Registration number: SC336371

Costain Upstream Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2020

Costain Upstream Limited

Contents

Costain Upstream Limited

Company Information

Directors	M D Hunter
	M E Mayhew
Company secretary	S Harris
Registered office	56 Carden Place Aberdeen AB10 1UP Scotland
Independent auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

Costain Upstream Limited

Strategic Report for the Year Ended 31 December 2020

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

Principal activity
The principal activity of the company is the provision of engineering, design and project management services to the energy sector. The Company is part of the Costain Group PLC.

Fair review of the business
Costain Upstream Limited continued to deliver to its customers a broad range of specialist capabilities. Despite challenging conditions across all market segments, Costain Upstream Limited continues to secure new repeat order work for its front end design studies, programme management, complex project delivery and asset support.

Costain Upstream Limited will continue to deliver to its customers a broad range of capabilities and has continued to widen its capability across its Consultancy Services with reach back into the wider Costain Group. This wider capability has opened doors in 2020 to deliver in the Decarbonisation arena as we'll as the traditional Oil & Gas sector. The market, for us, has continued to hold steady through 2020, despite the challenges of the Covid 19 pandemic and this can be seen in our level of activity in supporting our clients to achieve FID, this in itself will manifest itself into fully sanctioned projects throughout 2021 and 2022.

Key Performance Indicators	Unit	2020	2019
Revenue	£	4,624,350	5,694,478
Operating (loss)/profit	£	(555,194)	9,075,115

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.

Principal risks and uncertainties

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

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 results 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.

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

Costain Upstream 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:

M D Hunter (appointed 18 December 2020)

M E Mayhew (appointed 6 April 2020)

A J Vaughan (resigned 6 April 2020)

M R Atkinson (resigned 18 December 2020)

G N Shore (resigned 6 April 2020)

Dividends
The directors do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: £Nil).

Social and community issues
The Company takes Corporate Social Responsibility seriously and endeavours to work well within the communities it is based. We meet this objective by encouraging our employees to abide by certain guidelines and codes which include honesty and transparency in our operation.

Future developments
The directors do not expect any significant changes to the principal activities of the company in the foreseeable future.

Going concern
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 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.

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.

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

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

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

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

The directors are 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.

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

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Independent auditors' report to the members of Costain Upstream Limited

Report on the audit of the financial statements

Opinion

In our opinion, Costain Upstream 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 Health and Safety, Data Protection laws, relevant construction legislations, the Companies Act 2006 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 impairment of goodwill and intangible assets; 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.

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

Costain Upstream Limited

Income Statement
for the year ended 31 December

	Note	2020 £	2019 £
Revenue	4	4,624,350	5,694,478
Cost of sales		(3,805,662)	(4,402,973)
Gross profit		818,688	1,291,505
Administrative expenses	5	(1,442,275)	(2,296,390)
Other operating income	5	68,393	10,080,000
Operating (loss)/profit	6	(555,194)	9,075,115
Finance costs	10	(133,515)	(146,015)
(Loss)/profit before tax		(688,709)	8,929,100
Taxation	11	(272,587)	527,296
(Loss)/profit for the financial year		(961,296)	9,456,396

Administrative expenses includes amortisation of acquired intangible assets of £930,525 (2019: £930,527) (note 12).

The above results were derived from continuing operations.

Statement of Comprehensive Income
for the year ended 31 December

	2020 £	2019 £
(Loss)/profit for the financial year	(961,296)	9,456,396
Total comprehensive (expense)/income for the year	(961,296)	9,456,396

The notes on pages 15 to 30 form an integral part of these financial statements.

Costain Upstream Limited

(Registration number: SC336371)

Statement of Financial Position

as at 31 December

	Note	2020 £	2019 £
Fixed assets			
Intangible assets	12	590,195	1,522,262
Property, plant and equipment	13	20,640	45,987
		610,835	1,568,249
Current assets			
Trade and other receivables	14	2,180,640	1,603,842
Cash and cash equivalents	15	331,097	955,549
		2,511,737	2,559,391
Creditors - amounts falling due within one year	16	(474,820)	(518,592)
Net current assets		2,036,917	2,040,799
Total assets less current liabilities		2,647,752	3,609,048
Creditors - amounts falling due after more than one year	16	(5,840,611)	(5,840,611)
Net liabilities		(3,192,859)	(2,231,563)
Equity			
Called up share capital	17	498,936	498,936
Retained earnings		(3,691,795)	(2,730,499)
Total shareholders' deficit		(3,192,859)	(2,231,563)

The financial statements on pages 11 to 30 were approved by the Board of directors on 29 April 2021 and signed on its behalf by:

DocuSigned by:

M D Hunter

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M D Hunter

Director

Costain Upstream Limited

Statement of Changes in Equity

for the year ended 31 December

	Called up share capital £	Retained earnings £	Total shareholders' funds £
At 1 January 2020	498,936	(2,730,499)	(2,231,563)
Loss for the financial year	-	(961,296)	(961,296)
Total comprehensive expense	-	(961,296)	(961,296)
At 31 December 2020	498,936	(3,691,795)	(3,192,859)

	Called up share capital £	Retained earnings £	Total shareholders' funds £
At 1 January 2019	498,936	(12,186,895)	(11,687,959)
Profit for the financial year	-	9,456,396	9,456,396
Total comprehensive income	-	9,456,396	9,456,396
At 31 December 2019	498,936	(2,730,499)	(2,231,563)

1 General information

The company is a private company limited by share capital, incorporated and domiciled in Scotland.

The address of its registered office is:
56 Carden Place
Aberdeen

AB10 1UP
Scotland

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 the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention.

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.

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.

2 Accounting policies (continued)

Going concern
The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons.

The company has net liabilities of £3,192,859 (2019: net liabilities of £2,231,563) and is dependent for its working capital on funds provided to it by Costain Group PLC, the company's ultimate parent undertaking. Costain Group PLC has provided the company with an undertaking 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 and in particular will not seek repayment of the £5,840,611 currently made available.

This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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
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.

Research and development
Research and development activities are usually directly attributable to a project and accounted within project costs. The company applies the research and development expenditure credit (RDEC) regime as these credits have characteristics similar to government grants and recognises the credits in other operating income rather than reflecting them in the tax charge.

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.

2 Accounting policies (continued)

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

Tax
The tax expense for the year 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.

Property, plant and equipment
Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation
Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives on a straight-line basis, as follows. Useful lives, depreciation methods, and residual values are reviewed at each balance sheet date.

Asset class	**Depreciation method and rate**
Plant and equipment	3 to 10 years

2 Accounting policies (continued)

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Separately acquired trademarks and licences are shown at historical cost.

Trademarks, licences (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Other intangible assets are carried at cost less accumulated amortisation and impairment losses.

Amortisation begins when an asset is available for use and is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives as follows:

Asset class	**Amortisation method and rate**
Software development costs	3 years
Brand	1 year
Order book	1 year
Customer relationships	7 years

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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.

2 Accounting policies (continued)

Derecognition

Financial assets

The company derecognises a financial asset when;
- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

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

Impairment of financial assets

The company recognises loss allowances for expected credit losses on financial instruments, namely financial assets that are debt instruments and accounts and other receivables.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

For trade receivables, the company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

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.

2 Accounting policies (continued)

Trade creditors
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors 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.

Borrowings
All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the profit and loss account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Leases
Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Defined contribution pension obligation
The Company participates, on a defined contributions basis, in a pension scheme for the benefit of its seconded employees. The assets of the scheme are held separately from those of the Company in independently administered funds.

The cost 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.

Dividends
Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Costain Upstream Limited

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

2 Accounting policies (continued)

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.

3 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical accounting policy and significant area of estimation arises from the carrying value of goodwill.

Reviewing the carrying value of goodwill assets recognised on acquisition requires estimation, principally, in respect of growth rates and future cash flows, the useful lives of intangible assets, sensitivities and the selection of discount rates used to calculate present values. These are set out in note 12.

There are no significant areas of judgement.

4 Revenue

	2020	2019
	£	£
United Kingdom	4,624,350	5,694,478

The whole of the revenue is attributable to the principal activity of the business.

Contract assets arise where goods or services are transferred to the customer before the customer pays consideration, or before payment is due. Contract receivables (loans and advances) represent our unconditional right to consideration for the goods or services supplied and performance obligations delivered. Contract liabilities (deposits from customers) relate to consideration received when we still have an obligation to deliver goods or services for that consideration.

5 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2020	2019
	£	£
RDEC grant income	68,393	80,000
Write-back of intercompany liability	-	10,000,000
	68,393	10,080,000

6 Operating (loss)/profit

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

Costain Upstream Limited

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

6 Operating (loss)/profit (continued)

	2020 £	2019 £
Depreciation of owned property plant and equipment	31,316	37,200
Amortisation of other intangible assets	932,067	932,378
Hire of plant and machinery - short-term and low value leases	8,541	10,333
Profit on disposal of property, plant and equipment	-	(12,351)

7 Auditors' remuneration

	2020 £	2019 £
Audit of the financial statements	12,551	15,000

2020 income statement credit includes £14,000 deemed fee for 2020 audit and an intra-group recharge reversal for prior years.

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 to a fellow subsidiary in relation to seconded staff (including directors' remuneration) were as follows:

	2020 £	2019 £
Wages and salaries	860,342	1,102,440
Social security costs	94,439	126,254
Other pension costs	176,324	213,461
	1,131,105	1,442,155

The average number of persons seconded to the company from a fellow group subsidiary (including directors) during the year, analysed by category was as follows:

	2020 No.	2019 No.
Production	10	12
Administration and support	3	4
	13	16

Costain Upstream Limited

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

9 Directors' remuneration

During 2020 and 2019, the directors were all remunerated by other Group companies. It is not possible to allocate reliably a fair proportion of these costs as services are provided to multiple entities.

10 Finance costs

	2020 £	2019 £
Interest expense payable to group undertakings	133,515	146,015

11 Income tax

Tax charged/(credited) in the income statement

	2020 £	2019 £
Current taxation		
UK corporation tax	49,076	(199,631)
UK corporation tax adjustment to prior periods	183,256	50,628
	232,332	(149,003)
Deferred taxation		
Current year deferred tax	(160,094)	(201,493)
Prior year deferred tax	200,349	(176,800)
Total deferred taxation	40,255	(378,293)
Tax expense/(credit) in the income statement	272,587	(527,296)

Costain Upstream Limited

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

11 Income tax (continued)

The tax on profit before tax for the year is higher 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	(688,709)	8,929,100
Corporation tax at standard rate	(130,855)	1,696,529
Increase (decrease) in current tax from adjustment for prior periods	183,256	50,628
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	5,941	(2,076,041)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	200,349	(176,800)
Deferred tax expense (credit) relating to changes in tax rates or laws	15,491	(17,895)
Increase (decrease) from effect of adjustment in research development tax credit	(1,595)	(3,717)
Total tax charge/(credit)	272,587	(527,296)

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.

11 Income tax (continued)

Deferred tax
Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2020 £	Recognised in income £	At 31 December 2020 £
Accelerated tax depreciation	226,871	(198,445)	28,426
Other items	(158,190)	158,190	-
Net tax assets/(liabilities)	68,681	(40,255)	28,426

Deferred tax movement during the prior year:

	At 1 January 2019 £	Recognised in income £	At 31 December 2019 £
Accelerated tax depreciation	25,378	201,493	226,871
Other items	(334,990)	176,800	(158,190)
Net tax assets/(liabilities)	(309,612)	378,293	68,681

Other items relates to the net book value of intangibles

Costain Upstream Limited

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

12 Intangible assets

	Goodwill £	Contractual customer relationships £	Computer software £	Other intangible assets £	Total £
Cost					
At 1 January 2020	10,743,195	6,436,143	161,501	712,364	18,053,203
At 31 December 2020	10,743,195	6,436,143	161,501	712,364	18,053,203
Accumulated amortisation					
At 1 January 2020	10,153,000	5,505,618	159,959	712,364	16,530,941
Charge for the year	-	930,525	1,542	-	932,067
At 31 December 2020	10,153,000	6,436,143	161,501	712,364	17,463,008
Carrying amount					
At 31 December 2020	590,195	-	-	-	590,195
At 31 December 2019	590,195	930,525	1,542	-	1,522,262

12 Intangible assets (continued)

Goodwill is tested annually for impairment. The company has been allocated as the cash generating unit for goodwill. The recoverable amount has been calculated with reference to its value in use.

A five year forecast cash flow for the business has been prepared, using detailed budget assumptions for 2021 and 2022 and then fixed growth assumptions for the remaining period. A terminal value calculation, after five years, uses a 2.5% long term growth rate assumption. A post-tax 11.5% discount factor has been applied.

2021 revenues assume a consistent level of activity with 2020 however additional revenue growth is expected in 2022. This is supported by past business performance and prior years and a general up-turn in market conditions for the Upstream Oil & Gas industry.

Revenue growth forecast for 2021 is able to be deferred until 2022 to reflect the risk that oil prices (and business activity) remain lower for a longer period. If revenue growth is not achieved within the medium term, goodwill may require further impairment.

The amortisation is recognised within administrative expenses.

Sensitivities

• An increase in the discount rate by 1% would result in an additional impairment of the goodwill by £64,000 as at 31 December 2020.

• A reduction in the operating margin by 1% would result in and additional impairment of goodwill of £284,900 as at 31 December 2020.

• A reduction in the revenue growth rate by 1% for 2022 and 2023 would result in and additional impairment of goodwill of £196,000 as at 31 December 2020.

13 Tangible assets

	Owned plant and machinery £
Cost	
At 1 January 2020	336,424
Additions	5,969
At 31 December 2020	342,393
Depreciation	
At 1 January 2020	290,437
Charge for the year	31,316
At 31 December 2020	321,753
Carrying amount	
At 31 December 2020	20,640
At 31 December 2019	45,987

Costain Upstream Limited

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

14 Trade and other receivables

	31 December 2020 £	31 December 2019 £
Trade receivables	341,205	903,292
Amounts owed by group undertakings	1,100,869	-
Contract assets	421,128	89,299
Other receivables	206,979	299,586
Prepayments	82,033	93,981
Group relief receivable	-	149,003
Deferred tax assets	28,426	68,681
	2,180,640	1,603,842

Amounts receivables from other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 0.5%-2.5% (2019: 0.5%-2.5%)..

15 Cash at bank and in hand

	31 December 2020 £	31 December 2019 £
Cash at bank	331,097	955,549

16 Creditors

Amounts falling due within one year

	31 December 2020 £	31 December 2019 £
Creditors	55,962	108,369
Accrued expenses	281,801	297,810
Amounts owed to group undertakings	-	58,685
Group relief payable	83,329	-
Income tax liability	53,728	53,728
	474,820	518,592

Amounts falling due after more than one year

	31 December 2020 £	31 December 2019 £
Amounts owed to group undertakings	5,840,611	5,840,611

16 Creditors (continued)

Amounts payable to other group undertakings is unsecured, confirmed as not repayable on demand by the counter-party following reviews as at 31 December 2020 and previously as at 31 December 2019 and accrues interest at a rate of 2.5%. On 31 December 2019, the counter-party cancelled £10,000,000 of the non-current loan. This amount is thus written-back and credited to the income statement (see note 5).

17 Called up share capital

Allotted, called up and fully paid shares

	31 December 2020 No.	£	31 December 2019 No.	£
Ordinary A shares of £1 each	12,500	12,500	12,500	12,500
Ordinary B shares of £1 each	37,500	37,500	37,500	37,500
Deferred shares of £1 each	448,936	448,936	448,936	448,936
	498,936	498,936	498,936	498,936

18 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.

19 Parent and ultimate parent undertaking

The company's immediate parent is Costain Limited.

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.