60)</u>	<u>800</u>

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

13. Pensions

The company operates a defined benefit pension scheme in the United Kingdom under which contributions are paid by the company and employees. The defined benefit scheme was closed to new members on 1 June 2005. From 1 April 2006, future benefits will be calculated on a Career Average Revalued Earnings basis.

A full actuarial valuation of the scheme was carried out at 31 March 2005 and was updated to 31 December 2006 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms)

	31 12 2006	31 12 2005	31 12 2004
Rate of increase in pensionable salaries	3.0%	2.8%	2.8%
Rate of increase in pensions in payment	3.0%	2.8%	2.8%
Rate of increase in pensions in deferment	3.0%	2.8%	2.8%
Discount rate	5.1%	4.8%	5.4%
Inflation assumption	3.0%	2.8%	2.8%
Expected return on plan assets	6.1%	6.1%	6.1%

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were

	31 12 2006	31 12 2006	31 12 2005	31 12 2005	31 12 2004	31 12 2004
		£m		£m		£m
Equities	7.1%	293.3	6.8%	272.8	7.1%	230.1
Bonds	4.1%	148.2	4.4%	130.5	4.2%	118.9
Total market value of assets		441.5		403.3		349.0
Actuarial value of liability		(509.4)		(501.8)		(447.9)
Deficit in the scheme		(67.9)		(98.5)		(98.9)
Related deferred tax asset		20.4		29.5		29.7
Net pension liability		(47.5)		(69.0)		(69.2)

Analysis of amount charged to operating profit

	2006	2005
	£m	£m
Current service cost	5.9	4.8
Past service cost	1.2	0.1
	<u>7.1</u>	<u>4.9</u>

13. Pensions - continued

Analysis of net return

An analysis of the net return on the scheme can be seen in Note 6

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2006	2005
	£m	£m
Actual return less expected return on assets	17.5	38.3
Experience gain on liabilities	-	10.3
Changes in assumptions	8.5	(48.3)
Actuarial gain recognised	<u>26.0</u>	<u>0.3</u>

Movement in surplus during the year

	2006	2005
	£m	£m
Deficit in scheme at beginning of year	(98.5)	(98.9)
Movement in year (current service cost)	(5.9)	(4.8)
Contributions	11.2	7.8
Past service cost	(1.2)	(0.1)
Net return on assets	0.5	(2.8)
Actuarial gain	<u>26.0</u>	<u>0.3</u>
Deficit in scheme at end of year	<u>(67.9)</u>	<u>(98.5)</u>

The estimated actuarial valuation at 31 December 2006 showed a deficit of £67.9 million. The service cost has been calculated using a projected unit method. The employer contributed 15.6% of member's pensionable salaries to the scheme up until 1 April 2006, and 21.6% thereafter.

History of experience gains and losses

	Financial year ended				
	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
Difference between expected and actual return on scheme assets					
Amount (£m)	17.5	38.3	11.4	24.0	(54.9)
Percentage of scheme assets	<u>4%</u>	<u>9%</u>	<u>3%</u>	<u>7%</u>	<u>(19%)</u>
Experience gain/(loss) on scheme liabilities					
Amount (£m)	-	10.3	(9.0)	(21.2)	1.8
Percentage of scheme assets	<u>-</u>	<u>2%</u>	<u>(2%)</u>	<u>(5%)</u>	<u>1%</u>
Total amount recognised in STRGL					
Amount (£m)	26.0	0.3	(22.8)	(44.0)	(50.1)
Percentage of scheme assets	<u>6%</u>	<u>-</u>	<u>(5%)</u>	<u>(11%)</u>	<u>(16%)</u>

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £0.5m (2005: £0.1m).

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
NOTES ON THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

14 Share capital

	2006 and 2005	
	Authorised £000	Issued and fully paid £000
Ordinary shares of £1 each	50,000	41,204

15. Reserves

	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2006	19,804	12,425	(48,373)
Loss for the year	-	-	(26,126)
Actuarial gain recognised	-	-	25,974
Deferred tax on actuarial gains	-	-	(7,792)
At 31 December 2006	19,804	12,425	(56,317)

16 Reconciliation of movement in shareholders' funds

	2006 £000	2005 £000
Opening shareholders' funds/(deficit)	25,060	(53,662)
(Loss)/profit for the financial year	(26,126)	78,452
Other recognised gains and losses	18,182	270
Closing shareholders' funds	17,116	25,060

17. Other financial commitments

Annual commitments under non-cancellable operating leases comprise

	Land and buildings		Other	
	2006 £000	2005 £000	2006 £000	2005 £000
Leases expiring				
- within one year	-	104	630	1,165
- between one and two years	-	-	643	694
- between two and five years	518	518	1,377	623
- after five years	-	1,748	-	-
	518	2,370	2,650	2,482

COSTAIN ENGINEERING & CONSTRUCTION LIMITED
NOTES ON THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

18. Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for overdraft facilities made available to the group. At 31 December 2006 these liabilities amounted to £1.0m (2005: £nil).

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

19. 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.

20. 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, Nicholson's Walk, Maidenhead, Berkshire SL6 1LN.

21. 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 Engineering (Overseas) Ltd	100		Marine Contracting	
Costain Abu Dhabi Co WLL		49*	Process Contracting	UAE
Costain (Africa) Ltd		100	Building	Zimbabwe
Costain Building Products Ltd	100		Concrete Production	
Costain Building & Civil Engineering Ltd	100		Building & Civil Engineering	
Costain Construction Ltd		100	Building	
Costain Construction (Botswana) Pty Ltd		100	Building	Botswana
Costain de Venezuela C A		100	Dormant	Venezuela
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	

21. 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	Building	Zimbabwe
Costain International Ltd		100	Building	
Costain (Malaysia) Sdn Bhd		100	Building	Malaysia
Costain Management Design Ltd		100	Dormant	
Costain Mining Zimbabwe (Pvt) Ltd		100	Dormant	Zimbabwe
Costain Oil, Gas & Process (Nigeria) Ltd		95	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 Engineering	
Costain Process Construction Ltd	100			
Costain Properties Zimbabwe (Pvt) Ltd		100	Dormant	Zimbabwe
Costain Trade & Services Ltd		100	Dormant	
Costain Zimbabwe (Pvt) Ltd		85	Civil Engineering & Building	Zimbabwe
Land & Marine Eng (India) Ltd		100	Dormant	India
National Road Operators Ltd	100		Civil Engineering	
Richard Costain Construction & Engineering Ltd		100	Civil Engineering & Building	Nigeria
The E J Cook SCD Partnership Ltd	100		Property	
Westminster Plant Co Ltd		100	Plant Hire	

21. Investments in subsidiary undertakings and joint ventures - continued

Joint ventures	Issued share capital (£m)	Percentage of equity held	Nature of business	Country of incorporation
Baja Dolphin S de RL de CV		50	Service Company	Mexico
Budimex & Costain Sp z o o	-	50(a)	Building	Poland
China Harbour-Costain Mexico S de RL de CV	-	50(a)	Civil Engineering & Building	Mexico
Costain Petrofac Ltd	0.1	50(a)	Process Engineering	
Integrated Care Solutions (East Kent) Holdings Ltd	0.1	50	Operation of Care Homes	
Integrated Care Solutions (Shropshire) Holdings Ltd	-	50	Construction and Operation of Care Homes	
Jalal Costain WLL	0.1	49(a)	Building	Bahrain
KP Costain Ltd	-	50(a)	Civil Engineering & Building	Cyprus
Nesma-Costain Process company Ltd	1.0	50(a)	Process Contracting	Saudi Arabia
Seafort Holdings Ltd	-	45	Construction and Operation of Schools	
Sirhowy Enterprise Way (Holdings) Ltd	-	50	Road Operator	
Integrated Bradford SPV One Ltd	-	29	Construction and Operation of Schools	
Integrated Bradford LEP Limited	-	40	Construction and Operation of Schools	
Associates				
Coast to Coast Holdings Ltd	0.1	20	Asset Management	
Coast to Coast Services Ltd	-	20	Asset Management	
Costain (West Africa) Plc	0.3	37(a)	Civil Engineering & Building	Nigeria
Kent Education Partnership Ltd	-	30	Construction and Operation of Schools	
Prime Care Solutions (Kingston) Holdings Ltd	-	40	Construction and Operation of Hospital	
Sleeperz Ltd	0.1	30	Construction and Operation of Hotels	

* Treated as a subsidiary due to
dominant influence

(a) Investments held by subsidiary
companies

All holdings are ordinary shares and all companies are incorporated in Great Britain and registered in England
and Wales except where stated