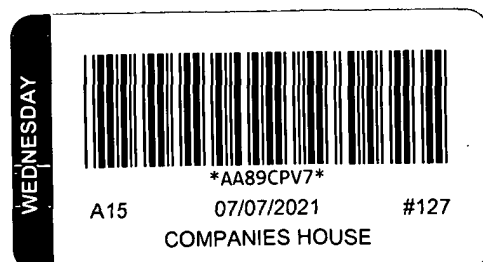


Registration number: 02440829

Costain Engineering & Construction Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020



Costain Engineering & Construction Limited

Contents

	Page(s)
Company Information	1
Strategic Report	2 to 6
Directors' Report	7 to 9
Independent Auditors' Report	10 to 13
Income Statement	14
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Notes to the Financial Statements	18 to 37

Costain Engineering & Construction Limited

Company Information

Directors H M Willis
M D Hunter
D R Taylor

Company secretary S Harris

Registered office Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB

Independent auditors PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020.

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 £218.5 million (2019: £230.7 million) and the company recorded a loss for the financial year of £32.0 million (2019 profit: £1.7 million) including losses arising from the impairment of the company's investment in and an intercompany receivable from the subsidiary company, Costain Oil, Gas and Process Ltd.

Shareholders' funds decreased to £52.2 million at 31 December 2020 (2019: £100.4 million) as a result of the loss for the year together with the adverse market movement on the defined benefit pension scheme (noted below).

The balance sheet pension asset decreased by £10.5 million during the year and changed the asset to a liability of £5.6 million.

The average number of employees of the company during the year was 2,882 (2019: 2,892) and all employees of the company are seconded to fellow subsidiaries of the Costain Group. The company monitors the diversity profile of its employees. The number of female employees was 28.3% (2019: 24.5%).

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.

Impact of Covid-19

Since the onset of COVID-19 our priority has been to ensure the safety and wellbeing of our people, clients and the communities in which we operate. We have protected our business while continuing to work on critical national infrastructure programmes.

The Group's contracts continue to operate productively through the COVID-19 pandemic with enhanced safety measures on construction sites and colleagues working remotely. Our offices have remained closed for the majority of the year. However, when national guidelines have allowed, we have been pleased to welcome colleagues unable to work remotely or who were experiencing wellbeing issues back into our offices under COVID-19-safe conditions.

Our construction sites have remained operational. They are now operating at normal levels of productivity across the Group compared to pre-COVID-19 levels. We remain alert to the continuing challenges that the ongoing pandemic is placing on our people's safety and wellbeing and on our operations.

Safeguarding our workforce and supporting our stakeholders

Doing the right thing by our people, our clients, society and protecting our business have guided our decision making during COVID-19. Our Executive COVID-19 task force was formed to direct our response, supported by our COVID-19 steering group. These have been pivotal in leading our successful response to the pandemic and in enabling us to continue to deliver services for critical national infrastructure programmes.

These continue to operate.

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2020 (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

2020 brought unprecedented challenge to staying connected. Protecting the health, safety and wellbeing of our people is of paramount importance.

- Our robust digital infrastructure enabled us to seamlessly transition to working remotely and support this throughout the year.
- Behavioural approach to safety and wellbeing which has enhanced our ability to keep people safe and well. 92% of our colleagues agree that Costain has taken the right steps to secure their wellbeing while on site.
- Every contract and department has developed and implemented a thrive plan to enable our teams to perform at their best and provided our line managers with training on managing in a virtual world.
- Our leadership impact days in April and September focused on wellbeing, working from home and early lessons learned from our response to the pandemic.
- We set up a COVID-19 intranet portal which was updated daily with key information and FAQs for all staff. This became a lynchpin of communication, supplemented by an active social media group for furloughed staff and weekly communication drop-in sessions for the Costain leadership group, where challenges and concerns were heard and shared.

Shareholders

We acted decisively to mitigate the impact of COVID-19 on our business and to update our shareholders on our performance.

- Adapted our site operating procedures quickly and in consultation with industry and clients to ensure our sites could get back to operating productively.
- Implemented salary reductions between 10%-30% for three months to June 2020.
- Issued a market update on 31 March 2020 on the impact of COVID-19. Our interactive, virtual trading update in August provided further information to our shareholders on how Costain had reacted to the pandemic, and the on-going impact on our operations.

Clients

We responded immediately to our clients' needs during the pandemic.

- Set up a rapid response microsite offering targeted COVID-19 services to support our clients.
- Our project directors liaised closely with the Costain COVID-19 steering committee and their client leads to ensure our sites were adapted to allow safe social distancing. We used innovative solutions like the social distance watches on Thames Tideway.
- Pivoted from in-person site visits to virtual tours and engagement programmes across our projects.

Supply chain

We worked hard to support and engage with our supply chain throughout the pandemic.

- In April 2020, our behavioural safety director, Alan Cheung, delivered a practical briefing to our supply chain on how to achieve social distancing on site.
- Our supply chain conference in September 2020 was held virtually for the first time, with a focus on communication and collaboration during the ongoing uncertainty resulting from the pandemic.

Communities and Environment

- Supported Business In The Community with their National Business Response Network, linking our supply chain with community needs. In London we provided over 10,000 face masks to a variety of community organisations.
- Costain military reservists were called up to support the COVID-19 response, helping set up Nightingale hospitals.

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Clients

The company provides staff to various fellow Costain Group subsidiaries and has regular meetings with the management of those entities.

Supply chain

The company's supply chain mostly relates to employee related services and the company has regular meetings with the key providers of those services.

Communities and Environment

All contracts have an appointed community relations representative, with many having a dedicated engagement specialist. We use social media and provide public hotlines. We are a partner of the Considerate Constructors scheme and our projects sign up to their code of practice, ensuring we maintain exceptional standards of community engagement. Many projects have visitor centres allowing the community to meet with the site team. We want to make a positive contribution to our local communities and create partnerships with external organisations to help maximise our impact. In 2019, we worked with The Prince's Trust, Centrepont, STEM Learning, Career Ready, Samaritans and The Wildlife Trust.

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties


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

Title	What is the Risk?
Failure to prevent and effectively manage 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 accelerate the deployment of our higher margin services.	The effective implementation of Costain's Leading Edge strategy is critical to the Group's ability to accelerate the deployment of our higher margin services alongside our complex programme delivery. 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.	Costain's 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 client 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 and performance of our employees and maintain a high performing, ethical and caring 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.

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Approved by the Board on 29 April 2021 and signed by its order by:

DocuSigned by:

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S Harris
Company secretary

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their report and the audited financial statements for the year ended 31 December 2020.

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 (appointed 30 November 2020)

M D Hunter

D R Taylor (appointed 1 September 2020)

A O Bickerstaff (resigned 30 November 2020)

T A Wood - Company secretary and director (resigned 1 September 2020)

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 2020 (2019: £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.

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.

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:

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

- 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 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.

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.

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.

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Appointment of auditor

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

Approved by the Board on 29 April 2021 and signed by its order by:

DocuSigned by:

S Harris

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S Harris

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 2020 and of its loss 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: the Statement of Financial Position as at 31 December 2020; the Income Statement, the Statement of Comprehensive Income, 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 2020 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 the Companies Act 2006, Pensions and relevant tax legislations, 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. 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 posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates.. Audit procedures performed included:

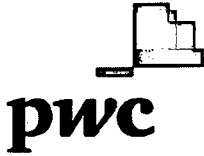
- Discussion with management, internal audit and the Group's in-house legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of the financial statement disclosures to underlying supporting documentation;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to contract accounting; and
- Identifying and testing journal entries, in particular any journal 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. 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.

A handwritten signature in black ink, appearing to read 'Jonathan Hook'.

Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 April 2021

Costain Engineering & Construction Limited**Income Statement
for the year ended 31 December**

	Note	2020 £	2019 £
Revenue		218,499,636	230,656,383
Cost of sales		<u>(201,708,433)</u>	<u>(212,752,179)</u>
Gross profit		16,791,203	17,904,204
Other gains and losses	4	<u>(46,586,233)</u>	<u>(14,357,216)</u>
Operating (loss)/profit	5	<u>(29,795,030)</u>	<u>3,546,988</u>
Finance income	9	1,741,302	1,292,377
Finance costs	10	<u>(241,523)</u>	<u>(120,762)</u>
Net finance income		<u>1,499,779</u>	<u>1,171,615</u>
(Loss)/profit before tax		(28,295,251)	4,718,603
Taxation	11	<u>(3,753,973)</u>	<u>(3,057,984)</u>
(Loss)/profit for the financial year		<u><u>(32,049,224)</u></u>	<u><u>1,660,619</u></u>

The above results were derived from continuing operations.

Costain Engineering & Construction Limited**Statement of Comprehensive Income for the Year Ended 31 December 2020**

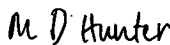
	2020 £	2019 £
(Loss)/profit for the financial year	<u>(32,049,224)</u>	<u>1,660,619</u>
Items that will not be reclassified to profit or loss		
Actuarial (loss)/gain on defined benefit pension schemes before tax	(19,947,000)	(7,001,000)
Deferred tax on actuarial gain/(loss) on defined benefit pension scheme	<u>3,789,930</u>	<u>1,190,170</u>
Total items will not be reclassified to profit or loss	<u>(16,157,070)</u>	<u>(5,810,830)</u>
Total comprehensive expense for the year	<u><u>(48,206,294)</u></u>	<u><u>(4,150,211)</u></u>

The notes on pages 18 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 2020**

	Note	2020 £	2019 £
Fixed assets			
Investments	12	32,790,029	60,522,512
Current assets			
Trade and other receivables	13	82,891,405	105,207,424
Creditors - amounts falling due within one year		<u>(57,832,603)</u>	<u>(69,694,088)</u>
Net current assets		<u>25,058,802</u>	<u>35,513,336</u>
Total assets less current liabilities		57,848,831	96,035,848
Provisions for liabilities	16	<u>-</u>	<u>(471,723)</u>
Net assets excluding pension asset/(liability)		57,848,831	95,564,125
Gross pension (liability)/asset	18	<u>(5,624,000)</u>	<u>4,867,000</u>
Net assets		<u><u>52,224,831</u></u>	<u><u>100,431,125</u></u>
Equity			
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>(21,207,862)</u>	<u>26,998,432</u>
Total shareholders' funds		<u><u>52,224,831</u></u>	<u><u>100,431,125</u></u>

The financial statements on pages 14 to 37 were approved by the Board of directors on 29 April 2021 and signed on its behalf by:

DocuSigned by:

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M D Hunter

Director

The notes on pages 18 to 37 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Statement of Changes in Equity
for the year ended 31 December

	Called up share capital £	Share premium account £	Other reserves £	Retained earnings £	Total shareholders' funds £
At 1 January 2020	41,203,557	19,804,041	12,425,095	26,998,432	100,431,125
Loss for the financial year	-	-	-	(32,049,224)	(32,049,224)
Other comprehensive expense	-	-	-	(16,157,070)	(16,157,070)
Total comprehensive expense	-	-	-	(48,206,294)	(48,206,294)
At 31 December 2020	<u>41,203,557</u>	<u>19,804,041</u>	<u>12,425,095</u>	<u>(21,207,862)</u>	<u>52,224,831</u>

	Called up share capital £	Share premium account £	Other reserves £	Retained earnings £	Total shareholders' funds £
At 1 January 2019	41,203,557	19,804,041	12,425,095	31,148,643	104,581,336
Profit for the financial year	-	-	-	1,660,619	1,660,619
Other comprehensive expense	-	-	-	(5,810,830)	(5,810,830)
Total comprehensive expense	-	-	-	(4,150,211)	(4,150,211)
At 31 December 2019	<u>41,203,557</u>	<u>19,804,041</u>	<u>12,425,095</u>	<u>26,998,432</u>	<u>100,431,125</u>

The notes on pages 18 to 37 form an integral part of these financial statements.
Page 17

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

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
UK

These financial statements were authorised for issue by the Board on 29 April 2021.

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.

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 2020 (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'; and
- (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.

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.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (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 2020, the directors are required to consider whether the company can continue in operational existence for the foreseeable future. The directors have concluded that based on the cash resources and undrawn committed bank facilities available to Costain Group, it is appropriate to adopt the going concern basis in preparing these financial statements.

New standards and changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2020 have had a material effect on the financial statements. These include:

- Definition of Material - amendments to IAS 1 and IAS 8;
- Definition of a Business - amendments to IFRS 3;
- Interest Rate Benchmark Reform - amendments to IFRS 9, IAS 39 and IFRS 7;
- Revised Conceptual Framework for Financial Reporting.

The amendments listed above did not have any impact on the amounts recognised in prior periods and do not affect the current or future periods.

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 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.

The notes on pages 18 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 2020 (continued)

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that of 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.

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

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

2 Accounting policies (continued)

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 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 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.

Defined contribution pension obligation

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

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.

Dividend income

Dividend income is recognised when the right to receive payment is established.

IFRSs not applied

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (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.

Defined benefit pension scheme

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:

	2020 £	2019 £
Amounts written off fixed asset investments	(47,901,591)	(14,550,000)
Loss from disposals of investments	2,024,358	-
GMP equalisation charge (defined benefit pension scheme)	(933,000)	-
Income from fixed asset investments	<u>224,000</u>	<u>192,784</u>
	<u>(46,586,233)</u>	<u>(14,357,216)</u>

The notes on pages 18 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 2020 (continued)

4 Other gains and losses (continued)

2020

Investments in subsidiaries - amounts written off investments

• £25.6 million was provided against the investment in Costain Oil, Gas and Process Limited in the period. This was required following the provision taken in the subsidiary company books for the Peterborough and Huntingdon contract.

Amounts provided against Intercompany loans

• £20.0 million was also provided against the intercompany debt with Costain Oil, Gas and Process Limited (as above).

Amounts written off Other investments

• £0.6 million was provided in the year against the remaining carrying value in the company's investment in SleeperZ Limited

Joint ventures

£2.0 million profit was recognised on the sale of the company's PFI investments for cash proceeds of £3.55 million. The income from fixed asset investments arises from dividends received from Lewisham Schools for the Future LEP Limited and from Integrated Bradford LEP Limited, prior to sale.

2019

Investments in subsidiaries - amounts written off investments

• £5.25 million provision against the investment in Costain Alcaidesa Limited

Amounts provided against Intercompany loans

• £9.3 million provision against the intercompany loan to Costain Alcaidesa Limited.

Joint ventures

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

5 Operating profit

Operating profit is stated after charging:

	2020 £	2019 £
Staff costs (Note 7)	189,426,290	200,771,039
Fees for the audit of the company (Note 6)	50,000	50,000

6 Auditors' remuneration

The deemed audit fee for the company was £50,000 (2019: £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.

The notes on pages 18 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 2020 (continued)

7 Staff costs

The aggregate payroll costs, paid to a fellow subsidiary in relation to seconded staff (including directors' remuneration) were as follows:

	2020 £	2019 £
Wages and salaries	163,376,720	173,391,798
Social security costs	17,149,245	18,466,176
Other pension costs	8,900,325	8,913,065
	<u>189,426,290</u>	<u>200,771,039</u>

The monthly average number of persons employed by the company during the year in the United Kingdom was 2,882 (2019: 2,892). All staff were seconded to fellow subsidiaries.

The reduction in the salary charge in the year was as a consequence of the Group decision to implement salary reductions between 10%-30% for the three months to June 2020, during the COVID-19 pandemic.

8 Directors' remuneration

No remuneration was paid to the directors of the company during the year (2019: £nil).

9 Finance income

	2020 £	2019 £
Interest income from group undertakings	1,482,125	951,627
Interest income from associated undertaking	55,177	235,750
Finance income from defined benefit pension scheme net surplus	204,000	105,000
	<u>1,741,302</u>	<u>1,292,377</u>

10 Finance costs

	2020 £	2019 £
Interest expense payable to group undertakings	<u>(241,523)</u>	<u>(120,762)</u>

The notes on pages 18 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 2020 (continued)

11 Income tax

Tax charged in the Profit and Loss Account:

	2020 £	2019 £
Current taxation		
Current year corporate tax	1,796,640	-
Group relief payable	1,693,470	460,367
Adjustment in respect of prior periods	<u>(39,731)</u>	<u>(62,084)</u>
	<u>3,450,379</u>	<u>398,283</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	82,594	2,659,701
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>221,000</u>	<u>-</u>
Total deferred taxation	<u>303,594</u>	<u>2,659,701</u>
Tax expense in the income statement	<u><u>3,753,973</u></u>	<u><u>3,057,984</u></u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019: lower than the standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

	2020 £	2019 £
(Loss)/profit before tax	<u>(28,295,251)</u>	<u>4,718,603</u>
Corporation tax at standard rate	(5,376,098)	896,535
Decrease in current tax from adjustment for prior periods	(39,731)	(62,084)
Increase from effect of expenses not deductible in determining taxable profit	8,978,964	2,867,327
Decrease from effect of exercise employee share options	(69,070)	(411,678)
Deferred tax expense (credit) from unrecognised tax loss or credit	221,000	-
Deferred tax expense (credit) relating to changes in tax rates or laws	81,468	(195,487)
Decrease from effect of dividends from UK companies	<u>(42,560)</u>	<u>(36,629)</u>
Total tax charge	<u><u>3,753,973</u></u>	<u><u>3,057,984</u></u>

The notes on pages 18 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 2020 (continued)

11 Income tax (continued)

Deferred tax

The elements of deferred taxation at 19.0% (2019: 19.0%) are as follows:

	2020	2019
	£	£
Deferred tax (liability)/asset on pension asset/liability	1,068,560	(827,390)
Other timing differences	149,662	355,667
	<u>1,218,222</u>	<u>(471,723)</u>

The movements in the deferred taxation asset were as follows:

	2020	2019
	£	£
Deferred taxation asset at the beginning of the year	(471,723)	997,808
Amount charged to profit and loss account	(82,594)	(2,659,701)
Amount charged to statement of comprehensive income	1,993,290	1,190,170
Adjustment in respect of prior year	(221,000)	-
Deferred taxation (liability)/asset at the end of the year	<u>1,218,222</u>	<u>(471,723)</u>

Deferred tax assets at 31 December 2020 has been calculated based on the UK corporation tax rate of 19%. In the 3 March 2021 Budget it was announced that the statutory tax rate will increase to 25% in 2023. This will have a consequential effect on the company's future tax charge.

The gross potential deferred taxation assets not recognised were:

	2020	2019
	£	£
Capital tax losses	<u>212,617</u>	<u>212,617</u>

The notes on pages 18 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 2020 (continued)

12 Investments

	2020 £	2019 £
Subsidiaries	32,790,029	58,436,958
Other investments	-	559,960
Investments in joint ventures	-	1,525,594
Total Investments	<u>32,790,029</u>	<u>60,522,512</u>

Subsidiaries	£
Cost	
At 1 January 2019	<u>140,486,956</u>
At 31 December 2019	<u>140,486,956</u>
At 1 January 2020	<u>140,486,956</u>
At 31 December 2020	<u>140,486,956</u>
Provision	
At 1 January 2019	76,799,998
Provision	<u>5,250,000</u>
At 31 December 2019	<u>82,049,998</u>
At 1 January 2020	82,049,998
Provision in the year	<u>25,646,929</u>
At 31 December 2020	<u>107,696,927</u>
Carrying amount	
At 31 December 2020	<u>32,790,029</u>
At 31 December 2019	<u>58,436,958</u>

The notes on pages 18 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 2020 (continued)

12 Investments (continued)

Details of the subsidiaries as at 31 December 2020 and 31 December 2019 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2020	2019	
Alcaidesa Servicios S.A.U.	Marina Operator	0%	100%	(1)
CLM Engineering (Overseas) Ltd*	Dormant	100%	100%	(2)
Costain Abu Dhabi Co WLL	Trading	49%	49%	(3)
Costain Alcaidesa Ltd*	Holding Company	100%	100%	(2)
Costain Building & Civil Engineering Ltd*	Holding Company	100%	100%	(2)
Costain Construction Ltd	Dormant	100%	100%	(2)
Costain de Venezuela C.A.	Dormant	100%	100%	(4)
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 Management Design Ltd	Dormant	100%	100%	(2)
COGAP (Middle East) Limited	Holding Company	100%	100%	(2)
Costain Oil, Gas & Process (Nigeria) Ltd	Dormant	95%	95%	(5)
Costain Oil, Gas & Process (Overseas) Ltd	Dormant	100%	100%	(2)
Costain Oil, Gas & Process Ltd*	Process Engineering	100%	100%	(2)
Costain Process Construction Ltd*	Dormant	100%	100%	(2)
Southview Holdings (Private) Limited	Trading	0%	100%	(6)
Southview Investments (Private) Limited	Trading	0%	100%	(6)
Westminster Plant Co Ltd	Dormant	100%	100%	(2)

* indicates direct investment of the Company.

The notes on pages 18 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 2020 (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) Dormant company - Venezuela, no record of address
 (5) Dormant company - Nigeria, no record of address
 (6) 10th Floor, Club Chambers Building, Corner Nelson Mandela Avenue / 3rd Street, Harare, Zimbabwe

Other investments

	£
Cost	
At 1 January 2019	2,219,551
At 31 December 2019	2,219,551
At 1 January 2020	2,219,551
At 31 December 2020	2,219,551
Provision for impairment	
At 1 January 2019	1,659,591
At 31 December 2019	1,659,591
At 1 January 2020	1,659,591
Provision in the year	559,960
At 31 December 2020	2,219,551
Carrying amount	
At 31 December 2020	-
At 31 December 2019	559,960

Details of the associates as at 31 December 2020 are as follows:

Name of associate	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2020	2019	
SleeperZ Limited	Hotels	11%	11%	(9)
SleeperZ Hotels Limited *	Hotels	11%	11%	(9)

* indicates direct investment of the Company.

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

The notes on pages 18 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 2020 (continued)

12 Investments (continued)

Joint ventures

	£
Cost	
At 1 January 2019	1,592,454
Disposals	<u>(66,860)</u>
At 31 December 2019	<u>1,525,594</u>
At 1 January 2020	<u>1,525,594</u>
Disposals	<u>(1,525,594)</u>
At 31 December 2020	<u>-</u>
Carrying amount	
At 31 December 2020	<u>-</u>
At 31 December 2019	<u>1,525,594</u>

Details of the joint ventures as at 31 December 2020 are as follows:

Name of joint ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2020	2019	
Budimex & Costain Sp. z.o.o	Dormant	50%	50%	(10)
China Harbour-Costain Mexico S de RL de CV	Dormant	50%	50%	(11)
Integrated Bradford LEP Limited	Construction and Operation of Schools	0%	40%	(13)
Integrated Bradford LEP FIN Co One Limited	Construction and Operation of Schools	0%	40%	(13)
Integrated Bradford PSP Limited *	Holding company	0%	50%	(13)
Jalal Costain WLL	Dormant	49%	49%	(14)
L21 Lewisham PSP Limited *	Holding company	0%	50%	(12)
Lewisham Schools for the Future LEP Ltd	Construction and Operation of Schools	0%	40%	(12)
Nesma-Costain Process Company Ltd	Dormant	50%	50%	(15)

* indicates direct investment of the Company.

The notes on pages 18 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 2020 (continued)

12 Investments (continued)

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

13 Trade and other receivables

	31 December 2020 £	31 December 2019 £
Amounts owed by group undertakings	80,381,856	103,469,568
Other receivables	1,291,576	574,226
Prepayments	-	1,163,630
Deferred tax assets	1,217,973	-
	<u>82,891,405</u>	<u>105,207,424</u>

Amounts receivable from other group undertakings are unsecured, repayable on demand but accrue interest at a rate of 0%-2.5% (2019: 0%-2.5%).

Details of non-current trade and other receivables

£1,217,973 (2019: liability £471,723) of deferred tax assets is classified as non current.

14 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.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

15 Creditors

Amounts falling due within one year

	31 December 2020 £	31 December 2019 £
Accrued expenses	1,422,904	1,628,320
Amounts owed to group undertakings	34,364,741	59,126,381
Social security and other taxes	5,857,780	5,222,755
Group relief payable	1,942,320	109,481
Other creditors	14,244,858	3,607,151
	<u>57,832,603</u>	<u>69,694,088</u>

Amounts payable to other group undertakings are unsecured, repayable on demand but accrue interest at a rate of 0%-0.5% (2019: 0%-0.5%).

16 Provisions for liabilities

2019 : £471,723 of deferred tax liabilities are classified as provisions for liabilities.

17 Called up share capital

Allotted, called up and fully paid shares

	31 December 2020 No.	£	31 December 2019 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>

18 Gross pension liability

Defined benefit pension schemes

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 2016 and was updated to 31 December 2020 by a qualified independent actuary. Details of the scheme are included in the financial statements of Costain Group PLC.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

18 Gross pension liability (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2020 £	2019 £
Fair value of scheme assets	880,858,000	816,980,000
Present value of scheme liabilities	(886,482,000)	(812,113,000)
Defined benefit pension scheme (deficit)/surplus	<u>(5,624,000)</u>	<u>4,867,000</u>

Scheme assets

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

	31 December 2020 £	31 December 2019 £
Fair value at start of year	816,980,000	748,517,000
Interest income	16,501,000	20,660,000
Return on plan assets, excluding amounts included in interest income/(expense)	71,492,000	69,098,000
Employer contributions	10,563,000	16,292,000
Benefits paid	(34,300,000)	(37,292,000)
Administrative expenses paid	<u>(378,000)</u>	<u>(295,000)</u>
Fair value at end of year	<u>880,858,000</u>	<u>816,980,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2020 £	31 December 2019 £
Cash and cash equivalents	15,860,000	11,614,000
Equity instruments	124,965,000	324,616,000
Debt instruments	421,384,000	345,993,000
Real estate and PFI investments	15,747,000	17,664,000
Investment funds	<u>302,902,000</u>	<u>117,093,000</u>
	<u>880,858,000</u>	<u>816,980,000</u>

The notes on pages 18 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 2020 (continued)

18 Gross pension liability (continued)

Actual return on scheme's assets

	31 December 2020 £	31 December 2019 £
Actual return on scheme assets	<u>87,993,000</u>	<u>89,758,000</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 2020 £	31 December 2019 £
Present value at start of year	812,113,000	752,751,000
Past service cost - GMP equalisation charge	933,000	-
Actuarial (gains)/losses arising from changes in demographic assumptions	(2,920,000)	(7,529,000)
Actuarial (gains)/losses arising from changes in financial assumptions	98,977,000	74,578,000
Actuarial gains arising from experience adjustments	(4,618,000)	9,050,000
Interest cost	16,297,000	20,555,000
Benefits paid	<u>(34,300,000)</u>	<u>(37,292,000)</u>
Present value at end of year	<u>886,482,000</u>	<u>812,113,000</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:

	31 December 2020 %	31 December 2019 %
Discount rate	1.4	2.1
Future pension increases	2.9	2.9
Inflation	<u>3.0</u>	<u>3.0</u>

The notes on pages 18 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 2020 (continued)

18 Gross pension liability (continued)

Post retirement mortality assumptions

	2020 Years	2019 Years
Current UK pensioners at retirement age - male	22.3	22.3
Current UK pensioners at retirement age - female	24.1	24.2
Future UK pensioners at retirement age - male	23.3	23.6
Future UK pensioners at retirement age - female	<u>25.3</u>	<u>25.7</u>

Amounts recognised in the income statement

	31 December 2020 £	31 December 2019 £
Amounts recognised in operating profit		
Administrative expenses paid by the pension scheme	(378,000)	(295,000)
Amounts recognised in finance income or costs		
Net interest	<u>204,000</u>	<u>105,000</u>
Total recognised in the income statement	<u>(174,000)</u>	<u>(190,000)</u>

Amounts taken to the Statement of Comprehensive Income

	31 December 2020 £	31 December 2019 £
Actuarial gains/(losses) arising from changes in demographic assumptions	2,920,000	7,529,000
Actuarial gains/(losses) arising from changes in financial assumptions	(98,977,000)	(74,578,000)
Actuarial gains/(losses) arising from experience adjustments	4,618,000	(9,050,000)
Return on plan assets, excluding amounts included in interest income/(expense)	<u>71,492,000</u>	<u>69,098,000</u>
Amounts recognised in the Statement of Comprehensive Income	<u>(19,947,000)</u>	<u>(7,001,000)</u>

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 2020, these liabilities amounted to £48,000,000 (2019: £116,000,000).

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.

The notes on pages 18 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 2020 (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.