

Registration number: 02440829

Costain Engineering & Construction Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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Costain Engineering & Construction Limited

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Costain Engineering & Construction Limited

Company Information

Directors	A Wyllie A O Bickerstaff T A Wood M D Hunter
Company secretary	T A Wood
Registered office	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
Auditors	KPMG LLP 15 Canada Square London E14 5GL

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Fair review of the business

The company is a holding and services company and is the main employer for Costain Group PLC and other Costain Group companies in the United Kingdom. The company also 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 £246.1 million (2015: £210.0 million) and the company recorded a profit after tax of £10.4 million (2015: £11.8 million).

Shareholders' funds reduced to £35.1 million at 31 December 2016 (2015: £66.8 million) as a result of the £42.2 million loss arising from market related changes to the defined benefit pension liability (net of deferred tax) partly offset by the profit for the year. The balance sheet pension liability increased by £30.1 million (net of deferred tax) during the year.

The average number of employees of the company during the year was 3,252 (2015: 3,081) and all employees of the company are seconded to fellow subsidiaries of the Costain Group. The voluntary leavers turnover rate is 9.4% (2015: 11.3%). The company monitors the diversity profile of its employees. The number of female employees was 21.1% (2015: 20.0%).

The company participates within Costain Group's UK banking arrangements and bank balances are centrally aggregated on a daily basis within Richard Costain Limited, a fellow subsidiary. The company's banker has the right to set off the company's bank balance when in credit against borrowings by Richard Costain Limited.

Costain Engineering & Construction Limited

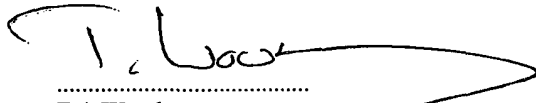
Strategic Report for the Year Ended 31 December 2016 (continued)

Principal risks and uncertainties

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

- the general political and economic outlook, including the extent of any changes in 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 could damage the company's reputation and/or cause it to suffer financial loss; and
- the loss of IT systems.

Approved by the Board on 26 April 2017 and signed on its behalf by:



.....
T A Wood
Company secretary and director

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Directors' of the company

The directors, who held office during the year, were as follows:

A Wyllie

A O Bickerstaff

T A Wood - Company secretary and director

M D Hunter

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £Nil).

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, 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.

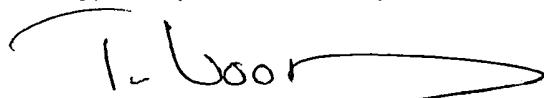
Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors

During 2016, Costain Group PLC, the company's ultimate parent, decided to change its auditors in recognition of good governance. A number of firms were approached to tender for the audit and it has been recommended to the Board that PricewaterhouseCoopers LLP be proposed as auditor of Costain Group PLC and its subsidiary companies. As a result of the tender, KPMG LLP's appointment will expire following the approval of these accounts by the directors and appointment of PricewaterhouseCoopers LLP as the company's auditor for the financial year ending 31 December 2017 will be proposed at the company's AGM.

Approved by the Board on 26 April 2017 and signed on its behalf by:



T A Wood
Company secretary and director

Costain Engineering & Construction Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, 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 Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101').

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 United Kingdom 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 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 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 2016, set out on pages 8 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *'Reduced Disclosure Framework'*.

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 5), 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 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 Financial Reporting Council'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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and Directors' Report:

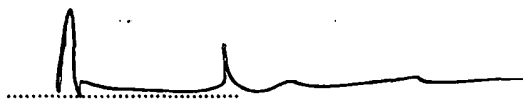
- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

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

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.



Andrew Marshall (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

15 Canada Square
London
E14 5GL

26 April 2017

Costain Engineering & Construction Limited

Profit and Loss Account for the Year Ended 31 December 2016

	Note	2016 £	2015 £
Turnover		246,095,249	209,994,970
Cost of sales		<u>(234,089,351)</u>	<u>(195,731,378)</u>
Gross profit		12,005,898	14,263,592
Other gains	4	<u>127,935</u>	<u>65,796</u>
Operating profit	5	<u>12,133,833</u>	<u>14,329,388</u>
Finance income	9	340,107	350,981
Finance costs	10	<u>(1,125,000)</u>	<u>(1,327,000)</u>
Net finance cost		<u>(784,893)</u>	<u>(976,019)</u>
Profit before tax		11,348,940	13,353,369
Income tax expense	11	<u>(927,715)</u>	<u>(1,525,317)</u>
Profit for the year		<u><u>10,421,225</u></u>	<u><u>11,828,052</u></u>

The above results were derived from continuing operations.

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Statement of Comprehensive Income for the Year Ended 31 December 2016

	Note	2016 £	2015 £
Profit for the year		10,421,225	11,828,052
Items that will not be reclassified subsequently to profit or loss			
Actuarial loss on defined benefit pension schemes before tax	16	(49,807,000)	(3,297,000)
Deferred tax on actuarial loss recognised on defined benefit pension scheme	11	<u>7,633,430</u>	<u>659,000</u>
Total comprehensive (loss)/income for the year		<u>(31,752,345)</u>	<u>9,190,052</u>

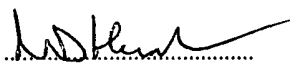
The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

(Registration number: 02440829)
Balance Sheet as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Investments	12	68,464,367	74,011,782
Current assets			
Debtors	13	80,475,123	56,269,862
Creditors: Amounts falling due within one year			
Trade and other creditors	14	<u>(40,351,283)</u>	<u>(26,774,092)</u>
Net current assets		<u>40,123,840</u>	<u>29,495,770</u>
Net assets excluding pension liability		108,588,207	103,507,552
Gross pension liability	16	<u>(73,498,000)</u>	<u>(36,665,000)</u>
Net assets		<u><u>35,090,207</u></u>	<u><u>66,842,552</u></u>
Capital and reserves			
Called up share capital	15	41,203,557	41,203,557
Share premium reserve		19,804,041	19,804,041
Other reserves		12,425,095	12,425,095
Profit and loss account		<u>(38,342,486)</u>	<u>(6,590,141)</u>
Shareholders' funds		<u><u>35,090,207</u></u>	<u><u>66,842,552</u></u>

Approved by the Board on 26 April 2017 and signed on its behalf by:



M D Hunter
Director

Costain Engineering & Construction Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £	Share premium £	Other reserves £	Retained earnings £	Total £
At 1 January 2016	41,203,557	19,804,041	12,425,095	(6,590,141)	66,842,552
Profit for the year	-	-	-	10,421,225	10,421,225
Other comprehensive loss	-	-	-	(42,173,570)	(42,173,570)
Total comprehensive loss	-	-	-	(31,752,345)	(31,752,345)
At 31 December 2016	41,203,557	19,804,041	12,425,095	(38,342,486)	35,090,207

	Share capital £	Share premium £	Other reserves £	Retained earnings £	Total £
At 1 January 2015	41,203,557	19,804,041	12,425,095	(15,780,193)	57,652,500
Profit for the year	-	-	-	11,828,052	11,828,052
Other comprehensive loss	-	-	-	(2,638,000)	(2,638,000)
Total comprehensive income	-	-	-	9,190,052	9,190,052
At 31 December 2015	41,203,557	19,804,041	12,425,095	(6,590,141)	66,842,552

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 General information

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

The address of its registered office is:

Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB
UK

These financial statements were authorised for issue by the Board on 26 April 2017.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

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 accounts which are filed at Companies House.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) The requirements of IAS 1 to provide a Balance Sheet at the beginning of the year in the event of a prior year adjustment;
- (b) The requirements of IAS 1 to provide a Statement of Cash flows for the year;
- (c) The requirements of IAS 1 to provide a statement of compliance with IFRS;
- (d) The requirements of IAS 1 to disclose information on the management of capital;
- (e) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRS's that have been issued but are not yet effective;
- (f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (g) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;
- (h) The requirements of IFRS 7 to disclose financial instruments; and
- (i) The requirements of paragraphs 91-99 of IFRS13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs.

Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements. Where required, equivalent disclosures are given in the group accounts of Costain Group PLC.

Going concern

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

Revenue recognition

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.

The company recognises revenue when:

the amount of revenue can be reliably measured;
it is probable that future economic benefits will flow to the entity;
and specific criteria have been met for each of the company activities.

Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at year-end exchange rates. Exchange differences on such items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

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

Deferred tax is measured at the rates that are expected to apply in the periods when the timing differences are expected to reverse, based on the tax rates and law enacted at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Investments

Fixed asset investments are stated at historical cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Impairments are reversed in line with improvements in the recoverable amount of the investment.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Retirement benefit obligations

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in Note 14. The assets of the scheme are held separately from those of the Group.

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 statement of financial position 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 statement of financial position date.

Administration costs of the scheme are recognised in the income statement. The interest cost on the scheme's net liabilities is included in finance expense. Remeasurements of the net liability are recognised in the consolidated statement of comprehensive income.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most critical accounting policy and significant area of judgement and estimation arise from the assumptions used in the accounting for defined benefit pension schemes under IAS 19 Employee benefits.

Defined benefit pension schemes require significant judgements in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the Directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in Note 16.

4 Other gains and losses

The analysis of the company's other gains and losses for the year is as follows:

	2016 £	2015 £
Gain from disposals of investments	6,190	19,515
Income from fixed asset investments	121,745	46,281
	<u>127,935</u>	<u>65,796</u>

The gain from disposals of investments arises from the disposal of the investment in Ceequal Limited.

The income from fixed asset investments arises from dividends received from Lewisham Schools for the Future LEP Limited.

5 Operating profit

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

	2016 £	2015 £
Car leasing costs	5,767,801	5,409,785
Staff costs (Note 6)	201,232,711	177,317,705
Fees for the audit of the company (Note 5)	31,000	31,000

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

6 Auditors' remuneration

The deemed audit fee for the company was £31,000 (2015: £31,000).

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

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016	2015
	£	£
Wages and salaries	174,894,980	154,046,102
Social security costs	19,211,096	16,715,823
Pension costs, defined contribution scheme	<u>7,126,635</u>	<u>6,555,780</u>
	<u><u>201,232,711</u></u>	<u><u>177,317,705</u></u>

The average number of persons employed by the company during the year in the United Kingdom was 3,252 (2015: 3,081). All staff were seconded to fellow subsidiaries.

8 Directors' remuneration

No remuneration was paid to the directors of the company during the year (2015: £nil).

9 Other interest receivable and similar income

	2016	2015
	£	£
Interest income from group undertakings	24,015	27,716
Interest income from associated undertaking	<u>316,092</u>	<u>323,265</u>
	<u><u>340,107</u></u>	<u><u>350,981</u></u>

10 Interest payable and similar charges

	2016	2015
	£	£
Finance expense from defined benefit pension scheme net deficit	<u><u>1,125,000</u></u>	<u><u>1,327,000</u></u>

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

11 Income tax

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

	2016 £	2015 £
Current taxation		
Group relief receivable	(677,550)	(83,612)
Adjustment in respect of prior periods	-	(465,057)
	<u>(677,550)</u>	<u>(548,669)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	1,605,265	2,175,820
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	(101,834)
	<u>1,605,265</u>	<u>2,073,986</u>
Total deferred taxation	<u>1,605,265</u>	<u>2,073,986</u>
Tax expense in the profit and loss account	<u>927,715</u>	<u>1,525,317</u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2015 - the same as the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled below:

	2016 £	2015 £
Profit before tax	<u>11,348,940</u>	<u>13,353,369</u>
Corporation tax at standard rate	2,269,788	2,704,057
Increase (decrease) in current tax from adjustment for prior periods	-	(566,891)
Increase (decrease) from effect of different UK tax rates on some earnings	(1,569,704)	(27,257)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	285,055	226,467
Increase (decrease) from effect of exercise employee share options	(1,133,075)	(801,687)
Increase (decrease) in current tax from unrecognised tax loss or credit	1,100,000	-
Increase (decrease) from effect dividends from UK companies	<u>(24,349)</u>	<u>(9,372)</u>
Total tax charge	<u>927,715</u>	<u>1,525,317</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

11 Income tax (continued)

Deferred tax

The elements of deferred taxation at 19.0% (2015: 20.0%) are as follows:

	2016	2015
	£	£
Deferred tax asset on pension liability	13,964,372	7,332,739
Other timing differences	442,673	1,046,141
	<u>14,407,045</u>	<u>8,378,880</u>

The movements in the deferred taxation asset were as follows:

	2016	2015
	£	£
Deferred taxation asset at the beginning of the year	8,378,880	9,793,866
Amount charged to profit and loss account	(1,605,265)	(2,175,820)
Amount credited to statement of recognised gains and losses	7,633,430	659,000
Adjustment in respect of prior year	-	101,834
Deferred taxation asset at the end of the year	<u>14,407,045</u>	<u>8,378,880</u>

The rate of corporation tax reduces to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020.

If the deferred tax assets as at 31 December 2016 were reduced to reflect the rate of 17%, the effect would be a tax credit through the profit and loss account of £3,139,258 and a tax charge through Other Comprehensive Income of £4,655,789.

The Company has other deferred taxation assets that have not been recognised on the basis that their 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 gross potential deferred taxation assets not recognised were:

	2016	2015
	£	£
Trading tax losses	4,724,345	3,716,868
Capital losses	212,617	218,807

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Investments

	2016 £	2015 £
Subsidiaries	66,186,959	71,686,959
Other investments	559,960	559,960
Investments in joint ventures	<u>1,717,448</u>	<u>1,764,863</u>
Total Investments	<u>68,464,367</u>	<u>74,011,782</u>

Subsidiaries	£
Cost or valuation	
At 1 January 2016	<u>140,486,957</u>
At 31 December 2016	<u>140,486,957</u>
Provision	
At 1 January 2016	(68,799,998)
Provision in the year	<u>(5,500,000)</u>
At 31 December 2016	<u>(74,299,998)</u>
Carrying amount	
At 31 December 2016	<u><u>66,186,959</u></u>

Details of the subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2016	2015	
Alcaidesa Golf S.L.U.	Trading	100%	100%	(1)
Alcaidesa Holding S.A.U.	Golf Course and Marina Operations	100%	100%	(1)
Alcaidesa Servicios S.A.U.	Trading	100%	100%	(1)
CLM Engineering (Overseas) Ltd*	Dormant	100%	100%	(2)
Costain Abu Dhabi Co WLL	Trading	49%	49%	(3)
Costain Alcaidesa Ltd*	Holding Company	100%	100%	(2)
Costain Building & Civil Engineering Ltd*	Holding Company	100%	100%	(2)
Costain Construction Ltd	Dormant	100%	100%	(2)

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Investments (continued)

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2016	2015	
Costain Construction (Botswana) Pty Ltd	Dormant	100%	100%	(4)
Costain de Venezuela C.A.	Dormant	100%	100%	(5)
Costain Energy Solutions Ltd*	Trading	100%	100%	(2)
Costain Engineering & Construction (Overseas) Ltd*	Holding Company	100%	100%	(2)
Costain International Ltd	Dormant	100%	100%	(2)
Costain Holdings (Botswana) Pty Ltd	Holding Company	100%	100%	(4)
Costain Holdings (Malaysia) Sdn Bhd	Dormant	100%	100%	(6)
Costain (Malaysia) Sdn Bhd	Dormant	100%	100%	(6)
Costain Management Design Ltd	Dormant	100%	100%	(2)
COGAP Limited*	Dormant	100%	100%	(2)
COGAP (Middle East) Limited	Holding Company	100%	100%	(2)
Costain Oil, Gas & Process (Nigeria) Ltd	Dormant	95%	95%	(7)
Costain Oil, Gas & Process (Overseas) Ltd	Dormant	100%	100%	(2)
Costain Oil, Gas & Process (Malaysia) Sdn Bhd	Dormant	100%	100%	(6)
Costain Oil, Gas & Process Ltd*	Process Engineering	100%	100%	(2)
Costain Process Construction Ltd*	Dormant	100%	100%	(2)
National Road Operators Ltd*	Dormant	100%	100%	(2)
Southview Holdings (Private) Limited	Trading	100%	100%	(8)
Southview Investments (Private) Limited	Trading	100%	100%	(8)
Westminster Plant Co Ltd	Dormant	100%	100%	(2)

* indicates direct investment of the Company.

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Investments (continued)

- (1) Avda. Pablo Cerezo, s/n, Club de Golf Alcaidesa, 11360 - San Roque-Cádiz, Spain
- (2) Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England
- (3) Building 4F, Corniche Road, Ground floor, Office 1, Mussafah Industrial Area, 3069, Abu Dhabi, UAE
- (4) Plot 67978, Mokolwane House, First Floor, Fairgrounds Office Park, Gaborone, Botswana
- (5) Dormant company - Venezuela, no record of address
- (6) Suite 16-10, Level 16, Wisma UOA II, No. 21 Jalan Pinang, 50450 Kuala Lumpur, Malaysia
- (7) Dormant company - Nigeria, no record of address
- (8) 10th Floor, Club Chambers Building, Corner Nelson Mandela Avenue / 3rd Street, Harare, Zimbabwe

Other investments

	£
Cost or valuation	
At 1 January 2016	<u>2,219,551</u>
At 31 December 2016	<u>2,219,551</u>
Provision	
At 1 January 2016	<u>1,659,591</u>
At 31 December 2016	<u>1,659,591</u>
Carrying amount	
At 31 December 2016	<u>559,960</u>

Details of the associates as at 31 December 2016 are as follows:

Name of investment	Principal activity	Proportion of ownership interest and voting rights held	
		2016	2015
SleeperZ Limited	Hotels	11%	11%
SleeperZ Hotels Limited *	Hotels	11%	11%

* indicates direct investment of the Company.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Investments (continued)

Joint ventures

	£
Cost or valuation	
At 1 January 2016	1,764,863
Disposals	<u>(47,415)</u>
At 31 December 2016	<u>1,717,448</u>
Provision	
Carrying amount	
At 31 December 2016	<u><u>1,717,448</u></u>

Details of the joint ventures as at 31 December 2016 are as follows:

Name of joint ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2016	2015	
Budimex & Costain Sp. z.o.o	Dormant	50%	50%	(9)
China Harbour-Costain Mexico S de RL de CV	Dormant	50%	50%	(10)
Costain Petrofac Ltd	Process Engineering	50%	50%	(11)
Integrated Bradford LEP Limited	Construction and Operation of Schools	40%	40%	(12)
Integrated Bradford LEP FIN Co One Limited	Trading	40%	40%	(12)
Integrated Bradford PSP Limited *	Holding company	50%	50%	(12)
Jalal Costain WLL	Not trading	49%	49%	(13)
L21 Lewisham PSP Limited *	Holding company	50%	50%	(11)
Lewisham Schools for the Future LEP Ltd	Construction and Operation of Schools	40%	40%	(11)
Nesma-Costain Process Company Ltd	Not trading	50%	50%	(14)

* indicates direct investment of the Company.

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Investments (continued)

- (9) Marszałkowska 82, Warsaw, Mazowieckie, 00-517, Poland
 (10) Calle Delfines No. 268 - 2, Frac. Playa Ensenada, Ensenada, B.C., CP. 22880, Mexico
 (11) Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England
 (12) The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ, England
 (13) Flat 33, Building 232, Road 18, Block 321, Manama, Bahrain
 (14) P.O.Box, 6967, 21452, Jeddah, Saudi Arabia

13 Debtors

	2016	2015
	£	£
Amounts owed by group undertakings	62,411,951	44,641,287
Other debtors	2,872,078	2,907,446
Prepayments	784,049	342,249
Deferred tax assets	14,407,045	8,378,880
	<u>80,475,123</u>	<u>56,269,862</u>

14 Trade and other creditors

Current

	2016	2015
	£	£
Accrued expenses	2,418,367	6,647,029
Amounts owed to group undertakings	15,765,792	14,721,425
Social security and other taxes	6,176,430	5,307,834
Group relief payable	25,701	112,159
Other creditors	15,964,993	(14,355)
	<u>40,351,283</u>	<u>26,774,092</u>

15 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
Ordinary shares of £1 each	<u>41,203,557</u>	<u>41,203,557</u>	<u>41,203,557</u>	<u>41,203,557</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

16 Pension and other schemes

Defined benefit pension schemes

Defined benefit pension scheme

The company operated 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 2013 and was updated to 31 December 2016 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 statement of financial position are as follows:

	2016 £	2015 £
Fair value of scheme assets	754,000,000	650,700,000
Present value of scheme liabilities	<u>(827,498,000)</u>	<u>(687,365,000)</u>
Defined benefit pension scheme deficit	<u>(73,498,000)</u>	<u>(36,665,000)</u>

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2016 £	2015 £
Fair value at start of year	650,700,000	659,300,000
Interest income	24,395,000	23,327,000
Return on plan assets, excluding amounts included in interest income/(expense)	96,361,000	(9,288,000)
Employer contributions	14,344,000	10,027,000
Benefits paid	(31,555,000)	(32,276,000)
Administrative expenses paid	<u>(245,000)</u>	<u>(390,000)</u>
Fair value at end of year	<u>754,000,000</u>	<u>650,700,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

16 Pension and other schemes (continued)

	2016 £	2015 £
Cash and cash equivalents	69,900,000	72,400,000
Equity instruments	212,100,000	162,500,000
Debt instruments	398,100,000	341,600,000
Real estate	73,900,000	74,200,000
	<u>754,000,000</u>	<u>650,700,000</u>

Actual return on scheme's assets

	2016 £	2015 £
Actual return on scheme assets	<u>120,756,000</u>	<u>14,039,000</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.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2016 £	2015 £
Present value at start of year	687,365,000	700,978,000
Actuarial gains and losses arising from changes in demographic assumptions	-	7,887,000
Actuarial gains and losses arising from changes in financial assumptions	153,002,000	(13,878,000)
Actuarial gains and losses arising from experience adjustments	(6,834,000)	-
Interest cost	25,520,000	24,654,000
Benefits paid	<u>(31,555,000)</u>	<u>(32,276,000)</u>
Present value at end of year	<u>827,498,000</u>	<u>687,365,000</u>

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2016 %	2015 %
Mortality rate	1.25	1.25
Discount rate	2.70	3.80
Future pension increases	3.10	2.95
Inflation	<u>3.20</u>	<u>3.00</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

16 Pension and other schemes (continued)

Post retirement mortality assumptions

	2016 Years	2015 Years
Current UK pensioners at retirement age - male	22.00	22.00
Current UK pensioners at retirement age - female	25.00	25.00
Future UK pensioners at retirement age - male	24.00	24.00
Future UK pensioners at retirement age - female	<u>27.00</u>	<u>27.00</u>

Amounts recognised in the income statement

	2016 £	2015 £
Amounts recognised in operating profit		
Administrative expenses paid	(245,000)	(390,000)
Amounts recognised in finance income or costs		
Net interest	<u>(1,125,000)</u>	<u>(1,327,000)</u>
Total recognised in the income statement	<u>(1,370,000)</u>	<u>(1,717,000)</u>

Amounts taken to the Statement of Comprehensive Income

	2016 £	2015 £
Actuarial gains and losses arising from changes in demographic assumptions	-	(7,887,000)
Actuarial gains and losses arising from changes in financial assumptions	(153,002,000)	13,878,000
Actuarial gains and losses arising from experience adjustments	6,834,000	-
Return on plan assets, excluding amounts included in interest income/(expense)	<u>96,361,000</u>	<u>(9,288,000)</u>
Amounts recognised in the Statement of Comprehensive Income	<u>(49,807,000)</u>	<u>(3,297,000)</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

17 Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for borrowing facilities made available to the group. At 31 December 2016 these liabilities amounted to £69.9 million (2015: 38.5 million).

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.

18 Parent and ultimate parent undertaking

The company's immediate parent is Costain Group PLC.

The ultimate parent is Costain Group PLC.

The most senior parent entity producing publicly available consolidated financial statements is Costain Group PLC. These financial statements are available upon request from Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB.

The ultimate controlling party is Costain Group PLC.