

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED

REGISTERED NUMBER 2440830

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON



COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
REPORT OF THE DIRECTORS
For the year ended 31 December 2006

BUSINESS REVIEW

The company is a holding company for Costain Group's overseas engineering and construction operations outside the United States

The results for the year are set out in the Profit and Loss Account on page 4

DIRECTORS AND SHARE INTERESTS

Directors who held office during the year and their disclosable interests in shares, according to the register of directors' interests were as follows

	At 01 01 06	At 31 12 06
A Wyllie *		
A O Bickerstaff (appointed 05 06 06)*		
C L Franks	a 393	393
	b 152,238	152,238
	c 150,638	150,638

C J McCole (resigned 04 06 06)*

- a - Costain Group PLC ordinary shares of 5p each
 - b - Options granted on 21 April 2004 to acquire Costain Group PLC ordinary shares under the 2004 Long Term Incentive Plan
 - c - Options granted on 26 April 2005 to acquire Costain Group PLC ordinary shares under the 2005 Long Term Incentive Plan
- * - The interests of these directors in the shares of Costain Group PLC are disclosed in the accounts of that company

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

AUDITORS

Pursuant to a shareholders' resolution, the company is not obliged to re-appoint its auditors annually and KPMG Audit Plc will therefore continue in office

BY ORDER OF THE BOARD


CLIVE L FRANKS
SECRETARY

25 April 2007

REGISTERED OFFICE
Costain House, Nicholsons Walk,
Maidenhead, Berkshire SL6 1LN

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS'
REPORT AND THE FINANCIAL STATEMENTS
For the year ended 31 December 2006

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED

For the year ended 31 December 2006

We have audited the financial statements of Costain Engineering & Construction (Overseas) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

25 April 2007
Date

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2006

	Notes	2006	2005
		£	£
Turnover		-	-
Cost of sales		(59,494)	(14,290)
		<hr/>	<hr/>
Gross loss		(59,494)	(14,290)
Administrative expenses		-	-
		<hr/>	<hr/>
Operating loss		(59,494)	(14,290)
Provision against investment in subsidiary company		(38,896)	-
Provision against loan to an associate		(3,857,000)	(1)
Provision for losses of joint venture		(5,150,000)	-
Interest receivable on amounts due from			
- fellow subsidiary undertaking		185,214	198,045
- associate		299,830	277,625
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	2	(8,620,346)	461,379
Taxation	6	-	(139,944)
		<hr/>	<hr/>
(Loss)/profit for the financial year		(8,620,346)	321,435
		<hr/>	<hr/>

All operating (losses)/profits are attributable to continuing operations

There were no recognised gains or losses other than the loss for the year and the profit for the preceding year

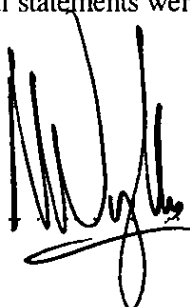
THE NOTES ON PAGES 6 TO 11 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
BALANCE SHEET
For the year ended 31 December 2006

	Notes	2006	2005
		£	£
Fixed assets			
Investments	7	1,005,158	4,019,054
		<hr/>	<hr/>
Current assets			
Debtors	8	4,653,318	4,937,371
		<hr/>	<hr/>
Creditors: amounts falling due within one year	10	(318,864)	(146,467)
		<hr/>	<hr/>
Net current assets		4,334,454	4,790,904
		<hr/>	<hr/>
Total assets less current liabilities		5,339,612	8,809,958
		<hr/>	<hr/>
Provisions for liabilities and charges	11	(5,150,000)	-
		<hr/>	<hr/>
Net assets		189,612	8,809,958
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	12	4,448,043	4,448,043
Share premium account	13	1,331,358	1,331,358
Profit and loss account	13	(5,589,789)	3,030,557
		<hr/>	<hr/>
Equity shareholders' funds	14	189,612	8,809,958
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors on 25 April 2007 and were signed on its behalf by

A Wyllie



Director

THE NOTES ON PAGES 6 TO 11 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2006

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards under the historical cost convention

The financial statements present information about the company as an individual undertaking and not about its Group. The company is exempt from preparing group accounts (under section 228 of the Companies Act 1985) as it is included in the consolidated accounts of its ultimate parent company

TURNOVER

Turnover represents the amounts (excluding value added tax) receivable for services provided

FOREIGN CURRENCY TRANSACTIONS

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 transaction

TAXATION

Deferred taxation has been recognised as a liability or asset, except as otherwise required by FRS 19 'Deferred Tax' if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted

PENSIONS

The company participates, on a defined contribution basis, in a pension scheme for the benefit of its employees. The assets of the scheme are held separately from those of the company in an independently administered fund

The costs of pensions, in respect of the pension scheme in which the company participates, is charged to the profit and loss account and is equal to the contributions payable in the accounting period

CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent company includes the company in its own published consolidated financial statements

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

2. Profit on ordinary activities before taxation

	2006	2005
	£	£
Profit on ordinary activities before taxation is after charging		
Translation of foreign currency balances	-	9,149
Provision against investment in subsidiaries companies	(38,896)	-
	<hr/>	<hr/>

3. Auditor's remuneration

	2006	2005
	£	£
Fees for the audit of the company	8,000	4,000
	<hr/>	<hr/>

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

4. Staff costs

The total number of staff employed by the company at year end was 26 (2005 28), all of which were seconded full-time to the overseas contracts of fellow subsidiary undertakings. No costs for these staff were incurred by the company.

The company incurs pension costs in respect of employees, who participate in Costain Group's UK pensions scheme, on a defined contributions basis. The scheme is a defined benefits scheme and provides benefits to the employee based on final pensionable salary. Details of this scheme are included in the accounts of Costain Group PLC. The company does not participate in any surplus that may arise in the scheme.

The cost for the period of contributions to this scheme was £nil (2005 £nil). There are no outstanding or prepaid contributions at the balance sheet date (2005 £nil).

5. Remuneration of directors

No emoluments were paid to the directors of the company during the year (2005 £nil).

6. Taxation

	2006	2005
	£	£
On (loss) / profit for the year		
United Kingdom corporation tax at 30%	-	(139,944)
	<hr/>	<hr/>
Tax on (loss) / profit on ordinary activities	-	(139,944)
	<hr/>	<hr/>

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

6. Taxation – continued

Tax reconciliation	2006 £	2005 £
(Loss) / profit on ordinary activities before taxation	(8,620,346)	461,379
Tax at 30%	2,586,104	(138,414)
Movement on provisions	(2,747,496)	-
Group relief free of charge	161,392	-
Sundry disallowed expenditure	-	(1,530)
Total current tax	-	(139,944)

No deferred taxation has been recognised on the unremitted earnings of overseas subsidiaries and joint ventures as no dividends are proposed

The Company has deferred taxation assets that have not been recognised on the basis that their future economic benefit was not assured as at the balance sheet date. Tax relief will be obtained if suitable profits arise in future accounting periods.

The full potential deferred taxation assets not recognised at 30% were

	2006 £	2005 £
Surplus ACT	-	12,341
Capital losses	766,141	766,141

7. Investments	Shares in subsidiary undertakings £	Shares in joint ventures and associates £	Loans to joint venture and associates £	Total £
Cost				
At 1 January 2006	1,824,009	2,866,683	3,750,000	8,440,692
Additions	-	-	882,000	882,000
At 31 December 2006	1,824,009	2,866,683	4,632,000	9,322,692
Provisions				
At 1 January 2006	1,784,959	2,636,679	-	4,421,638
Provided in year	38,896	-	3,857,000	3,895,896
At 31 December 2006	1,823,855	2,636,679	3,857,000	8,317,534
Net book value				
At 31 December 2006	154	230,004	775,000	1,005,158
At 31 December 2005	39,051	229,390	2,650,000	2,918,441

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

8. Debtors

	2006 £	2005 £
Amounts owing by fellow subsidiary undertakings	4,303,318	4,887,201
Amounts owing by joint venture	350,000	50,170
	<hr/>	<hr/>
	4,653,318	4,937,371
	<hr/>	<hr/>

9. Cash at bank, monies on deposit and in hand

The company's bankers have the right to set off the company's bank balance when in credit against borrowings by Richard Costain Limited

10. Creditors: amounts falling due within one year

	2006 £	2005 £
Amounts owing to fellow subsidiary undertakings	2	2
Other creditors	300,000	-
Taxation	18,862	146,465
	<hr/>	<hr/>
	318,864	146,467
	<hr/>	<hr/>

11. Provisions for liabilities and charges

	At beginning of year £	Provided £	Released £	At end of year £
Other provisions	-	5,150,000	-	5,150,000
	<hr/>	<hr/>	<hr/>	<hr/>

Other provisions relate to funding obligations of a joint venture, which are expected to be utilised over the next year

12. Share capital

	2006 and 2005	
	Authorised	Issued and fully paid
	£	£
Ordinary shares of £1 each	10,000,000	4,448,043
	<hr/>	<hr/>

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

13. Reserves

	2006 Share premium account £	2006 Profit and loss account £
At 1 January 2006	1,331,358	3,030,557
Loss for the financial year	-	(8,620,346)
	<hr/>	<hr/>
At 31 December 2006	1,331,358	(5,589,789)
	<hr/>	<hr/>

14. Reconciliation of movement in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the financial year	(8,620,346)	321,435
Opening shareholders' funds	8,809,958	8,488,523
	<hr/>	<hr/>
Closing shareholders' funds	189,612	8,809,958
	<hr/>	<hr/>

15. Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for overdraft facilities made available to the group. At 31 December 2006 these liabilities amounted to £1.0m (2005: £nil).

There are also contingent liabilities in respect of performance bonds and other undertakings entered into in the ordinary course of business.

16. Related parties transactions

The company is exempt under Financial Reporting Standard 8 from the requirements to disclose related party transactions with other group companies on the basis that it is a wholly owned subsidiary of the ultimate parent company, Costain Group PLC.

17. Ultimate parent undertaking

The largest and the smallest group of undertakings for which group financial statements are drawn up is that of the ultimate parent undertaking, Costain Group PLC, a company registered in England and Wales.

Copies of the group financial statements of Costain Group PLC may be obtained from the registered office of the company, Costain House, Nicholson's Walk, Maidenhead, Berkshire SL6 1LN.

COSTAIN ENGINEERING & CONSTRUCTION (OVERSEAS) LIMITED
NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended 31 December 2006

18. Investment in subsidiary undertakings and participating interests

Subsidiary undertakings	Nature of Business	Percentage Interest	Country of Incorporation
Costain (Africa) Ltd	Construction	100	Zimbabwe
Costain Construction (Botswana) Pty Ltd	Construction	100	Botswana
Costain De Venezuela CA	Dormant	100	Venezuela
Costain Holdings (Botswana) Pty Ltd	Construction	100	Botswana
Costain Holdings (Malaysia) Sdn Bhd	Holding Company	100	Malaysia
Costain Housing Zimbabwe (Pvt) Ltd	Construction	100	Zimbabwe
Costain Interiors Limited	Dormant	100	UK
Costain (Malaysia) Sdn Bhd	Construction	100+	Malaysia
Costain Mining Zimbabwe (Pvt) Ltd	Dormant	100	Zimbabwe
Costain Oil, Gas & Process (Malaysia) Sdn Bhd	Engineering	100+	Malaysia
Costain Oil, Gas & Process (Nigeria) Ltd	Process Contracting	75	Nigeria
Costain Properties Zimbabwe (Pvt) Ltd	Dormant	100	Zimbabwe
Costain Zimbabwe (Pvt) Ltd	Construction	85+	Zimbabwe
Richard Costain Construction & Engineering Ltd	Civil Engineering & Construction	100	Nigeria
Joint ventures			
Baja Dolphin S de RL de CV	Service Company	50	Mexico
Budimex & Costain Sp z o o	Construction	50	Poland
China Harbour – Costain Mexico S de RL de CV	Civil Engineering	50	Mexico
Jalal Costain WLL	Construction	49	Bahrain
Nesma Costain Process Co Ltd	Process Contracting	50	Saudi Arabia
Associates			
Costain (West Africa) PLC	Construction	37	Nigeria
All interests are ordinary shares			
+Shares held by subsidiary company			