

Registration number 2440829

Costain Engineering & Construction Limited

Directors' Report and Financial Statements

for the Year Ended 31 December 2012

KPMG Audit Plc
15 Canada Square
London
E14 5GL

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Costain Engineering & Construction Limited
Company Information

Directors	A Wyllie A O Bickerstaff A J Handford M D Hunter
Company secretaries	T A Wood P M Starkey
Registered office	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
Auditor	KPMG Audit Plc 15 Canada Square London E14 5GL

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2012

The directors present their report and the financial statements for the year ended 31 December 2012

Directors of the company

The directors who held office during the year were as follows

A Wyllie

A O Bickerstaff

A J Handford

M D Hunter

Business review

Fair review of the business

The company is a holding company and is the main employer for Costain Group PLC in the United Kingdom. The company operates a defined benefit pension scheme, which was closed to future accrual on 30 September 2009, and several defined contribution pension plans. Turnover for the year was £142.7 million (2011: £142.0 million) and the company recorded a profit of £14.4 million (2011: £12.0 million). The profit in the current year included £10.7 million arising from sale of its interests in two PFI investments to The Costain Pension Scheme.

Shareholders' funds decreased to £33.7 million at 31 December 2012 (2011: £41.0 million).

Principal risks and uncertainties

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

- the general economic outlook, including the extent of any governmental regulation, taxation and interest rates,
- the ability to attract, develop and retain highly skilled management and personnel,
- the failure to follow internal Best Practice procedures: projects are not delivered to time, cost, quality or appropriate health and safety and environmental standards and, therefore, do not meet clients' expectations, in addition, failure to follow Company Standards, Policies, Procedures and Guidelines could adversely affect the company's reputation and/or expose the company to financial liabilities and adversely affect the operational and financial performance,
- the pension deficit and the risk that contributions may have to be increased to cover funding shortfalls,
- change in the UK Government's policies with regard to improving public infrastructure, buildings and services specifically in areas where the company and its subsidiaries would expect to compete for work,
- the failure to compete effectively in the marketplace resulting in a failure to win work,
- financial failure within the supply chain or the supply chain being responsible for late or inadequate delivery or poor quality of work on a project which damages the company's reputation and/or causes it to suffer financial loss, and
- the loss of IT systems

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
Directors' Report for the Year Ended 31 December 2012

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Financial instruments

Objectives and policies

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 (2011: none).

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 regular videos and updates from the Chief Executive and other Senior Managers, a Costain online news service, 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.

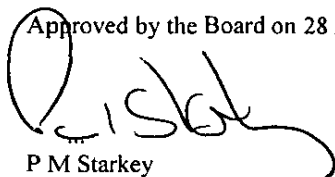
Disclosure of information to the auditor

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 auditor is unaware, and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Reappointment of auditor

The auditor KPMG Audit Plc is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 28 March 2013 and signed on its behalf by


P M Starkey
Company secretary

Costain Engineering & Construction Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 apply them consistently,
- make judgements and accounting 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 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. They 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.

Independent Auditor's Report to the Members of Costain Engineering & Construction Limited

We have audited the financial statements of Costain Engineering & Construction Limited for the year ended 31 December 2012, set out on pages 7 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 4), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

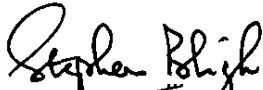
**Independent Auditor's Report to the Members of
Costain Engineering & Construction Limited**

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Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Stephen Bligh (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditors

15 Canada Square
London
E14 5GL

28 March 2013

Costain Engineering & Construction Limited
Profit and Loss Account for the Year Ended 31 December 2012

	Note	2012 £	2011 £
Turnover		142,657,115	142,012,052
Cost of sales		<u>(136,056,585)</u>	<u>(131,875,589)</u>
Gross profit		6,600,530	10,136,463
Administrative expenses		<u>(2,774,000)</u>	<u>-</u>
Operating profit	2	3,826,530	10,136,463
Profit on sale of investments		<u>10,734,195</u>	<u>-</u>
Profit on ordinary activities before investment income and interest		14,560,725	10,136,463
Income from other fixed asset investments		545,424	502,872
Other interest receivable and similar income	6	456,903	2,901,540
Interest payable and similar charges	7	<u>(1,536,666)</u>	<u>-</u>
Profit on ordinary activities before taxation		14,026,386	13,540,875
Tax on profit or loss on ordinary activities	8	<u>409,290</u>	<u>(1,564,948)</u>
Profit for the financial year		<u><u>14,435,676</u></u>	<u><u>11,975,927</u></u>

All activities relate to continuing operations

Costain Engineering & Construction Limited
Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2012

	Note	2012 £	2011 £
Profit for the financial year		14,435,676	11,975,927
Actuarial loss recognised on defined benefit pension scheme		(24,432,000)	(22,119,592)
Deferred tax on actuarial loss/gain recognised on defined benefit pension scheme		<u>2,656,092</u>	<u>3,008,750</u>
Total recognised gains and losses relating to the year		<u>(7,340,232)</u>	<u>(7,134,915)</u>

Costain Engineering & Construction Limited

(Registration number: 2440829)

Balance Sheet at 31 December 2012

	Note	2012 £	2011 £
Fixed assets			
Investments	9	<u>78,159,046</u>	<u>65,054,549</u>
Current assets			
Debtors	10	70,027,994	51,213,510
Creditors Amounts falling due within one year	11	<u>(74,534,764)</u>	<u>(35,530,251)</u>
Net current (liabilities)/assets		<u>(4,506,770)</u>	<u>15,683,259</u>
Net assets excluding pension asset/liability		73,652,276	80,737,808
 Net pension liability		<u>(39,955,950)</u>	<u>(39,701,250)</u>
Net assets		<u><u>33,696,326</u></u>	<u><u>41,036,558</u></u>
Capital and reserves			
Called up share capital	12	41,203,555	41,203,555
Share premium account	13	19,804,043	19,804,043
Other reserves	13	12,425,095	12,425,095
Profit and loss account	13	<u>(39,736,367)</u>	<u>(32,396,135)</u>
		<u><u>33,696,326</u></u>	<u><u>41,036,558</u></u>

Approved by the Board on 28 March 2013 and signed on its behalf by



M D Hunter
Director

The notes on pages 10 to 24 form an integral part of these financial statements

Costain Engineering & Construction Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Exemption from preparing a 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

Exemption from preparing group accounts

The company has taken exemption from preparing group accounts as it is included in consolidated accounts for a larger group which are drawn up as full consolidated audited accounts which are filed at Companies House

Turnover

Turnover represents the amounts (excluding value added tax) receivable for which services provided, mainly relating to the provision of staff to fellow group undertakings and which are recognised as provided and rental income

Deferred tax

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as required by FRS19

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

Foreign currency

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

Interest payable

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

Hire purchase and leasing

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 for the Year Ended 31 December 2012

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Pensions

The company operates a pension scheme in the United Kingdom providing benefits based on pensionable salary. 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 liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligations less the fair value of scheme assets at the balance sheet date.

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

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred.

2 Operating profit

Operating profit is stated after charging/(crediting)	2012	2011
	£	£
Car leasing costs	3,663,000	3,087,000
Staff costs (Note 4)	127,311,000	124,474,000
Fees for the audit of the company (Note 3)	31,000	31,000

3 Auditor's remuneration

The audit fee was borne by another group company. 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.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

4 Particulars of employees

	2012 £	2011 £
Wages and salaries	106,630,000	106,462,000
Social security costs	12,283,000	12,154,000
Pension costs	8,398,000	5,858,000
Total payroll costs	<u>127,311,000</u>	<u>124,474,000</u>

The pension costs include the pension liability management cost of £2.8m

The average number of persons employed by the company during the year in the United Kingdom was 2,175 (2011 2,168). All staff were seconded to fellow subsidiaries and their costs charged

5 Directors' remuneration

No remuneration was paid to the directors of the company during the year (2011 £nil)

6 Other interest receivable and similar income

	2012 £	2011 £
Other interest receivable	456,903	1,110,540
Pension scheme finance income	<u>-</u>	<u>1,791,000</u>
	<u>456,903</u>	<u>2,901,540</u>

7 Interest payable and similar charges

	2012 £	2011 £
Interest on loans from group undertakings	471,666	-
Pension scheme finance costs	<u>1,065,000</u>	<u>-</u>
	<u>1,536,666</u>	<u>-</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

8 Taxation

Tax on profit on ordinary activities

	2012 £	2011 £
Current tax		
Group relief receivable	(2,668,755)	(4,538)
Deferred tax		
Origination and reversal of timing differences	2,259,465	2,575,325
Deferred tax adjustment relating to previous years	-	(1,005,839)
Total deferred tax	2,259,465	1,569,486
Total tax on profit on ordinary activities	(409,290)	1,564,948

Factors affecting current tax charge for the year

The differences are reconciled below

	2012 £	2011 £
Profit on ordinary activities before taxation	14,026,386	13,540,875
Corporation tax at 24.5% (2011: 26.5%)	3,436,465	3,588,332
Pension timing differences	(6,241,109)	(2,319,462)
Decrease/(increase) in other timing differences	1,146,805	(903,690)
Group Income	(133,629)	(133,261)
Sundry disallowed expenditure	5,834	59,365
Provisions relating to subsidiaries and associates	1,813,000	-
Tax free gains	(2,696,121)	(295,822)
Total current tax	(2,668,755)	(4,538)

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

Factors that may affect future tax charges

The elements of deferred taxation at 23% (2011 25%) are as follows

	2012	2011
	£	£
Deferred tax asset on pension liability (Note 15)	11,935,050	13,233,750
Timing difference relating to spreading of pension contributions	5,109,464	3,414,137

The 2012 Budget, on 21 March 2012, announced that the UK corporation tax rate will reduce to 22% by 2014 and the December 2012 Autumn Statement announced a planned further reduction to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further affect the company's future current tax charge and reduce the company's deferred tax asset accordingly.

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 23% (2011 25%) were

	2012	2011
	£	£
Other timing differences	1,082,096	1,705,571
Trading tax losses	531,590	576,406
Capital losses	54,814	59,581

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... *continued*

9 Investments held as fixed assets

	2012	2011
	£	£
Shares in group undertakings and participating interests	74,042,760	52,913,318
Loans to group undertakings and participating interests	3,616,200	11,341,145
Other investments	500,086	800,086
	<u>78,159,046</u>	<u>65,054,549</u>

Shares in group undertakings and participating interests

	Subsidiary undertakings	Joints ventures and associates	Total
	£	£	£
Cost			
At 1 January 2012	112,186,957	226,359	112,413,316
Additions	28,300,000	4,000	28,304,000
Disposals	-	(74,558)	(74,558)
At 31 December 2012	<u>140,486,957</u>	<u>155,801</u>	<u>140,642,758</u>
Provision for impairment			
At 1 January and 31 December 2011	(59,499,998)	-	(59,499,998)
Provision for the year	(7,100,000)	-	(7,100,000)
At 31 December 2012	<u>(66,599,998)</u>	<u>-</u>	<u>(66,599,998)</u>
Net book value			
At 31 December 2012	<u>73,886,959</u>	<u>155,801</u>	<u>74,042,760</u>

Loans to group undertakings and participating interests

	Joint ventures and associates	Total
	£	£
At 1 January 2012	11,341,145	11,341,145
Repaid	(9,896,639)	(9,896,639)
Additions	2,171,694	2,171,694
At 31 December 2012	<u>3,616,200</u>	<u>3,616,200</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

Other investments

	Unlisted investments £	Total £
Cost		
At 1 January 2012	2,159,677	2,159,677
At 31 December 2012	2,159,677	2,159,677
Provision for impairment		
At 1 January and December 2011	(1,359,591)	(1,359,591)
Provision for the year	(300,000)	(300,000)
At 31 December 2012	(1,659,591)	(1,659,591)
Net book value		
At 31 December 2012	500,086	500,086
At 31 December 2011	800,086	800,086

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows

Undertaking	Proportion of voting rights and shares held	Principal activity
Subsidiary undertakings		
CLM Engineering (Overseas) Ltd	100%	Not trading
Costain Abu Dhabi Co WLL	49%	Process Engineering
Costain (Africa) Ltd	100%	Building
Costain Building & Civil Engineering Ltd	100%	Building and Civil Engineering
Costain Construction Ltd	100%	Not trading
Costain Construction (Botswana) Pty Ltd	100%	Building
Costain de Venezuela C A	100%	Dormant
Costain Engineering and Construction (Overseas) Ltd	100%	Holding company
Costain International Ltd	100%	Building
Costain Holdings (Botswana) pty Ltd	100%	Holding company
Costain Holdings (Malaysia) Sdn Bhd	100%	Holding company
Costain Holdings Zimbabwe (Pvt) Ltd	100%	Holding Company
Costain Housing Zimbabwe (Pvt) Ltd	100%	Not trading

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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Costain (Malaysia) Sdn Bhd	100%	Not trading
Costain Management Design Ltd	100%	Dormant
Costain Mining Zimbabwe (Pvt) Ltd	100%	Dormant
Costain Oil, Gas & Process (Nigeria) Ltd	95%	Not trading
Costain Oil, Gas & Process (Overseas) Ltd	100%	Not trading
Costain Oil, Gas & Process (Malaysia) Sdn Bhd	100%	Not trading
Costain Oil, Gas & Process Ltd	100%	Process Engineering
Costain Process Construction Ltd	100%	Engineering
Costain Properties Zimbabwe (Pvt) Ltd	100%	Dormant
Land and Marine Engineering (India) Ltd	100%	Dormant
National Road Operators Ltd	100%	Dormant
Westminster Plant Co Ltd	100%	Dormant
Joint ventures		
Budimex & Costain Sp z o o	50%	Building
China Harbour-Costain Mexico S de RL de CV	50%	Building & Civil Engineering
Costain Petrofac Ltd	50%	Process Engineering
Jalal Costain WLL	49%	Building
Nesma-Costain Process Company Ltd	50%	Process Contracting
Associates		
Severn Trent Costain Holdings Ltd	20%	Asset Management
Severn Trent Costain Services Ltd	20%	Asset Management
Integrated Bradford LEP Limited	40%	Construction and Operation of Schools
Lewisham Schools for the Future LEP Ltd	40%	Construction and Operation of Schools
Lewisham Schools for the Future SPV 3 Ltd	40%	Construction and Operation of Schools
Lewisham Schools for the Future SPV 4 Ltd	40%	Construction and Operation of Schools

Costain Engineering & Construction Limited
Notes to the Financial Statements for the Year Ended 31 December 2012

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10 Debtors

	2012 £	2011 £
Amounts owed by group undertakings	56,941,514	43,581,031
Other debtors	11,652,819	6,499,474
Prepayments and accrued income	1,433,661	1,133,005
	<u>70,027,994</u>	<u>51,213,510</u>

11 Creditors: Amounts falling due within one year

	2012 £	2011 £
Amounts owed to group undertakings	54,827,280	23,601,281
Corporation tax	-	275,462
Other taxes and social security	3,090,235	3,208,322
Other creditors	14,544,523	7,864,269
Accruals and deferred income	2,072,726	580,917
	<u>74,534,764</u>	<u>35,530,251</u>

12 Share capital

Allotted, called up and fully paid shares

	2012		2011	
	No.	£	No.	£
Ordinary of £1 each	<u>41,203,555</u>	<u>41,203,555</u>	<u>41,203,555</u>	<u>41,203,555</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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13 Reserves

	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2012	19,804,043	12,425,095	(32,396,135)	(166,997)
Profit for the year	-	-	14,435,676	14,435,676
Actuarial loss on pension schemes	-	-	(24,432,000)	(24,432,000)
Deferred tax relating to actuarial loss on pension schemes	-	-	2,656,092	2,656,092
At 31 December 2012	<u>19,804,043</u>	<u>12,425,095</u>	<u>(39,736,367)</u>	<u>(7,507,229)</u>

14 Reconciliation of movement in shareholders' funds

	2012 £	2011 £
Profit attributable to the members of the company	14,435,676	11,975,927
Other recognised gains and losses relating to the year	<u>(21,775,908)</u>	<u>(19,110,842)</u>
Net reduction to shareholders' funds	(7,340,232)	(7,134,915)
Shareholders' funds at 1 January	<u>41,036,558</u>	<u>48,171,473</u>
Shareholders' funds at 31 December	<u>33,696,326</u>	<u>41,036,558</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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15 Pension schemes

Defined benefit pension schemes

Defined benefit pension scheme

The company operates a defined benefit pension scheme which was closed for future accrual on 30 September 2009. From 1 April 2006 until the date of closure, participating employees were provided with benefits on a Career Average Revalued Earnings basis. The scheme was replaced by a defined contribution scheme.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2010 and was updated to 31 December 2011 by a qualified independent actuary. Details of the scheme are included in the financial statements of Costain Group PLC.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows

	2012 £	2011 £
Fair value of scheme assets	558,800,000	547,900,000
Present value of scheme liabilities	(610,691,000)	(600,835,000)
Defined benefit pension scheme deficit	(51,891,000)	(52,935,000)
Related deferred tax asset	11,935,050	13,233,750
Net liability in the balance sheet	(39,955,950)	(39,701,250)

Scheme assets

Changes in the fair value of scheme assets are as follows

	2012 £	2011 £
Fair value at start of year	547,900,000	537,100,000
Expected return on assets	26,337,000	32,267,000
Actuarial gains and losses	16,234,000	(3,815,000)
Employer contributions	28,441,000	6,962,000
Benefits paid	(27,235,000)	(24,614,000)
Assets distributed on settlements	(32,877,000)	-
Fair value at end of year	558,800,000	547,900,000

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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Analysis of assets

The major categories of scheme assets are as follows

	2012 £	2011 £
Equity instruments	184,220,000	173,900,000
Debt instruments	241,980,000	276,200,000
Property	22,540,000	22,100,000
Other assets	110,060,000	75,700,000
	<u>558,800,000</u>	<u>547,900,000</u>

Actual return on scheme's assets

	2012 £	2011 £
Actual return on scheme assets	<u>42,571,000</u>	<u>28,452,000</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes

Scheme liabilities

Changes in the present value of scheme liabilities are as follows

	2012 £	2011 £
Present value at start of year	600,835,000	576,669,220
Actuarial losses	40,666,000	18,303,780
Interest cost	27,402,000	30,476,000
Benefits paid	(27,235,000)	(24,614,000)
Effect of curtailments	(30,977,000)	-
Present value at end of year	<u>610,691,000</u>	<u>600,835,000</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows

	2012 %	2011 %
Discount rate	4.40	4.80
Future salary increases	3.00	3.00
Future pension increases	2.85	2.90
Inflation	2.95	3.00
Expected return on scheme assets - equity	4.40	4.95

Post retirement mortality assumptions

	2012 Years	2011 Years
Current pensioners at retirement age - male	21.70	21.50
Current pensioners at retirement age - female	23.80	23.70
Future pensioners at retirement age - male	24.50	24.40
Future pensioners at retirement age - female	25.60	25.60

Amounts recognised in the profit and loss account

	2012 £	2011 £
Amounts recognised in operating profit		
Recognised in arriving at operating profit	-	-
Amounts recognised in other finance cost/(income)		
Interest cost	27,402,000	30,476,000
Expected return on scheme assets	(26,337,000)	(32,267,000)
Recognised in finance income/costs	1,065,000	(1,791,000)
Total recognised in the profit and loss account	1,065,000	(1,791,000)

Amounts recognised in the statement of total recognised gains and losses

	2012 £	2011 £
Actual return less expected return on scheme assets	16,234,000	(3,815,000)
Changes in assumptions	(40,666,000)	(18,304,000)
Actuarial gains and losses recognised in the statement of total recognised gains and losses	(24,432,000)	(22,119,000)

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and (losses) since 1 January 2002 is (£156,865,000) (2011 - (£132,433,000))

History of experience adjustments on scheme assets and liabilities

Amounts for the current and previous periods are as follows

	2012 £	2011 £	2010 £	2009 £
Fair value of scheme assets	558,800,000	547,900,000	537,100,000	455,784,000
Present value of scheme liabilities	<u>(610,691,000)</u>	<u>(600,835,000)</u>	<u>(576,669,220)</u>	<u>(560,439,335)</u>
Deficit in scheme	<u>(51,891,000)</u>	<u>(52,935,000)</u>	<u>(39,569,220)</u>	<u>(104,655,335)</u>
Experience adjustments				
	2012 £	2011 £	2010 £	2009 £
Experience adjustments arising on scheme assets	<u>16,234,000</u>	<u>(3,815,000)</u>	<u>33,125,000</u>	<u>(46,285,000)</u>
Experience adjustments arising on scheme liabilities	<u>-</u>	<u>-</u>	<u>18,467,000</u>	<u>-</u>

16 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 2012, these liabilities amounted to £Nil (2011 £Nil)

There are also contingent liabilities in respect of guarantees of performance bonds and other undertakings entered into in the ordinary course of business by fellow group undertakings

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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17 Commitments

Operating lease commitments

As at 31 December 2012 the company had annual commitments under non-cancellable operating leases as follows

Operating leases which expire

	2012	2011
	£	£
Other		
Within one year	1,231,000	641,000
Within two and five years	<u>2,432,000</u>	<u>2,446,000</u>
	<u><u>3,663,000</u></u>	<u><u>3,087,000</u></u>

18 Related party transactions

The company provided funding to its investments in joint ventures and associates (Note 9) of £2,172,000 (2011 £10,284,000), received interest of £363,000 (2011 £991,000) and received dividends of £545,000 (2011 £503,000) Transactions with wholly owned subsidiaries of Costain Group PLC, the ultimate parent company, are exempt from disclosure under FRS 8 Related party disclosures

19 Control

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, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB

