

Registration number 00610201

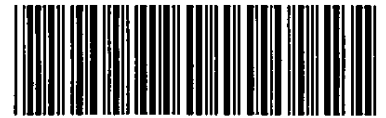
Costain Limited

Directors' Report and Financial Statements

for the Year Ended 31 December 2012

KPMG Audit Plc
15 Canada Square
London
E14 5GL

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Costain Limited
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Costain Limited
Company Information

| | |
|--------------------------|--|
| Directors | A Wyllie A O Bickerstaff R P N Bruce M D Hunter A Kay A J Vaughan D G James T A Wood T G Bowen M Rogerson |
| Company secretary | T A Wood P M Starkey |
| Registered office | Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB |
| Auditor | KPMG Audit Plc 15 Canada Square London E14 5GL |

Costain Limited
Directors' Report for the Year Ended 31 December 2012

The directors present their report and the financial statements for the year ended 31 December 2012

Directors of the company

The directors who held office during the year were as follows

A Wyllie

A O Bickerstaff

R P N Bruce

M D Hunter

A Kay

A J Vaughan

D G James

T A Wood - Company secretary and director

T G Bowen (appointed 1 July 2012)

M Rogerson (appointed 1 August 2012)

Costain Limited
Directors' Report for the Year Ended 31 December 2012

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Business review

The principal activity of the company is consultancy, engineering, construction and operations and maintenance within the transport, energy, water and waste markets in the United Kingdom

Against a backdrop of changing industry dynamics and ongoing challenging economic conditions, 2012 was another year of progress for the Company

Our focus on providing innovative and cost effective solutions to increasingly complex and large-scale national needs, along with our partnership approach, is enabling Costain to build new and extend existing long-term relationships with a range of major customers

Our customers are increasingly looking to their preferred supply chain partners for innovative products and services that will shorten lead times, enhance the quality of project delivery and, above all, provide cost-effective solutions. To remain a preferred Tier One supplier, we need to stay one step ahead of our peer group

We continue to focus and prioritise our resources on new business opportunities with those major customers who are committing significant expenditure on addressing pressing national needs. The most attractive opportunities have been in the rail and highways sectors as investment in business development enabled the Company to take advantage of a number of major opportunities in the market

We also saw a continuing trend amongst our major customers to consolidate their supply chains, as they seek to derive business benefits by working in a much more strategic and collaborative manner with a reduced number of preferred Tier One service providers who have the ability to deliver the entirety of their service needs

As a consequence, our customers are rapidly changing their procurement approach, consolidating a broader range of services across consulting, project delivery and operations activities into larger, longer-term contracts

In this changing and competitive environment, it is essential that the Company is able to demonstrate that it has the scale, skills, experience and financial strength necessary to secure, and then deliver, a strong performance on these increasingly large and complex contracts. Costain Limited has been transformed in recent times to meet our customers' evolving requirements. We now deliver Engineering services across the full asset life-cycle, from advisory and design to operations and maintenance

The provision of an increasing range of skills and services, along with the recognised capability of our team, our acknowledged engineering expertise and reputation for reliable safe delivery has enabled us to secure large, integrated and complex projects: the contract from Network Rail for the London Bridge Redevelopment, a key part of the Thameslink programme, the Greater Manchester Waste project, one of Western Europe's largest waste PFI contracts, and with the Highways Agency, whose own assessment rates Costain as a leading supply chain partner

During the year, we secured our first highways technology framework contract for the Welsh Government, an important contract given the increased levels of investment in technology expected in the highways sector. We also recently secured, in joint venture, our first rail electrification contract for Network Rail, with electrification forming a key part of their £37 billion investment programme

Costain Limited

Directors' Report for the Year Ended 31 December 2012

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Business review (continued)

Revenue for the year was £633.5million (2011 £677.8million) and profit before tax was £11.0 million (2011 £4.5million). The Company paid a dividend of £2.3million (2011 £2.2million). During the year, we secured new contracts and extensions of some £600 million and the year-end order book was £2.0 billion (2011 £2.0 billion), with over £550 million of work secured for 2013, and the level of tendering remains high. In excess of 85% of our order book is from repeat orders.

During the period, the Company, in joint venture, secured its fifth contract with Crossrail for the construction and fit out of the intermediate shafts and headhouses at Eleanor Street and Mile End Park in London, along with the connecting adits to the main running tunnels. Work is also progressing well on the major London Bridge Station redevelopment project for Network Rail, in which Costain Limited is providing integrated services including design, construction, logistical and environmental operations whilst ensuring the station remains open throughout.

Costain Limited continues to be a leading supplier to the Highways Agency and significant progress is being made with the large portfolio of professional services, construction and maintenance contracts in which it is engaged for this customer. New contract awards include the upgrade of the A8 Belfast to Larne carriageway for the Northern Ireland Roads Service, appointment to both lots of the Highways Agency Asset Support Framework and a four-year technology contract awarded by the Welsh Government for the maintenance of Road Network Communications and Tunnel Systems across Wales, involving the maintenance and fault repair of complex technology systems such as CCTV cameras, variable messaging signs, emergency telephones and traffic signals along major strategic routes.

The Riverside Resource Recovery Energy from Waste facility at Belvedere is now fully operational and the final account has been agreed.

Customer spend in the water and waste market is underpinned by regulatory and legislative requirements and we expect this to grow over the medium and long term as the market in the UK undergoes major change. The Company is making good progress on the AMP5 framework contracts with Northumbrian Water, Severn Trent, Southern Water, United Utilities and Welsh Water. During the period, the Company was also awarded a contract by Severn Trent Water to replace its largest covered service reservoir sited near Ambergate in Derbyshire.

The Company is completing the PFI contract for the Greater Manchester Waste Disposal Authority. The majority of the facilities on the scheme, which utilises a range of sophisticated waste management technologies, have been handed over with the remainder in an extended commissioning phase and commercial discussion regarding completion continuing.

Health, Safety and the Environment

Costain places the highest priority on the effective management of Safety, Health and Environment, maintaining our low Company Accident Frequency Rate (AFR) at 0.11, which continues to compare favourably with our major Tier One peer group. We also received 18 Gold Awards from RoSPA.

Costain Limited

Directors' Report for the Year Ended 31 December 2012

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Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the business, its financial condition or results of operations. Costain has specific policies and procedures which are designed to identify, manage and mitigate business risks.

These risks and uncertainties include

- Economic outlook, the extent of any changes to governmental regulation, taxation and interest rates together with the uncertain economic outlook may affect customers' ability and confidence to place orders and the Company's ability to win work,
- Change of Government policy on spending, particularly with regard to improving public infrastructure, buildings and services in areas where Costain would expect to compete for work could affect the volume of work available in the Company's target markets,
- Competition, the failure to compete effectively, could result in a failure to win work,
- Operational delivery, the failure to follow Costain's Best Practice procedures could mean projects are not delivered to time, cost, quality or appropriate health and safety and environmental standards and, therefore, do not meet clients' expectations. In addition, failure to follow Company Standards, Policies, Procedures and Guidelines could adversely affect the Company's reputation and/or expose it to financial liabilities and adversely affect the operational and financial performance,
- People, the ability to attract, develop and retain highly skilled management and personnel may limit the Company's ability to grow as anticipated,
- Costain Group's pension deficit, exposes the Company to the risk that contributions may need to increase to cover funding shortfalls, which could adversely impact the Company's results,
- Supply chain, financial failure within the supply chain or the supply chain being responsible for late or inadequate delivery or poor quality of work on a project could damage the Company's reputation and/or cause it to suffer financial loss,
- The loss of IT systems/ key documentation, failure of IT systems or the failure to secure key documentation could result in financial loss, and
- Acquisitions, failing to integrate successfully an acquired business could impact the Company's future profits

Risk management has been important within the Company for many years and includes a specific project risk management procedure that requires a Tender Project Risk Register and a Commercial Risk Review to be prepared in respect of each contract bid. Risks are divided into four categories: safety, technical, operational and environmental.

The Executive Investment Panel reviews tender bids and risk mitigations in respect of those bids and part of its purpose is to ensure that the Company is as selective as possible when taking on potential liabilities or recognising opportunities.

Following contract award, the project risks are assessed and reviewed by the project manager and commercial manager on a continuing basis. As part of this monitoring, the project team produce a Project Manager's Report each month, which is reviewed with senior management. This report contains a number of indicators of project performance: Health and Safety, Programme, Risk management, Financial performance, Claims and variations, Cash management, Resource levels and Customer service.

For the Company as a whole, the following Key Performance Indicators are considered the most effective measures of progress toward achieving the overall objectives: Operating profit, Profit before tax, Order book, Net cash balance, Accident Frequency Rate, Staff turnover and Supply chain performance.

Costain Limited

Directors' Report for the Year Ended 31 December 2012

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Creditor Payment Policy and Practice

As a result of the nature of the Company's businesses, the contractual relationships with suppliers of goods and services and with subcontractors vary according to circumstances. It is the Company's policy to enter into any appropriate form of contractual agreement on payment terms and to pay according to those terms. The Company does not follow any particular code of practice for the payment of creditors. In practice, the Company makes every effort to pay when it can be confirmed that the supplier has provided the goods or services in accordance with the relevant terms of the contract. The amount of trade creditors shown in the balance sheet at the end of the financial year represents 52 days (2011 48 days) of average daily purchases.

Charitable donations

During the year the company made charitable donations of £120,154. Individual donations of £2,000 and over were

| | £ |
|---------------------------------|--------------|
| Wateraid | 27,074 |
| Prince's Trust | 25,000 |
| Great Ormond Street Hospital | 22,460 |
| Rhondda Cynon Taff CBC | 15,000 |
| Southern Water Charity Race Day | 2,500 |
| Cancer Research UK | <u>2,200</u> |

Employment of disabled persons

It is the company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue wherever possible the employment of and to arrange appropriate training for those who become disabled and to provide equal opportunities for the training and career development of disabled employees.

Employee involvement

The Costain Group provides information to its employees both of a general company nature and to encourage awareness of financial and economic factors, which affect the company in various ways. These include regular videos and updates from the Chief Executive and other senior managers, a Costain online news service, information via our electronic mail system, circulation of press releases, management briefings on company results, a report to employees on the annual financial statements of the Group and annual pension scheme reports. Participation and involvement are encouraged through regular management meetings with employees.

Future developments

The report may contain certain forward-looking statements. The forward-looking statements are not intended to be guarantees of future performance but are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements.

Disclosure of information to the auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of.

Costain Limited

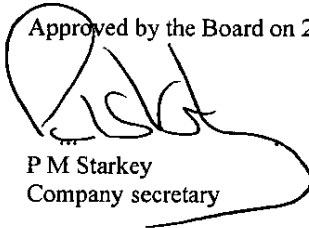
Directors' Report for the Year Ended 31 December 2012

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Reappointment of auditor

The auditor KPMG Audit Plc is deemed to be reappointed under section 487(2) of the Companies Act 2006

Approved by the Board on 25 March 2013 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'P M Starkey', is written over the text 'signed on its behalf by' and extends below the name.

P M Starkey
Company secretary

Costain Limited
Statement of Directors' Responsibilities

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 apply them consistently,
- make judgements and accounting 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 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. They 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.

Independent Auditor's Report to the Members of Costain Limited

We have audited the financial statements of Costain Limited for the year ended 31 December 2012, set out on pages 11 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 8), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

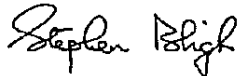
**Independent Auditor's Report to the Members of
Costain Limited**

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Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Stephen Bligh (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor

15 Canada Square
London
E14 5GL

25 March 2013

Costain Limited
Profit and Loss Account for the Year Ended 31 December 2012

| | Note | 2012 £ | 2011 £ |
|---|------|-------------------------|-------------------------|
| Turnover | 3 | 633,510,018 | 677,838,627 |
| Cost of sales | | <u>(603,593,104)</u> | <u>(654,252,603)</u> |
| Gross profit | | 29,916,914 | 23,586,024 |
| Administrative expenses | | <u>(19,181,590)</u> | <u>(19,772,199)</u> |
| Operating profit | 2 | 10,735,324 | 3,813,825 |
| Other interest receivable and similar income | 6 | 550,787 | 672,488 |
| Interest payable and similar charges | | <u>(263,158)</u> | - |
| Profit on ordinary activities before taxation | | 11,022,953 | 4,486,313 |
| Tax on profit on ordinary activities | 7 | <u>(3,096,867)</u> | <u>(1,318,038)</u> |
| Profit for the financial year | 17 | <u><u>7,926,086</u></u> | <u><u>3,168,275</u></u> |

All activities relate to continuing operations

Costain Limited

Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2012

| | Note | 2012 £ | 2011 £ |
|--|-------------|-------------------|-------------------|
| Profit for the financial year | | 7,926,086 | 3,168,275 |
| Equity-settled share-based payments | | 2,819,319 | 1,920,482 |
| Deferred tax on equity-settled share-based payments | | <u>(651,235)</u> | <u>(480,121)</u> |
| Total recognised gains and losses relating to the year | | <u>10,094,170</u> | <u>4,608,636</u> |

Costain Limited
(Registration number: 00610201)
Balance Sheet at 31 December 2012

| | Note | 2012 £ | 2011 £ |
|--|------|--------------------|--------------------|
| Fixed assets | | | |
| Tangible fixed assets | 8 | 6,432,838 | 8,458,953 |
| Investments | 9 | 16,271,194 | 3,706,194 |
| | | <u>22,704,032</u> | <u>12,165,147</u> |
| Current assets | | | |
| Stocks | | 1,106,040 | 1,386,939 |
| Debtors | 10 | 248,743,996 | 291,402,679 |
| Cash at bank and in hand | 11 | 50,528,585 | 52,169,556 |
| | | <u>300,378,621</u> | <u>344,959,174</u> |
| Creditors Amounts falling due within one year | 12 | (248,537,798) | (289,550,712) |
| Net current assets | | <u>51,840,823</u> | <u>55,408,462</u> |
| Total assets less current liabilities | | 74,544,855 | 67,573,609 |
| Creditors Amounts falling due after more than one year | 13 | (3,724,596) | (4,801,875) |
| Provisions for liabilities | 14 | (1,141,359) | (887,004) |
| Net assets | | <u>69,678,900</u> | <u>61,884,730</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 3,892,858 | 3,892,858 |
| Profit and loss account | 17 | 65,786,042 | 57,991,872 |
| Shareholders' funds | 18 | <u>69,678,900</u> | <u>61,884,730</u> |

Approved by the Board on 25 March 2013 and signed on its behalf by



M D Hunter
Director

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

1 Accounting policies

Basis of preparation

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

Interests in unincorporated joint arrangements, which are not subsidiary undertakings, are accounted for by recognising the company's share of the assets and liabilities, profits, losses and cash flows, measured according to the terms of the arrangement

Exemption from preparing a 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

Exemption from preparing group accounts

The company has taken exemption from preparing group accounts as it is included in consolidated accounts for a larger group which are drawn up as full consolidated audited accounts which are filed at Companies House

Going concern

The Company's principal business activity, which involves long-term contracts with a number of customers across the United Kingdom, is described in the Directors' Report on page 3. To meet its day-to-day working capital requirements, the Company uses cash balances provided from shareholders' capital and retained earnings. 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 joint arrangements is loaned at interest to a fellow subsidiary on a day-to-day basis. These loans are repaid daily to meet any cash requirements. Also, as part of its contracting operations, the Company may be required to provide performance and other bonds and it satisfies these requirements by utilising committed bonding facilities from banks and surety companies made available to Costain Group PLC and its subsidiaries.

The directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009. The directors have considered the Company's financial requirements, the current order book and future opportunities and the available bonding facilities. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of value added tax and includes the company's share of turnover of joint arrangement contracts

Turnover from construction contracts is described below

Turnover from the sale of goods and services is recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer, the amount of turnover can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the company

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total rental income on a straight-line basis over the term of the lease

Depreciation

Except for land, which is not depreciated, the cost or valuation of tangible fixed assets is depreciated over the expected life on a straight-line basis to residual values as follows

| Asset class | Depreciation method and rate |
|--------------------------|-------------------------------------|
| Long leasehold buildings | 2% |
| Plant and equipment | 10% - 50% |

Fixed asset investments

Fixed asset investments are stated at historical cost less provision for any diminution in value

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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Long term contracts

Revenue arises from increases in valuations on long-term contracts. Where the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion.

When it is probable that total contract costs will exceed total contract turnover, the expected loss is recognised as an expense immediately.

Variations and claims are included where it is probable that the amount, which can be measured reliably, will be recovered from the customer. When the outcome of a construction contract cannot be estimated reliably, contract turnover is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

Contract costs are recognised as expenses in the period in which they are incurred.

Bid costs

Costs associated with bidding for contracts are written off as incurred. When it is probable that a contract will be awarded, usually when the company has secured preferred bidder status, costs incurred from that date to the date of financial close are carried forward in the balance sheet.

Stocks

Stocks comprise raw materials and are stated at the lower of cost and net realisable value.

Deferred tax

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, except as required by FRS19.

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.

Foreign currency

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 transactions.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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Share-based payments

Costain Group PLC operates various equity-settled and cash-settled share option schemes. Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed over the vesting period, based on the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date. Fair value is measured by the use of the Black-Scholes option pricing model.

Pensions

The company participates, on a defined contributions basis, in several pension schemes for the benefit of its own and seconded employees. The assets of the schemes are held separately from those of the company in independently administered funds.

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

2 Operating profit

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

| | 2012 £ | 2011 £ |
|------------------------------------|------------|------------|
| External hire of plant & machinery | 24,234,090 | 22,303,172 |
| Depreciation of owned assets | 1,770,054 | 1,268,412 |
| Auditor's remuneration | 230,000 | 203,100 |

Fees paid to KPMG Audit Plc for services other than the statutory audit of the company are not disclosed in these accounts since the consolidated accounts of the ultimate parent, Costain Group PLC, are required to disclose non-audit fees on a consolidated basis.

3 Business and geographical segment information

The majority of turnover arises from contracting work in the United Kingdom and turnover by destination is not materially different from turnover by origin.

| | 2012 £ | 2011 £ |
|----------------------|--------------------|--------------------|
| External turnover | 621,034,677 | 670,581,677 |
| Intra-group turnover | 12,475,341 | 7,256,950 |
| | <u>633,510,018</u> | <u>677,838,627</u> |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... *continued*

4 Particulars of employees

The average number of operational personnel employed by the company during the year in the United Kingdom was 340 (2011 405)

In addition, the average number of staff seconded from a group undertaking that worked during the year for the company was 1,784 comprising administrative 428 and operational 1,356 (2011 450 and 1,426)

The aggregate payroll costs were as follows

| | 2012 £ | 2011 £ |
|-----------------------|--------------------|--------------------|
| Wages and salaries | 103,413,533 | 107,226,194 |
| Social security costs | 11,611,436 | 12,094,688 |
| Staff pensions | 15,418,139 | 15,638,469 |
| Share-based payments | 2,819,319 | 1,920,482 |
| | <u>133,262,427</u> | <u>136,879,833</u> |

The company incurs pension costs in respect of employees seconded from a group undertaking on a defined contributions basis. As from 1 April 2006, the seconded employees that participated in the Costain Group's UK defined benefit pension scheme were provided with benefits based on a Career Average Revalued Earnings basis. The scheme was closed for future accrual on 30 September 2009 and replaced by a defined contribution scheme. Details of the schemes are included in the financial statements of Costain Group PLC.

The cost for the period of contributions to these schemes is included in the analysis above. There are no outstanding or prepaid contributions at the balance sheet date.

The company participates in the Building & Civil Engineering stakeholder pension scheme known as EasyBuild.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

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5 Directors' remuneration

The directors' remuneration for the year was as follows

| | 2012 £ | 2011 £ |
|--|----------------|----------------|
| Remuneration (including benefits in kind) | 1,879,311 | 1,651,063 |
| Company contributions paid to money purchase schemes | <u>111,970</u> | <u>117,361</u> |

During the year, the number of directors who were receiving benefits and share incentives was as follows

| | 2012 No. | 2011 No. |
|--|-------------|-------------|
| Accruing benefits under defined benefit pension scheme | <u>-</u> | <u>7</u> |

In respect of the highest paid director

| | 2012 £ | 2011 £ |
|---|--------------|---------------|
| Remuneration | 326,518 | 324,643 |
| Company contributions to money purchase pension schemes | <u>5,508</u> | <u>21,024</u> |

During the year, the highest paid director exercised share options and also received or was entitled to receive shares under a long term incentive scheme

A Wyllie and A O Bickerstaff receive their remuneration entirely as directors of Costain Group PLC
The director long-term incentive plans all relate to shares in Costain Group PLC

6 Other interest receivable and similar income

| | 2012 £ | 2011 £ |
|--|----------------|----------------|
| Bank interest receivable | 91,615 | 112,240 |
| Interest receivable from amounts due from group undertakings | <u>459,172</u> | <u>560,248</u> |
| | <u>550,787</u> | <u>672,488</u> |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

7 Taxation

Tax on profit on ordinary activities

| | 2012 £ | 2011 £ |
|--|-----------|-------------|
| Current tax | | |
| Corporation tax charge | 2,793,540 | - |
| Adjustments in respect of previous years | 88,625 | - |
| Group relief receivable | - | (1,584,723) |
| UK Corporation tax | 2,882,165 | (1,584,723) |
| Deferred tax | | |
| Origination and reversal of timing differences | 434,015 | 3,463,030 |
| Deferred tax adjustment relating to previous years | (219,313) | (560,269) |
| Total deferred tax | 214,702 | 2,902,761 |
| Total tax on profit on ordinary activities | 3,096,867 | 1,318,038 |

Factors affecting current tax charge for the year

The differences are reconciled below

| | 2012 £ | 2011 £ |
|---|------------|-------------|
| Profit on ordinary activities before taxation | 11,022,953 | 4,486,313 |
| Corporation tax at standard rate | 2,700,623 | 1,188,873 |
| Profit on sale of fixed assets | - | (26,394) |
| Decrease in timing differences | (22,149) | (2,972,130) |
| Disallowed expenditure | 115,066 | 224,928 |
| Adjustments in respect of prior year | 88,625 | - |
| Total current tax | 2,882,165 | (1,584,723) |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

8 Tangible fixed assets

| | Plant and machinery £ | Total £ |
|--------------------------|--------------------------------------|--------------------|
| Cost or valuation | | |
| At 1 January 2012 | 19,072,026 | 19,072,026 |
| Additions | 352,020 | 352,020 |
| Disposals | <u>(2,371,925)</u> | <u>(2,371,925)</u> |
| At 31 December 2012 | <u>17,052,121</u> | <u>17,052,121</u> |
| Depreciation | | |
| At 1 January 2012 | 10,613,073 | 10,613,073 |
| Charge for the year | 1,770,054 | 1,770,054 |
| Eliminated on disposals | <u>(1,763,844)</u> | <u>(1,763,844)</u> |
| At 31 December 2012 | <u>10,619,283</u> | <u>10,619,283</u> |
| Net book value | | |
| At 31 December 2012 | <u>6,432,838</u> | <u>6,432,838</u> |
| At 31 December 2011 | <u>8,458,953</u> | <u>8,458,953</u> |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

9 Investments held as fixed assets

Shares in group undertakings and participating interests

| | Subsidiary undertakings £ | Joints ventures and associates £ | Total £ |
|-----------------------|---------------------------------|---|------------|
| Cost | | | |
| At 1 January 2012 | 3,706,167 | 27 | 3,706,194 |
| Additions | 12,565,000 | - | 12,565,000 |
| At 31 December 2012 | 16,271,167 | 27 | 16,271,194 |
| Net book value | | | |
| At 31 December 2012 | 16,271,167 | 27 | 16,271,194 |
| At 31 December 2011 | 3,706,167 | 27 | 3,706,194 |

Acquisitions

On 20 August 2011, Costain Limited purchased the entire share capital of Promanex Group Holdings Limited (Promanex) for a consideration of £3 7m, and provided Promanex funding of £10 9m to repay loans provided by the previous shareholders

During 2012, Costain Limited purchased three subsidiary companies (see note 21) from Promanex Group Holdings Limited, a subsidiary company of Costain Limited, for £12,565,000, as part of a group restructuring

10 Debtors

| | 2012 £ | 2011 £ |
|--|--------------------|--------------------|
| Trade debtors | 49,914,588 | 58,199,778 |
| Amounts owed by group undertakings | 104,410,834 | 138,690,621 |
| Amounts owed by undertakings in which the company has a participating interest | 691,763 | 217,763 |
| Amounts recoverable on long term contracts | 62,371,875 | 57,636,105 |
| Other debtors | 21,622,230 | 26,832,399 |
| Deferred tax | 4,089,217 | 4,955,154 |
| Prepayments and accrued income | 5,643,489 | 4,870,859 |
| | <u>248,743,996</u> | <u>291,402,679</u> |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

Debtors includes other debtors of £16,968,500 (2011 £15,560,500) and deferred tax of £4,089,217 (2011 £4,955,154) receivable after more than one year

Deferred tax

The movement in the deferred tax asset in the year is as follows

| | £ |
|---|------------------|
| At 1 January 2012 | 4,955,154 |
| Deferred tax charged to the profit and loss account | (434,015) |
| Deferred tax utilised during the year | 219,313 |
| Amount debited to reserves | (651,235) |
| At 31 December 2012 | <u>4,089,217</u> |

Analysis of deferred tax

| | 2012 £ | 2011 £ |
|---|------------------|------------------|
| Difference between accumulated depreciation and amortisation and capital allowances | 1,458,113 | 1,634,338 |
| Other timing differences | <u>2,631,104</u> | <u>3,320,816</u> |
| | <u>4,089,217</u> | <u>4,955,154</u> |

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 and the December 2012 Autumn Statement announced a further reduction to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future tax charge accordingly. The deferred tax asset at balance sheet date has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further affect the company's future current tax charge and reduce the Company's deferred tax asset accordingly.

The company has other deferred tax 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 tax assets not recognised at 23% (2011 25%) were

| | 2012 £ | 2011 £ |
|----------------|-----------|-----------|
| Capital losses | 77,567 | 84,312 |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

11 Cash at bank and in hand

The company's banker has the right to set off the company's bank balance when in credit against borrowings by Richard Costain Limited. In addition, these arrangements require that all cash balances are transferred to a fellow subsidiary, Richard Costain Limited, on a daily basis, such arrangements are commonplace in large groups and facilitate effective cash management. Costain Limited's cash balance is replaced with an inter-company receivable from Richard Costain Limited, the directly held cash balance at the balance sheet date reduces to £Nil, with the balance of £50,528,585 (2011: £52,169,556) represented by uncleared items and cash held in separate accounts within joint arrangements and project specific bank accounts.

12 Creditors: Amounts falling due within one year

| | 2012 £ | 2011 £ |
|--|--------------------|--------------------|
| Trade creditors | 79,994,511 | 80,474,601 |
| Bank loans and overdrafts | 7,878,767 | 122,899 |
| Credit balances on long term contracts in progress | 7,401,079 | 22,253,886 |
| Amounts owed to participating interests | 8,272,473 | 12,563,217 |
| Corporation tax | 2,882,165 | - |
| Other taxes and social security | 642,614 | 685,908 |
| Other creditors | 3,955,873 | 5,974,838 |
| Accruals and deferred income | 127,394,048 | 155,310,732 |
| Owed to parent and group undertakings | 10,116,268 | 12,164,631 |
| | <u>248,537,798</u> | <u>289,550,712</u> |

13 Creditors: Amounts falling due after more than one year

| | 2012 £ | 2011 £ |
|------------------------------|------------------|------------------|
| Accruals and deferred income | <u>3,724,596</u> | <u>4,801,875</u> |

14 Provisions

| | Other provision £ | Total £ |
|--|-------------------------|------------------|
| At 1 January 2012 | <u>887,004</u> | <u>887,004</u> |
| Charged to the profit and loss account | 400,000 | 400,000 |
| Utilised during the year | <u>(145,645)</u> | <u>(145,645)</u> |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

| | | |
|---------------------|------------------|------------------|
| | 254,355 | 254,355 |
| At 31 December 2012 | <u>1,141,359</u> | <u>1,141,359</u> |

The other provisions relate to liabilities incurred on vacated leasehold properties and will be utilised within the next year

15 Share based payments

The following schemes all relate to shares in Costain Group PLC and have earnings and profit targets based on the results of Costain Group PLC

(a) Long-Term Incentive Plans ('LTIP')

Costain Group PLC's 2002 Long-Term Incentive Plan, approved by shareholders at the 2002 AGM, reached the end of its ten-year life in 2012 and shareholders gave their approval for the introduction of a new Long-Term Incentive Plan at the 2012 AGM. The LTIP allows for conditional awards with a maximum face value of up to 100% of base salary with a performance condition based on EPS.

(b) Deferred Share Bonus Plan ('DSBP')

Executive Directors and other senior management are eligible to participate in the Deferred Share Bonus Plan which promotes greater alignment with shareholders through an award of deferred shares. The DSBP allows for conditional awards with a face value of up to 50% of base salary with a performance condition based on EBIT (Earnings before interest and tax) of Costain Group Plc. The deferred bonus award will vest on the second anniversary of the date of grant. The shares to satisfy the deferred bonus will not lead to any dilution of shareholder interest. Participants must be in employment with the Costain Group and not under notice of termination (either given or received) on the date of vesting.

(c) Save As You Earn Plans ('SAYE')

Costain Group operates a number of SAYE plans which are open to all employees. Employees pay a fixed amount from salary into a savings account each month and may elect to save over three to five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, the options expire six months after maturity. Exercise of options is subject to continued employment within the Costain Group (except where permitted by the rules of the scheme).

The amounts recognised in the profit and loss account, before income tax, for share-based payment transactions with employees was £2.8 million (2011: £1.9 million). The options outstanding at the year end have a weighted average contractual life of 6.4 years (2011: 3.6 years).

The following LTIPs arrange for the grant of shares to Executive Directors and senior management at an exercise price of £1 per individual grant. The DSBPs arrange for a Nil-cost option grant of shares to Executive Directors and senior management. The weighted average exercise price of the outstanding SAYE schemes is shown below.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

| | LTIP | DSBP | SAYE | |
|------------------------------------|-------------|-----------|-----------|-----|
| | Number | Number | Number | p |
| Outstanding at 1 January 2011 | 2,900,034 | 1,245,977 | 1,984,802 | 223 |
| Adjusted during the year | - | (194,567) | - | - |
| Forfeited during the year | (170,402) | (194,936) | (347,808) | 309 |
| Exercised during the year | (1,528,612) | - | (772,709) | 196 |
| Granted during the year | 787,193 | 646,483 | 999,664 | 186 |
| Outstanding at 31 December 2011 | 1,988,213 | 1,502,957 | 1,863,949 | 199 |
| Adjusted during the year | - | 145,888 | - | - |
| Forfeited during the year | (59,359) | (7,852) | (401,718) | 231 |
| Exercised during the year | (626,923) | - | (10,714) | 196 |
| Granted during the year | 925,670 | 523,493 | - | - |
| Outstanding at 31 December 2012 | 2,227,601 | 2,164,488 | 1,451,517 | 190 |
| Exercisable at the end of the year | - | - | - | - |

The share options exercised during the year related to the SAYE 2008 3 year plan and SAYE 2008 5 year plan

16 Share capital

Allotted, called up and fully paid shares

| | 2012 | | 2011 | |
|----------------------------|-----------|-----------|-----------|-----------|
| | No. | £ | No. | £ |
| Ordinary shares of £1 each | 3,892,858 | 3,892,858 | 3,892,858 | 3,892,858 |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... *continued*

17 Reserves

| | Profit and loss account £ | Total £ |
|---|---------------------------------|-------------------|
| At 1 January 2012 | 57,991,872 | 57,991,872 |
| Profit for the year | 7,926,086 | 7,926,086 |
| Dividends | (2,300,000) | (2,300,000) |
| Equity-settled share-based payments net of deferred tax | 2,168,084 | 2,168,084 |
| At 31 December 2012 | <u>65,786,042</u> | <u>65,786,042</u> |

18 Reconciliation of movement in shareholders' funds

| | 2012 £ | 2011 £ |
|--|--------------------|--------------------|
| Profit attributable to the members of the company | 7,926,086 | 3,168,275 |
| Equity-settled share-based payments for the year net of deferred tax | 2,168,084 | 1,440,361 |
| Dividends | <u>(2,300,000)</u> | <u>(2,200,000)</u> |
| Net addition to shareholders' funds | 7,794,170 | 2,408,636 |
| Shareholders' funds at 1 January | <u>61,884,730</u> | <u>59,476,094</u> |
| Shareholders' funds at 31 December | <u>69,678,900</u> | <u>61,884,730</u> |

19 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 2012, these liabilities amounted to £Nil (2011 £Nil).

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

20 Related party transactions

Other related party transactions

During the year the company made the following related party transactions

2012

2011

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

| | £ | £ |
|--------------------|-------------------|-------------------|
| Joint Arrangements | 68,057,334 | 62,497,055 |
| Joint Ventures | 19,558,299 | 20,293,617 |
| | <u>87,645,633</u> | <u>82,790,672</u> |

The major joint arrangements in which the company has an interest are

| | Activity | Percentage of equity held |
|---|-----------------------------|---------------------------|
| Joint arrangements | | |
| A-one+ Integrated Highways Services - MAC 7 | Engineering and Maintenance | 33 |
| A-one+ Integrated Highways Services - MAC 10 | Engineering and Maintenance | 25 |
| A-one+ Integrated Highways Services - MAC 12 | Engineering and Maintenance | 33 |
| A-one+ Integrated Highways Services - MAC 14 | Engineering and Maintenance | 33 |
| Costain-Carillion Joint Venture - M1 Widening & A5/M1 Link | Civil Engineering | 50 |
| Costain-Laing O'Rourke Joint Venture - Bond Street station | Civil Engineering | 50 |
| Costain-Laing O'Rourke Joint Venture - Farringdon station | Civil Engineering | 50 |
| Costain-Hochtief Joint Venture - Reading station | Civil Engineering | 50 |
| Costain-Skanska C405 Joint Venture - Paddington station - Crossrail | Civil Engineering | 50 |
| Costain-Skanska C411 Joint Venture - Bond Street - Crossrail | Civil Engineering | 50 |
| Costain-Skanska - Pudding Mill Lane - Crossrail | Civil Engineering | 50 |
| Costain-Skanska - Royal Oak Portal - Crossrail | Civil Engineering | 50 |
| Educo UK Joint Venture - Bradford Schools | Construction | 50 |
| Galliford-Costain-Atkins Joint Venture - United Utilities | Civil Engineering | 42 |
| Lafarge Costain Joint Venture - E & SE Framework | Civil Engineering | 50 |

Investments held in subsidiary undertakings and joint ventures are

| Subsidiaries | Activity | Percentage of equity held | Country of incorporation |
|-----------------------------|-----------------------------|---------------------------|--------------------------|
| Promanex Group Holdings Ltd | Holding and Service Company | 100 | England |
| Promanex Group Ltd* | Service Company | 100 | England |
| Promanex (TFM & ES) Ltd* | Support Services | 100 | England |

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

..... *continued*

| | | | |
|------------------------|---------------------------------|-----|---------|
| Promanex (C & MS) Ltd* | Support Services | 100 | England |
| Promanex (C & IS) Ltd* | Support Services | 100 | England |
| Joint ventures | | | |
| Civil Engineering | 4Delivery Ltd | 40 | England |
| Civil Engineering | Brighton & Hove 4Delivery Ltd | 49 | England |
| Civil Engineering | Stratus Integrated Services Ltd | 25 | England |

The company has taken advantage of the exemption in FRS8 "Related Party Disclosures" from disclosing transactions with other members of the group

* Shares held by subsidiary company

21 Control

The company is controlled by Costain Group PLC. 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, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB.