

Registration number: 02440829

Costain Engineering & Construction Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2017



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
Independent auditor	PricewaterhouseCoopers LLP
	1 Embankment Place
	London
	WC2N 6RH

Costain Engineering & Construction Limited
Strategic Report for the Year Ended 31 December 2017

The directors present their strategic report for the year ended 31 December 2017.

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.

Revenue for the year was £246.5 million (2016: £246.1 million) and the company recorded a profit for the financial year of £16.7 million (2016: £10.4 million).

Shareholders' funds increased to £83.5 million at 31 December 2017 (2016: £35.1 million) as a result of the £31.8 million profit arising from market related changes to the defined benefit pension liability (net of deferred tax) enhancing the profit for the financial year. The balance sheet pension liability decreased by £49.6 million during the year to £23.9 million.

The average number of employees of the company during the year was 3,246 (2016: 3,252) and all employees of the company are seconded to fellow subsidiaries of the Costain Group. The voluntary leavers turnover rate is 10.4% (2016: 9.4%). The company monitors the diversity profile of its employees. The number of female employees was 22.4% (2016: 21.1%).

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 2017 (continued)

Principal risks and uncertainties

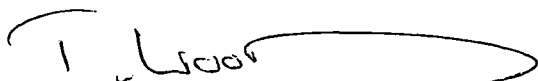
The principal risks and uncertainties facing the ultimate parent company, Costain Group PLC, and its ability to achieve its strategic objectives are set out below.

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

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2017 (continued)

Approved by the Board on 12 April 2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'T A Wood', is written over a horizontal dotted line.

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

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2017

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Directors of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

A Wyllie

A O Bickerstaff

T A Wood - Company secretary and director

M D Hunter

Principal activity

The principal activity of the company is providing employment services to other companies within the Costain group.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £Nil).

Employment of disabled persons

It is Costain'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.

Future developments

Results are in line with expectations, with future years also expected to remain stable as the company recharges all costs to other group companies.

Disclosure of information to the auditor

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.

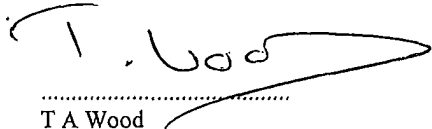
Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2017 (continued)

Appointment of auditor

PricewaterhouseCoopers LLP were appointed in the year to succeed KPMG LLP as auditor of Costain Group PLC and its subsidiary companies.

Approved by the Board on 12 April 2018 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'T. Wood', written over a dotted line.

T A Wood
Company secretary and director

Costain Engineering & Construction Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Director's Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the 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 auditors are aware of that information.

Independent auditors' report to the members of Costain Engineering & Construction Limited

Report on the audit of the financial statements

Opinion

In our opinion, Costain Engineering & Construction Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: Profit and Loss Account for the year ended 31 December 2017; Statement of Comprehensive Income for the year ended 31 December 2017; Balance Sheet as at 31 December 2017; Statement of Changes in Equity for the year ended 31 December 2017; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 April 2018

Costain Engineering & Construction Limited

Profit and Loss Account for the Year Ended 31 December 2017

	Note	2017 £	2016 £
Revenue		246,452,342	246,095,249
Cost of sales		<u>(224,405,434)</u>	<u>(228,589,351)</u>
Gross profit		22,046,908	17,505,898
Other gains and losses	4	<u>(1,113,333)</u>	<u>(5,372,065)</u>
Operating profit	5	<u>20,933,575</u>	<u>12,133,833</u>
Finance income	9	248,462	340,107
Finance costs	10	<u>(1,830,000)</u>	<u>(1,125,000)</u>
Net finance cost		<u>(1,581,538)</u>	<u>(784,893)</u>
Profit before tax		19,352,037	11,348,940
Income tax expense	11	<u>(2,668,582)</u>	<u>(927,715)</u>
Profit for the financial year		<u><u>16,683,455</u></u>	<u><u>10,421,225</u></u>

The above results were derived from continuing operations.

Costain Engineering & Construction Limited

Statement of Comprehensive Income for the Year Ended 31 December 2017

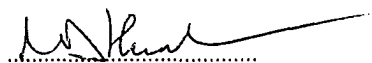
	Note	2017 £	2016 £
Profit for the year		16,683,455	10,421,225
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain/(loss) on defined benefit pension schemes before tax	16	39,198,000	(49,807,000)
Deferred tax on actuarial gain/(loss) recognised on defined benefit pension scheme	11	<u>(7,447,620)</u>	<u>7,633,430</u>
Total comprehensive income/(loss) for the year		<u><u>48,433,835</u></u>	<u><u>(31,752,345)</u></u>

Costain Engineering & Construction Limited

(Registration number: 02440829)
Balance Sheet as at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Investments	12	67,127,592	68,464,367
Current assets			
Debtors	13	81,836,189	80,475,123
Creditors: Amounts falling due within one year			
Trade and other payables	14	(40,973,053)	(40,351,283)
Income tax liability		<u>(549,686)</u>	<u>-</u>
Creditors: Amounts falling due within one year		<u>(41,522,739)</u>	<u>(40,351,283)</u>
Net current assets		<u>40,313,450</u>	<u>40,123,840</u>
Net assets excluding pension asset/(liability)		107,441,042	108,588,207
Gross pension liability	16	<u>(23,917,000)</u>	<u>(73,498,000)</u>
Net assets		<u>83,524,042</u>	<u>35,090,207</u>
Capital and reserves			
Called up share capital	15	41,203,557	41,203,557
Share premium account		19,804,041	19,804,041
Other reserves		12,425,095	12,425,095
Profit and loss account		<u>10,091,349</u>	<u>(38,342,486)</u>
Total shareholders' funds		<u>83,524,042</u>	<u>35,090,207</u>

The financial statements on pages 10 to 32 were approved by the Board of Directors on 12 April 2018 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 2017

	Called up share capital £	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2017	41,203,557	19,804,041	12,425,095	(38,342,486)	35,090,207
Profit for the financial year	-	-	-	16,683,455	16,683,455
Other comprehensive income	-	-	-	31,750,380	31,750,380
Total comprehensive income	-	-	-	48,433,835	48,433,835
At 31 December 2017	41,203,557	19,804,041	12,425,095	10,091,349	83,524,042

	Called up share capital £	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2016	41,203,557	19,804,041	12,425,095	(6,590,141)	66,842,552
Profit for the financial year	-	-	-	10,421,225	10,421,225
Other comprehensive expense	-	-	-	(42,173,570)	(42,173,570)
Total comprehensive expense	-	-	-	(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

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017

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 12 April 2018.

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 have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared in accordance with the Companies Act 2006 and under the historical cost convention, except for the following, which are measured at fair value:

- financial assets and liabilities measured;
- defined benefit pension plans.

The company is a wholly-owned subsidiary of Costain Group PLC and is included in the consolidated financial statements of Costain Group PLC which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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 IFRS 13 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 financial statements of Costain Group PLC.

Going concern

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

After making enquiries the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Revenue recognition

Revenue 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.

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

Finance income and costs policy

Interest receivable and payable on bank deposits and between group undertakings is credited or charged to the profit and loss as incurred, using the effective interest method.

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.

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.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

2 Accounting policies (continued)

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 16. 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 2017 (continued)

2 Accounting policies (continued)

IFRSs not applied

The following IFRSs having been endorsed, will be applicable as stated below:

IFRS 9 'Financial Instruments'

Published in July 2014 and replacing the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement.' IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Directors have assessed the financial statements considering the application of IFRS 9 and conclude that there is no impact on the company results.

IFRS 15 'Revenue from Contracts with Customers'

Issued in May 2015 and effective for accounting periods beginning on or before 1 January 2018.

IFRS 15 replaces existing revenue recognition standards: IAS 11 'Construction Contracts' and IAS 18 'Revenue', and moves away from the 'risks and rewards' concept of revenue recognition used by IAS 18 to a concept of 'transfer of control'. Its core principle is that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer. The standard is intended to bring greater transparency and comparability to financial reporting. The company will adopt the modified retrospective transition approach to the standard, where an impact of adoption is identified.

The main change from the adoption of IFRS is the separation of individual, distinct performance obligations within its framework and multiple revenue stream type contracts. Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the whole contract. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs.

The Directors have assessed the financial statements considering the application of IFRS 15 and conclude that there is no impact on the Company results.

IFRS 16 'Leases'

Replaces the existing accounting requirements in IAS 17 'Leases'. The adoption of IFRS 16 is mandatory for the accounting period beginning 1 January 2019. A single model for lessees will be required, eliminating off balance sheet accounting for non-exempt operating leases. As a result, lease liabilities and corresponding right of use lease assets will come onto the balance sheet and be unwound and depreciated over the term of the lease. The presentation and timing of income and expense recognition in the income statement will change, although the total income and expense over the term of the lease remains the same. There will be no impact on cash flows as the payments received or paid under the leases remain the same, although there will be a change in presentation of cash flows. The application of the new standard will have a varying impact on opening retained earnings at the initial date of adoption dependent upon which transition method is chosen.

The company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. It is not practicable to provide a reasonable estimate of the effect of IFRS 16 or to conclude on the transition approach to be taken until the detailed reviews have been completed.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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:

	2017 £	2016 £
Loss from changes in provisions	(1,250,000)	(5,500,000)
Gain from disposals of investments	1	6,190
Income from fixed asset investments	136,666	121,745
	<u>(1,113,333)</u>	<u>(5,372,065)</u>

£1.25m loss from changes in provisions relates to £850,000 provision made against the investment in Costain Alcaidesa Limited and £400,000 provision against the investment of Costain Building & Civil Engineering Limited (2016: £5.5m, consisting of £4m provision against the investment in Costain Alcaidesa Limited and £1.5m provision against the investment in Costain Oil, Gas & Process Limited).

The gain from disposals of investments arises from the disposal of the investment in National Road Operators, which was dissolved on 19th December 2017.

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

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

5 Operating profit

Operating profit is stated after charging:

	2017 £	2016 £
Car leasing costs	5,952,376	5,767,801
Staff costs (Note 7)	207,435,981	201,232,711
Fees for the audit of the company (Note 6)	50,000	31,000

6 Auditors' remuneration

The deemed audit fee for the company was £50,000 (2016: £31,000).

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

7 Staff costs

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

	2017 £	2016 £
Wages and salaries	180,110,843	174,894,980
Social security costs	19,892,989	19,211,096
Other pension costs	7,432,149	7,126,635
	<u>207,435,981</u>	<u>201,232,711</u>

The monthly average number of persons employed by the company during the year in the United Kingdom was 3,246 (2016: 3,252). All staff were seconded to fellow subsidiaries.

8 Directors' remuneration

No remuneration was paid to the directors of the company during the year (2016: £nil).

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

9 Finance income

	2017	2016
	£	£
Interest income from group undertakings	54,875	24,015
Interest income from associated undertaking	<u>193,587</u>	<u>316,092</u>
	<u><u>248,462</u></u>	<u><u>340,107</u></u>

10 Finance costs

	2017	2016
	£	£
Finance expense from defined benefit pension scheme net deficit	<u><u>1,830,000</u></u>	<u><u>1,125,000</u></u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

11 Income tax

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

	2017 £	2016 £
Current taxation		
Group relief receivable	649,519	(677,550)
Adjustment in respect of prior periods	(99,833)	-
	<u>549,686</u>	<u>(677,550)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,023,896	1,605,265
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	95,000	-
Total deferred taxation	<u>2,118,896</u>	<u>1,605,265</u>
Tax expense in the profit and loss account	<u>2,668,582</u>	<u>927,715</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 19.25% (2016 - 20%).

The differences are reconciled below:

	2017 £	2016 £
Profit before tax	<u>19,352,037</u>	<u>11,348,940</u>
Corporation tax at standard rate	3,725,267	2,269,788
Increase (decrease) in current tax from adjustment for prior periods	(99,833)	-
Increase (decrease) from effect of different UK tax rates on some earnings	(26,630)	(1,569,704)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	505,637	285,055
Decrease (increase) from tax losses for which no deferred tax asset was recognised	(909,436)	-
Increase (decrease) from effect of exercise employee share options	(621,423)	(1,133,075)
Increase (decrease) in current tax from unrecognised tax loss or credit	-	1,100,000
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	95,000	-
Increase (decrease) from effect dividends from UK companies	-	(24,349)
Total tax charge	<u>2,668,582</u>	<u>927,715</u>

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

11 Income tax (continued)

Deferred tax

The elements of deferred taxation at 19.0% (2016: 19.0%) are as follows:

	2017	2016
	£	£
Deferred tax asset on pension liability	4,544,230	13,964,372
Other timing differences	296,299	442,673
	<u>4,840,529</u>	<u>14,407,045</u>

The movements in the deferred taxation asset were as follows:

	2017	2016
	£	£
Deferred taxation asset at the beginning of the year	14,407,045	8,378,880
Amount charged to profit and loss account	(2,023,896)	(1,605,265)
Amount (charged)/credited to statement of comprehensive income	(7,447,620)	7,633,430
Adjustment in respect of prior year	(95,000)	-
Deferred taxation asset at the end of the year	<u>4,840,529</u>	<u>14,407,045</u>

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

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:

	2017	2016
	£	£
Trading tax losses	40,397	4,724,345
Capital losses	-	212,617

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

12 Investments

	2017 £	2016 £
Subsidiaries	64,936,958	66,186,959
Other investments	559,960	559,960
Investments in joint ventures	<u>1,630,674</u>	<u>1,717,448</u>
Total Investments	<u><u>67,127,592</u></u>	<u><u>68,464,367</u></u>

Subsidiaries	£
Cost or valuation	
At 1 January 2017	140,486,957
Disposals	<u>(1)</u>
At 31 December 2017	<u>140,486,956</u>
Provision	
At 1 January 2017	(74,299,998)
Provision in the year	<u>(1,250,000)</u>
At 31 December 2017	<u>(75,549,998)</u>
Carrying amount	
At 31 December 2017	<u><u>64,936,958</u></u>

Details of the subsidiaries as at 31 December 2017 and 31 December 2016 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2017	2016	
Alcaidesa Golf S.L.U.	Golf Course Operator	100%	100%	(1)
Alcaidesa Holding S.A.U.	Holding Company	100%	100%	(1)
Alcaidesa Servicios S.A.U.	Marina Operator	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)

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

12 Investments (continued)

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2017	2016	
Costain Building & Civil Engineering Ltd*	Holding Company	100%	100%	(2)
Costain Construction Ltd	Dormant	100%	100%	(2)
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 (dissolved 2017)	0%	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 (dissolved 2017)	0%	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.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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 2017	<u>2,219,551</u>
At 31 December 2017	<u>2,219,551</u>
Provision for impairment	
At 1 January 2017	<u>1,659,591</u>
At 31 December 2017	<u>1,659,591</u>
Carrying amount	
At 31 December 2017	<u><u>559,960</u></u>

Details of the other investments as at 31 December 2017 are as follows:

Name of investment	Principal activity	Proportion of ownership interest and voting rights held	
		2017	2016
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 2017 (continued)

12 Investments (continued)

Joint ventures

	£
Cost or valuation	
At 1 January 2017	1,717,448
Disposals	<u>(86,774)</u>
At 31 December 2017	<u>1,630,674</u>
Carrying amount	
At 31 December 2017	<u><u>1,630,674</u></u>

Details of the joint ventures as at 31 December 2017 are as follows:

Name of joint ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2017	2016	
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	Dormant (dissolved 2017)	0%	50%	(11)
Integrated Bradford LEP Limited	Construction and Operation of Schools	40%	40%	(12)
Integrated Bradford LEP FIN Co One Limited	Construction and Operation of Schools	40%	40%	(12)
Intergrated Bradford PSP Limited *	Holding company	50%	50%	(12)
Jalal Costain WLL	Dormant	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	Dormant	50%	50%	(14)

* indicates direct investment of the Company.

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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

	2017	2016
	£	£
Amounts owed by group undertakings	73,061,450	62,411,951
Other debtors	3,041,216	2,872,078
Prepayments	892,994	784,049
Deferred tax assets	4,840,529	14,407,045
Less non-current portion	<u>(4,840,529)</u>	<u>(14,407,045)</u>
	<u>76,995,660</u>	<u>66,068,078</u>

Amounts receivable from other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 0%-2.5%.

Details of non-current trade and other Trade debtors

£4,840,529 (2016: £14,407,045) of deferred tax assets is classified as non current.

14 Trade and other payables

Current

	2017	2016
	£	£
Accrued expenses	2,825,316	2,418,367
Amounts owed to group undertakings	16,327,152	15,765,792
Social security and other taxes	6,192,819	6,176,430
Group relief payable	945,400	25,701
Other creditors	<u>14,682,366</u>	<u>15,964,993</u>
	<u>40,973,053</u>	<u>40,351,283</u>

Amounts payable to other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 0%-2.5%.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

15 Called up share capital

Allotted, called up and fully paid shares

	2017		2016	
	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>

16 Gross pension liability

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 2017 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:

	2017 £	2016 £
Fair value of scheme assets	779,472,000	754,000,000
Present value of scheme liabilities	<u>(803,389,000)</u>	<u>(827,498,000)</u>
Defined benefit pension scheme deficit	<u>(23,917,000)</u>	<u>(73,498,000)</u>

Scheme assets

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

	2017 £	2016 £
Fair value at start of year	754,000,000	650,700,000
Interest income	20,038,000	24,395,000
Return on plan assets, excluding amounts included in interest income/(expense)	28,370,000	96,361,000
Employer contributions	12,530,000	14,344,000
Benefits paid	(35,149,000)	(31,555,000)
Administrative expenses paid	<u>(317,000)</u>	<u>(245,000)</u>
Fair value at end of year	<u>779,472,000</u>	<u>754,000,000</u>

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

16 Gross pension liability (continued)

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £	2016 £
Cash and cash equivalents	62,342,000	69,900,000
Equity instruments	232,780,000	212,100,000
Debt instruments	410,057,000	398,100,000
Real estate and PFI investments	74,293,000	73,900,000
	<u>779,472,000</u>	<u>754,000,000</u>

Actual return on scheme's assets

	2017 £	2016 £
Actual return on scheme assets	<u>48,408,000</u>	<u>120,756,000</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:

	2017 £	2016 £
Present value at start of year	827,498,000	687,365,000
Actuarial losses arising from changes in demographic assumptions	16,768,000	-
Actuarial losses arising from changes in financial assumptions	6,868,000	153,002,000
Actuarial gains arising from experience adjustments	(34,464,000)	(6,834,000)
Interest cost	21,868,000	25,520,000
Benefits paid	<u>(35,149,000)</u>	<u>(31,555,000)</u>
Present value at end of year	<u>803,389,000</u>	<u>827,498,000</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:

	2017 %	2016 %
Discount rate	2.5	2.7
Future pension increases	2.9	3.1
Inflation	<u>3.1</u>	<u>3.2</u>

The notes on pages 14 to 32 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (continued)

16 Gross pension liability (continued)

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	22.8	22.2
Current UK pensioners at retirement age - female	24.8	24.7
Future UK pensioners at retirement age - male	24.5	24.1
Future UK pensioners at retirement age - female	<u>26.7</u>	<u>26.7</u>

Amounts recognised in the income statement

	2017 £	2016 £
Amounts recognised in operating profit		
Administrative expenses paid	(317,000)	(245,000)
Amounts recognised in finance income or costs		
Net interest	<u>(1,830,000)</u>	<u>(1,125,000)</u>
Total recognised in the income statement	<u>(2,147,000)</u>	<u>(1,370,000)</u>

Amounts taken to the Statement of Comprehensive Income

	2017 £	2016 £
Actuarial losses arising from changes in demographic assumptions	(16,768,000)	-
Actuarial losses arising from changes in financial assumptions	(6,868,000)	(153,002,000)
Actuarial gains arising from experience adjustments	34,464,000	6,834,000
Return on plan assets, excluding amounts included in interest income/(expense)	<u>28,370,000</u>	<u>96,361,000</u>
Amounts recognised in the Statement of Comprehensive Income	<u>39,198,000</u>	<u>(49,807,000)</u>

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2017 (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 2017 these liabilities amounted to £70.2 million (2016: £69.9 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.