

Registration number: 02440829

# Costain Engineering & Construction Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

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**Costain Engineering & Construction Limited**

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## **Costain Engineering & Construction Limited**

### **Company Information**

<b>Directors</b>	H M Willis D R Taylor
<b>Company secretary</b>	N Geoghegan
<b>Registered office</b>	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
<b>Independent auditors</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

## **Costain Engineering & Construction Limited**

### **Strategic Report for the Year Ended 31 December 2022**

#### **Fair review of the business**

The company is a holding and services company and is the main employer of staff 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.

Revenue for the year was £277.1 million (2021: £243.9 million) and the company recorded a profit for the financial year of £20.5 million (2021 : £17.5 million).

Total shareholders' funds increased to £122.5 million at 31 December 2022 (2021: £116.7 million).

The balance sheet pension asset decreased to £60.2 million during the year (2021: £67.1 million).

The monthly average number of employees of the company during the year was 3,298 (2021: 3,099) and all employees of the company are seconded to fellow subsidiaries of the Costain Group. The company monitors the diversity profile of its employees. Female employees comprised 29.9% of the company workforce at 31 December 2022 (2021: 30.6%).

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.

#### **Key performance indicators**

The company's key financial and other performance indicators during the year were as follows:

- Operating profit £23.9 million (2021: £21.7 million)
- Social contribution £0.4 million (2021: £0.2 million)

#### **Financial risk management**

The Costain Group's centralised treasury function manages financial risk, principally arising from liquidity and funding risks and movements in foreign currency rates and interest rates, for all companies within the Group in accordance with policies agreed by the directors. Additional information on the Group's financial risk management can be found in the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

## **Costain Engineering & Construction Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### **Engaging with our stakeholders**

The paragraphs below show how the directors have performed their duty under Section 172 Companies Act 2006 to have regard to various stakeholder factors. The Costain Group tries to have consistent policies in effect across its operating subsidiaries as and where relevant.

##### **Employees**

- Board members took part in several site visits and attended virtual meetings with colleagues.
- We held two leadership impact days where our people stopped their usual activities and took part in discussions related to the day's themes.
- We conducted a Group-wide people survey.
- We convened our quarterly employee forum, Your Voice.
- We launched a series of live divisional quarterly briefings for all employees.
- We refreshed our new joiner induction programme and annual code of conduct compliance training for all employees.
- We launched our Samaritans 24/7 fundraising campaign in 2022.

##### **Shareholders**

- Our Annual General Meeting (AGM) was again broadcast live. Questions could be asked before the meeting.
- We issued other regular announcements and streamed webcasts to accompany results announcements.
- We wrote to our largest shareholders describing the Directors' Remuneration Report in the 2021 annual report and later in the year on the proposal for the remuneration policy renewal (see page [54]).
- Since appointment, the chair has been meeting with major investors to discuss their views on the Company and receive feedback.
- The investor relations director has also dealt with shareholders on an ad hoc basis during the year on issues including the new chair appointment and the pension fund.

##### **Clients**

- We conducted customer satisfaction surveys for individual projects to help monitor our performance.
- The Board received presentations from the divisional managing directors on major customers and from the Infrastructure Projects Authority on trends and ambitions in the construction industry.
- We took our customers on site visits to flagship projects, helping to showcase our capabilities and the quality of work across our portfolio.
- We attended strategic customer events such as the opening of the Tideway Project.
- We attended a number of events with industry associations including the Hydrogen Summit.
- Visits to customers were undertaken by members of the leadership team with strong CEO and CFO customer engagement.
- In April, our 3,500 people, site teams, customers and suppliers came together on one of our leadership impact days to discuss increasing inclusion, receiving positive feedback across our stakeholders.

##### **Supply chain**

- Our supply chain managers provide a crucial link with suppliers, developing strong, enduring relationships to seek out the best solutions for our customers.
- We continue to seek opportunities to liaise with our supply chain at the earliest possible moment, providing and developing our customer solutions.
- We held another virtual intake to our supply chain academy, training SME businesses on a variety of topics including corporate responsibility, inclusive practices and carbon.
- We facilitated a series of supplier engagement sessions focused on alignment of their wellbeing, inclusion, safety, environmental and ethical business alignment to our ESG commitments.

## **Costain Engineering & Construction Limited**

### **Strategic Report for the Year Ended 31 December 2022 (continued)**

#### **Communities and Environment**

- Costain's community relations continues to be recognised by the Considerate Constructors Scheme, averaging 45.5 compared to the industry average of 39.7 (out of 50). Every contract has an individual or team responsible for community/stakeholder relations.
- We use digital tools to help us keep our neighbours informed of our work, with inclusive and accessible communications.
- To ensure we are abreast of the societal issues affecting our neighbours, Costain has five senior leaders serving as regional board members for Business in the Community (BITC) and Catherine Warbrick is member of the Prince's Trust's Built Environment Group.

Further information on how the directors have had regard to the need to foster the Costain Group PLC's and company's business relationships with suppliers, customers and others, and the effect on the principal decisions taken by Costain Group PLC and the company during the financial year, are included within the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

#### **Principal risks and uncertainties**

The principal risks and uncertainties facing the ultimate parent company, Costain Group PLC ("Costain") and Costain Engineering & Construction Limited, and their ability to achieve their strategic objectives are set out below. Additional information on these principal risks, including controls and key mitigations, can be found in the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

## Costain Engineering & Construction Limited

### Strategic Report for the Year Ended 31 December 2022 (continued)

Title	What is the Risk?
Failure to prevent a major accident, hazard, or incident.	Costain operates in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards, including pandemics, may result in illness, loss of life or significant damage to the environment. Failure to manage this risk could result in reputational damage, loss of business and financial penalties.
Failure to increase the profitability and margin performance of the Group	The effective implementation of our strategy is critical to the Group's ability to increase profitability and margin performance of the Group and effectively align our services to meet the changing needs of our clients. Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value.
Failure to maintain a strong balance sheet.	A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our clients. Failure to manage this risk could affect our ability to achieve our business goals and our resilience to withstand economic downturns.
Failure to secure new work.	Our future growth and profitability is dependent on our ability to secure new work in our competitive marketplace. To be successful we need to maintain strong customer relationships and broaden our service offering by delivering innovative solutions across complex delivery, digital and consulting activities.
Failure to attract and transform the skills, capabilities and competence of our resources	The successful implementation of our strategy is dependent on our ability to attract and retain talent, grow the capabilities of our employees and maintain a high-performing, ethical and inclusive culture where our team can be at their best.
Failure to deliver projects effectively.	Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our clients and investors.
Failure to manage the legacy defined benefit pension scheme.	Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base and do not adversely impact our balance sheet.
Failure to ensure that our technology is robust, our systems are secure and our data protected.	Our ability to enable safe, secure, and resilient business operations (including finding, winning, and delivering work supported by efficient corporate services) is dependent on the delivery of our core IT strategy. The delivery of this strategy is also key to our ability to safely and securely acquire, host, use, and dispose of Costain, client, and third-party data.
Failure to anticipate and respond to changes in client circumstances.	We have seen changes in the business operations and investment priorities of our core clients and clients challenged by ever evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our clients and respond effectively, could restrict our ability to grow margins and increase market share.
Failure of climate change resilience	The risk that we lack the resilience to survive and thrive amid the impacts of climate change on a local, national and international level.

**Costain Engineering & Construction Limited**

**Strategic Report for the Year Ended 31 December 2022 (continued)**

Approved by the Board on 20 April 2023 and signed by its order by:

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Company secretary



## **Costain Engineering & Construction Limited**

### **Directors' Report for the Year Ended 31 December 2022**

The directors present their report and the audited financial statements for the year ended 31 December 2022.

#### **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:

H M Willis

M D Hunter (resigned 18 March 2022)

D R Taylor

#### **Principal activities**

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 2022 (2021: £Nil).

#### **Diversity**

Apart from ensuring that an individual has the ability to carry out a particular role, the company does not discriminate in any way. The company endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the company and Costain Group PLC. The company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

#### **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.

#### **Environmental matters**

We are mindful of the macro-economic backdrop and market conditions due to wider economic and geopolitical challenges, and we continue to monitor and work to mitigate headwinds in commodity and energy costs, as well as challenges in the supply chain.

#### **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.

#### **Going concern**

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2022, the directors are required to consider whether the company can continue in operational existence for the foreseeable future. The directors have concluded that after having received an undertaking from Costain Group PLC that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the Company, it is appropriate to adopt the going concern basis in preparing these financial statements.

## **Costain Engineering & Construction Limited**

### **Directors' Report for the Year Ended 31 December 2022 (continued)**

#### **Statement of directors' responsibilities in respect of the financial statements**

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, 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 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

## **Costain Engineering & Construction Limited**

### **Directors' Report for the Year Ended 31 December 2022 (continued)**

#### **Disclosure of information to the auditors**


The directors confirm that, so far as they are aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the company's external auditors are unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's external auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

#### **Appointment of independent auditors**

The independent auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 20 April 2023 and signed by its order by:

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N Geoghegan  
Company secretary

# 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 2022 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, including 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: the Statement of Financial Position as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Health and Safety, Data Protection laws, relevant construction legislation and Pensions, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and relevant tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential posting of inappropriate journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of the financial statement disclosures to underlying supporting documentation;
- Assessment of matters reported in the Group's whistleblowing helpline and the results of the management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, particularly in relation to contract accounting; and
- Identifying and testing journal entries, in particular any journals entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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](http://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.

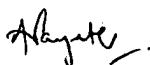
## **Other required reporting**

### **Companies Act 2006 exception reporting**

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

- we have not obtained 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.



Andrew Paynter (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
20 April 2023

## Costain Engineering & Construction Limited

### Income Statement for the year ended 31 December 2022

	Note	2022 £	2021 £
Revenue	4	277,059,292	243,925,448
Cost of sales		<u>(253,701,194)</u>	<u>(222,501,875)</u>
<b>Gross profit</b>		23,358,098	21,423,573
Other gains and losses	5	<u>558,964</u>	<u>234,751</u>
<b>Operating profit</b>	6	<u>23,917,062</u>	<u>21,658,324</u>
Finance income	10	1,600,294	266,883
Finance costs	11	<u>(265,017)</u>	<u>(149,523)</u>
Net finance income		<u>1,335,277</u>	<u>117,360</u>
<b>Profit before taxation</b>		25,252,339	21,775,684
Tax on profit	12	<u>(4,776,183)</u>	<u>(4,247,049)</u>
<b>Profit for the financial year</b>		<u><u>20,476,156</u></u>	<u><u>17,528,635</u></u>

The above results were derived from continuing operations.

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Statement of Comprehensive Income for the Year Ended 31 December 2022

	2022 £	2021 £
Profit for the financial year	<u>20,476,156</u>	<u>17,528,635</u>
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial (loss)/gain on defined benefit pension schemes before tax	(18,631,000)	62,641,000
Tax recognised on remeasurement of retirement benefit asset	<u>3,953,221</u>	<u>(15,660,250)</u>
<b>Total other comprehensive (expense)/income</b>	<u>(14,677,779)</u>	<u>46,980,750</u>
<b>Total comprehensive income for the year</b>	<u><u>5,798,377</u></u>	<u><u>64,509,385</u></u>

The notes on pages 17 to 37 form an integral part of these financial statements.



**Costain Engineering & Construction Limited****(Registration number: 02440829)****Statement of Financial Position as at 31 December 2022**

	Note	2022 £	2021 £
<b>Fixed assets</b>			
Investments	13	32,790,029	32,790,029
<b>Current assets</b>			
Trade and other receivables	14	90,928,852	77,752,057
<b>Creditors - amounts falling due within one year</b>	16	<u>(46,570,391)</u>	<u>(44,395,965)</u>
<b>Net current assets</b>		<u>44,358,461</u>	<u>33,356,092</u>
<b>Total assets less current liabilities</b>		77,148,490	66,146,121
Creditors - amounts falling due after more than one year	16	<u>(14,844,897)</u>	<u>(16,533,905)</u>
<b>Net assets excluding pension asset</b>		62,303,593	49,612,216
Retirement benefit asset	18	<u>60,229,000</u>	<u>67,122,000</u>
<b>Net assets</b>		<u>122,532,593</u>	<u>116,734,216</u>
<b>Equity</b>			
Called up share capital	17	41,203,557	41,203,557
Share premium account		19,804,041	19,804,041
Other reserves		12,425,095	12,425,095
Retained earnings		<u>49,099,900</u>	<u>43,301,523</u>
<b>Total shareholders' funds</b>		<u>122,532,593</u>	<u>116,734,216</u>

The financial statements on pages 13 to 37 were approved by the board of directors on 20 April 2023 and signed on its behalf by:

DocuSigned by:

*Helen Willis*DC2F7562FAC34BE...  
H M Willis

Director

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering &amp; Construction Limited

**Statement of Changes in Equity**  
for the year ended 31 December 2022

	Called up share capital £	Share premium account £	Other reserves £	Retained earnings £	Total shareholders' funds £
<b>At 1 January 2022</b>	41,203,557	19,804,041	12,425,095	43,301,523	116,734,216
Profit for the financial year	-	-	-	20,476,156	20,476,156
Other comprehensive expense	-	-	-	(14,677,779)	(14,677,779)
Total comprehensive income	-	-	-	5,798,377	5,798,377
<b>At 31 December 2022</b>	<u>41,203,557</u>	<u>19,804,041</u>	<u>12,425,095</u>	<u>49,099,900</u>	<u>122,532,593</u>

	Called up share capital £	Share premium account £	Other reserves £	(Accumulated losses)/retained earnings £	Total shareholders' funds £
<b>At 1 January 2021</b>	41,203,557	19,804,041	12,425,095	(21,207,862)	52,224,831
Profit for the financial year	-	-	-	17,528,635	17,528,635
Other comprehensive income	-	-	-	46,980,750	46,980,750
Total comprehensive income	-	-	-	64,509,385	64,509,385
<b>At 31 December 2021</b>	<u>41,203,557</u>	<u>19,804,041</u>	<u>12,425,095</u>	<u>43,301,523</u>	<u>116,734,216</u>

The notes on pages 17 to 37 form an integral part of these financial statements.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022**

#### **1 General information**

The company is a private company limited by share capital, incorporated in the United Kingdom and domiciled in England.

The address of its registered office is:

Costain House  
Vanwall Business Park  
Maidenhead  
Berkshire  
SL6 4UB  
United Kingdom

These financial statements were authorised for issue by the board on 20 April 2023.

#### **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 defined benefit pension plan assets which are measured at fair value.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits.

##### **Functional and presentation currency**

Items included in the financial statements of the company are measured using the currency of the primary economic environment which the company operates. The financial statements are presented in 'pounds sterling' (£), which is also the company's functional currency.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Going concern**

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

The ultimate parent company, Costain Group PLC, manages its United Kingdom cash balances using a centralised cash system and surplus cash held by the company, outside of joint arrangements, is loaned at interest to a fellow subsidiary on a day-to-day basis. These loans are repaid or new loans advanced daily to satisfy any cash requirements.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2022, the directors are required to consider whether the company can continue in operational existence for the foreseeable future. The directors have concluded that after having received an undertaking from Costain Group PLC that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the company, it is appropriate to adopt the going concern basis in preparing these financial statements.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (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;
- (i) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs;
- (j) IAS 7, 'Statement of Cash Flows';
- (k) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- (l) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- (m) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and
- (n) 'The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.'

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.

The notes on pages 17 to 37 form an integral part of these financial statements.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **New standards and changes in accounting policy**

None of the standards, interpretations and amendments effective for the first time from 1 January 2022 have had a material effect on the financial statements. These include:

- Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16;
- Reference to the Conceptual Framework - Amendments to IFRS 3; and
- Onerous Contracts - Cost of Fulfilling a Contract - Amendments to IAS 37.

The company also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions..

##### **Revenue recognition**

###### *Recognition*

The Company recognises revenue when performance obligations have been satisfied and for the Company, this is when control over the service or product is transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax. Where the consideration is variable, the amount recognised is highly probable not to suffer a significant reversal in future. This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers. This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

##### **Finance income and costs**

Interest receivable and payable on bank deposits and between group undertakings is credited or charged to 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. 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.

The notes on pages 17 to 37 form an integral part of these financial statements.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

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**

Investments in group undertakings 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.

#### **Financial instruments**

##### **Initial recognition**

The company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of directly attributable premiums, discounts and transaction costs.

Subsequent to initial measurement, financial assets and financial liabilities are measured at amortised cost.

##### **Derecognition**

###### *Financial assets*

A financial asset is derecognised only when the contractual rights to the cash flows from that asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

###### *Financial liabilities*

The company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

##### **Impairment of financial assets**

Impairment of financial assets is based on an expected credit loss model applying the simplified approach permitted under IFRS 9. The company calculates an allowance for credit losses based on the nature of the customer, experience of collecting receivables from similar customers and modelling default scenarios and applying probabilities of such scenarios.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The loss rates will be adjusted to reflect current and forward-looking information and macroeconomic factors that might affect the ability of the customers to settle the receivables.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **2 Accounting policies (continued)**

##### **Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for intercompany balances. To measure the expected credit losses, intercompany balances have been grouped based on shared credit risk characteristics and the days past due.

##### **Trade and other creditors**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **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.

##### **Defined benefit pension obligation**

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in Note 18. 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 calculated annually by independent actuaries, 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. Past service costs are recognised immediately in the profit and loss account.



## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (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 estimates in relation to the assumptions for the discount rate, inflation 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 18.

#### 4 Revenue

All revenue is attributable to the principal activity of the business and arose within the UK.

#### 5 Other gains and losses

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

	2022 £	2021 £
Amounts written back against intercompany loans	36,306	234,751
Gain from disposal of investment (Note 13)	522,658	-
	<u>558,964</u>	<u>234,751</u>

During the year, the company sold a minor stake in a hotel company for £522,658. The investment was impaired to £nil in 2020 reflecting the significant impact of COVID-19 in that sector, so the profit realised this year is also £522,658.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 6 Operating profit

Operating profit is stated after charging:

	2022	2021
	£	£
Staff costs (Note 8)	243,532,696	212,831,593
Fees for the audit of the company (Note 7)	50,000	50,000

#### 7 Auditors' remuneration

The audit fee for the company was £50,000 (2021: £50,000).

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.

#### 8 Staff costs

The aggregate payroll costs, paid on behalf of fellow subsidiaries in relation to seconded staff (including directors' remuneration) were as follows:

	2022	2021
	£	£
Wages and salaries	208,579,432	183,320,877
Social security costs	23,642,005	19,495,637
Other pension costs	11,311,259	10,015,079
	<u>243,532,696</u>	<u>212,831,593</u>

The monthly average number of persons employed by the company during the year in the United Kingdom was 3,298 (2021: 3,099). All staff were seconded to fellow subsidiaries.

#### 9 Directors' remuneration

The remuneration of the directors was paid by and is dealt with in the financial statements of Costain Limited. It is not practicable to allocate their remuneration between their services as directors of Costain Limited and their services as directors of Costain Engineering & Construction Limited. The directors are considered to be the key management.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 10 Finance income

	2022 £	2021 £
Interest income from group undertakings	314,294	266,883
Finance income from defined benefit pension scheme net surplus (Note 18)	1,286,000	-
	<u>1,600,294</u>	<u>266,883</u>

#### 11 Finance costs

	2022 £	2021 £
Interest expense payable to group undertakings	(265,017)	(141,523)
Finance expense from defined benefit pension scheme	-	(8,000)
	<u>(265,017)</u>	<u>(149,523)</u>

#### 12 Tax on profit

Tax charged in the Income Statement

	2022 £	2021 £
<b>Current taxation</b>		
Current year corporate tax	2,691,548	-
Group relief payable	2,052,310	2,242,395
Adjustment in respect of prior periods	(1,917)	(86,725)
	<u>4,741,941</u>	<u>2,155,670</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	34,242	2,091,379
Tax expense in the income statement	<u>4,776,183</u>	<u>4,247,049</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021: higher than the standard rate of corporation tax in the UK) of 19% (2021: 19%).

The differences are reconciled below:

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 12 Tax on profit (continued)

	2022 £	2021 £
Profit before tax	<u>25,252,339</u>	<u>21,775,684</u>
Corporation tax at standard rate	4,797,944	4,137,380
Decrease in current tax from adjustment for prior periods	(1,917)	(86,725)
Decrease from effect of expenses not deductible in determining taxable profit	(16,876)	(13,164)
Decrease from effect of exercise employee share options	(11,187)	-
Deferred tax expense relating to changes in tax rates or laws	<u>8,219</u>	<u>209,558</u>
Total tax charge	<u><u>4,776,183</u></u>	<u><u>4,247,049</u></u>

#### Amounts recognised in other comprehensive income

	2022 £	2021 £
Deferred tax - Retirement benefit assets	1,723,250	(15,660,250)
Current tax - Retirement benefit assets	<u>2,229,971</u>	<u>-</u>
Tax credit/(charge) in other comprehensive income	<u><u>3,953,221</u></u>	<u><u>(15,660,250)</u></u>

#### Deferred tax

The elements of deferred taxation at 19.0% (2021: 19.0%) are as follows:

	2022 £	2021 £
Deferred tax liability on pension asset/liability	(15,057,250)	(16,780,500)
Other timing differences	212,353	246,595
	<u><u>(14,844,897)</u></u>	<u><u>(16,533,905)</u></u>

The movements in the deferred taxation liability were as follows:

	2022 £	2021 £
Deferred taxation (liability)/asset at the beginning of the year	(16,533,905)	1,218,222
Amount charged to profit and loss account	(34,242)	(2,091,379)
Amount credited/(charged) to statement of comprehensive income	1,723,250	(15,660,250)
Deferred taxation liability at the end of the year	<u><u>(14,844,897)</u></u>	<u><u>(16,533,905)</u></u>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This rate was substantively enacted on 24th May 2021. Deferred tax balances in these financial statements have been calculated at the rate of 25% or at 19% where the asset will unwind prior to April 2023.

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 12 Tax on profit (continued)

The gross potential deferred taxation assets not recognised were:

	2022	2021
	£	£
Capital tax losses	212,617	212,617

#### 13 Investments

	2022	2021
	£	£
Subsidiaries	32,790,029	32,790,029

<b>Subsidiaries</b>	<b>£</b>
<b>Cost</b>	
At 1 January 2021	140,486,956
At 31 December 2021	140,486,956
At 1 January 2022	140,486,956
At 31 December 2022	140,486,956
<b>Accumulated provisions</b>	
At 1 January 2021	107,696,927
At 31 December 2021	107,696,927
At 1 January 2022	107,696,927
At 31 December 2022	107,696,927
<b>Carrying amount</b>	
At 31 December 2022	32,790,029
At 31 December 2021	32,790,029

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 13 Investments (continued)

Details of the subsidiaries as at 31 December 2022 and 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2022	2021	
CLM Engineering (Overseas) Limited*	Dormant	100%	100%	(1)
Costain Alcaidesa Limited*	Holding Company	100%	100%	(1)
Costain Building & Civil Engineering Limited*	Holding Company	100%	100%	(1)
Costain Construction Limited	Dormant	100%	100%	(1)
Costain de Venezuela C.A.	Dormant	100%	100%	(2)
Costain Energy Solutions Limited*	Trading	100%	100%	(1)
Costain Engineering & Construction (Overseas) Limited*	Holding Company	100%	100%	(1)
Costain International Limited	Dormant	100%	100%	(1)
Costain Management Design Limited	Dormant	100%	100%	(1)
COGAP (Middle East) Limited	Holding Company	100%	100%	(1)
Costain Oil, Gas & Process (Nigeria) Limited	Dormant	95%	95%	(3)
Costain Oil, Gas & Process (Overseas) Limited	Dormant	100%	100%	(1)
Costain Oil, Gas & Process Limited*	Process Engineering	100%	100%	(1)
Costain Process Construction Limited*	Dormant	100%	100%	(1)
Westminster Plant Co Limited	Dormant	100%	100%	(1)
Costain Abu Dhabi Co WLL	Dormant	49%	49%	(4)

\* indicates direct investment of the Company.

The notes on pages 17 to 37 form an integral part of these financial statements.

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **13 Investments (continued)**

The company has a 49% indirect investment in Costain Abu Dhabi Co WLL which has previously been treated as a subsidiary undertaking due to Costain having power to influence and control the composition of the Board of directors and the beneficial right to all the net income. However, in the current year Costain considers that it no longer controls the company which no longer trades.

- (1) Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England
- (2) Dormant company - Venezuela, no record of address
- (3) Dormant company - Nigeria, no record of address
- (4) Dormant company - Abu Dhabi, UAE, no record of address

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 13 Investments (continued)

##### Other investments

	£
<b>Cost</b>	
At 1 January 2021	2,219,551
At 31 December 2021	2,219,551
At 1 January 2022	2,219,551
Disposal	(2,219,551)
At 31 December 2022	-
<b>Provision for impairment</b>	
At 1 January 2021	2,219,551
At 31 December 2021	2,219,551
At 1 January 2022	2,219,551
Eliminated on disposal	(2,219,551)
At 31 December 2022	-
<b>Carrying amount</b>	
At 31 December 2022	-
At 31 December 2021	-

During the year, the company sold a minor stake in a hotel company for £522,658. The investment was impaired to £nil in 2020 reflecting the significant impact of COVID-19 in that sector, so the profit realised this year is also £522,658.

Details of other investments as at 31 December 2022 and 31 December 2021 are as follows:

Name of investment	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2022	2021	
SleeperZ Limited	Hotels	0%	11%	(5)
SleeperZ Hotels Limited *	Hotels	0%	11%	(5)

\* indicates direct investment of the Company.

(5) Regus Business Centre, 16 Upper Woburn Place, London, WC1H 0BS, England

The notes on pages 17 to 37 form an integral part of these financial statements.



## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 13 Investments (continued)

##### Joint ventures

Details of the joint ventures as at 31 December 2022 and 31 December 2021 are as follows:

Name of joint ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2022	2021	
Budimex & Costain Sp. z.o.o	Dormant	50%	50%	(6)
China Harbour-Costain Mexico S de RL de CV	Dormant	50%	50%	(7)
Jalal Costain WLL	Dormant	49%	49%	(8)
Nesma-Costain Process Company Ltd	Dormant	50%	50%	(9)

(6) Marszałkowska 82, Warsaw, Mazowieckie, 00-517, Poland

(7) Calle Delfines No. 268 - 2, Frac. Playa Ensenada, Ensenada, B.C., CP. 22880, Mexico

(8) Flat 33, Building 232, Road 18, Block 321, Manama, Bahrain

(9) P.O.Box, 6967, 21452, Jeddah, Saudi Arabia

#### 14 Trade and other receivables

	31 December 2022	31 December 2021
	£	£
Amounts owed by group undertakings	88,879,478	76,527,431
Other receivables	1,012,617	198,388
Prepayments	1,036,757	1,026,238
	<u>90,928,852</u>	<u>77,752,057</u>

Amounts owed from group undertakings are unsecured, repayable on demand and accrue interest at the Bank of England Base rate less 0.25% or the Bank of England Base rate plus 2.75% depending on the counterparty (2021: rates between 0%- 0.5%).

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 15 Cash and cash equivalents

The Company's bankers have the right to set off the company's principal bank balances when in credit against any overdraft borrowings by, a fellow subsidiary of the Costain group, Richard Costain Limited. In addition, one of the arrangements requires that certain cash balances, whether in credit or debit, are swept to/from Richard Costain Limited on a daily basis; such arrangements are commonplace in large groups and facilitate effective cash management. The company's cash balance is replaced with an inter-company receivable/payable from/to Richard Costain Limited.

#### 16 Creditors

##### Amounts falling due within one year

	31 December 2022	31 December 2021
	£	£
Accrued expenses	752,029	1,253,679
Amounts owed to group undertakings	35,555,288	33,397,189
Social security and other taxes	6,285,124	6,195,474
Group relief payable	2,694,092	2,422,854
Other creditors	1,283,858	1,126,769
	<u>46,570,391</u>	<u>44,395,965</u>

Amounts owed to other group undertakings are unsecured, repayable on demand and accrue interest at the Bank of England base rate + 2.75% (2021: rates between 0%-0.5%).

##### Amounts falling due after more than one year

	31 December 2022	31 December 2021
	£	£
Deferred tax liabilities	<u>14,844,897</u>	<u>16,533,905</u>

#### 17 Called up share capital

##### Allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	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 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 18 Gross pension asset/(liability)

##### Defined benefit pension scheme

The company operates a defined benefit pension scheme in the UK; contributions are paid by subsidiary undertakings of the Costain Group.

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006, future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2022 and this was updated to 31 December 2022 by a qualified independent actuary. At 31 December 2022, there were 2,867 retirees and 2,529 deferred members (2021: 2,875 retirees and 2,629 deferred members). The weighted average duration of the obligations is 11.9 years (2021: 16.3 years).

##### *Reconciliation of scheme assets and liabilities to assets and liabilities recognised*

The amounts recognised in the statement of financial position are as follows:

	2022 £	2021 £
Fair value of scheme assets	587,261,000	904,636,000
Present value of scheme liabilities	(527,032,000)	(837,514,000)
Defined benefit pension scheme surplus	<u>60,229,000</u>	<u>67,122,000</u>

##### *Scheme assets*

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

	31 December 2022 £	31 December 2021 £
Fair value at start of year	904,636,000	880,858,000
Interest income	16,063,000	11,739,000
Return on plan assets, excluding amounts included in interest income	(310,700,000)	34,573,000
Employer contributions	10,773,000	10,452,000
Benefits paid	(33,190,000)	(32,647,000)
Administrative expenses paid	<u>(321,000)</u>	<u>(339,000)</u>
Fair value at end of year	<u>587,261,000</u>	<u>904,636,000</u>

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 18 Gross pension asset/(liability) (continued)

##### *Analysis of assets*

The major categories of scheme assets are as follows:

	31 December 2022 £	31 December 2021 £
Cash and cash equivalents	3,287,000	16,585,000
Equity instruments	109,786,000	137,256,000
Debt instruments	307,153,000	494,591,000
Real estate and PFI investments	-	4,367,000
Investment funds	167,035,000	251,837,000
	<u>587,261,000</u>	<u>904,636,000</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:

	31 December 2022 £	31 December 2021 £
Present value at start of year	837,514,000	886,482,000
Actuarial gains arising from changes in demographic assumptions	(296,000)	(5,413,000)
Actuarial gains arising from changes in financial assumptions	(321,421,000)	(16,135,000)
Actuarial losses/(gains) arising from experience adjustments	29,648,000	(6,520,000)
Interest cost	14,777,000	11,747,000
Benefits paid	(33,190,000)	(32,647,000)
Present value at end of year	<u>527,032,000</u>	<u>837,514,000</u>

The notes on pages 17 to 37 form an integral part of these financial statements.

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 18 Gross pension asset/(liability) (continued)

##### *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:

	31 December 2022 %	31 December 2021 %
Discount rate	5.0	1.8
Future pension increases	2.9	3.3
Inflation	3.1	3.4

##### *Post retirement mortality assumptions*

	2022 Years	2021 Years
Current UK pensioners at retirement age - male	21.9	22.1
Current UK pensioners at retirement age - female	23.9	24.0
Future UK pensioners at retirement age - male	22.9	23.1
Future UK pensioners at retirement age - female	25.1	25.3

##### *Amounts recognised in the income statement*

	31 December 2022 £	31 December 2021 £
<b>Amounts recognised in operating profit</b>		
Administrative expenses paid by the pension scheme	(321,000)	(339,000)
<b>Amounts recognised in finance income or costs</b>		
Net interest	1,286,000	(8,000)
Total recognised in the income statement	965,000	(347,000)

## Costain Engineering & Construction Limited

### Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

#### 18 Gross pension asset/(liability) (continued)

##### *Amounts taken to the Statement of Comprehensive Income*

	31 December 2022 £	31 December 2021 £
Actuarial gains arising from changes in demographic assumptions	296,000	5,413,000
Actuarial gains arising from changes in financial assumptions	321,421,000	16,135,000
Actuarial (losses)/gains arising from experience adjustments	(29,648,000)	6,520,000
Return on plan assets, excluding amounts included in interest (expense)/income	<u>(310,700,000)</u>	<u>34,573,000</u>
Amounts recognised in the Statement of Comprehensive Income	<u>(18,631,000)</u>	<u>62,641,000</u>

#### Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	Pension liability £	Pension cost £
Increasing the discount rate by 0.25%, decreases pension liability and increases pension income/reduces pension cost by	15,400,000	800,000
Decreasing inflation by 0.25% (which decreases pension increases), decreases pension liability and increases pension income/reduces pension cost by	13,500,000	700,000
Increasing life expectancy by one year, increases pension liability and reduces pension income/increases pension cost by	17,900,000	900,000

#### 19 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 2022, these liabilities amounted to £Nil (2021: £40,000,000).

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

## **Costain Engineering & Construction Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)**

#### **20 Parent and ultimate parent undertaking**

The company's immediate parent is Costain Group PLC.

The ultimate parent is Costain Group PLC.

The parent of the largest and smallest group producing publicly available financial statements in which these financial statements are consolidated 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.