

Registration number 00610201

Costain Limited

Strategic Report & Directors' Report and Financial Statements
for the Year Ended 31 December 2013

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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
Registered office	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
Auditor	KPMG Audit Plc 15 Canada Square London E14 5GL

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

The directors present their strategic report and directors' report and the financial statements for the year ended 31 December 2013

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

T G Bowen

M Rogerson (resigned 22 October 2013)

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

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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

2013 has been another year of significant progress in the transformation of Costain into a Tier One UK engineering solutions provider for major customers who continue to invest billions of pounds addressing essential national needs

We are focused on providing innovative and cost effective solutions to customers who are increasingly seeking more strategic relationships through larger and longer-term contracts in order to meet their complex requirements. This change in customer procurement approach, and associated supplier consolidation, along with the very substantial expenditure expected in the next few years is creating a dynamic marketplace which provides Costain with a tremendous opportunity to accelerate the development of the business.

The complex nature of the customers' requirements also dictates that utilisation of a target cost, cost reimbursable form of contract is the most appropriate. Consequently, over 90% of the order book is now comprised of this form of contract, which benefit from generally being lower-risk than lump sum contracts, but tend to be associated with higher bid costs and working capital requirements.

Turnover for the year was £689.7 million (2012: £633.5 million) and profit before tax was £12.1 million (2012: £11.0 million). Operating profit was £17.0 million (2012: £10.7 million) before exceptional items of £5.2 million (2012: £Nil) and interest.

The Company paid a dividend of £2.3 million (2012: £2.3 million).

During the year, we secured £1.4 billion of new projects and contract extensions and the year-end order book was £2.7 billion (2012: £2.0 billion), with over £650 million of work secured for 2014. Excess of 85% of our order book is from repeat orders and we continue to focus and prioritise our resources on identifying the most attractive new business opportunities.

We are benefitting from the development of our innovative technology offering, developing and delivering complex solutions for the Welsh Government's All Wales Technology framework and the Highways Agency and Costain continues to be a leading supplier to the Highways Agency, with a large portfolio of design, construction and maintenance projects for this customer. During the period, some major projects, such as the M1 J10-13 Managed Motorway and Walton Bridge across the Thames, were completed, whilst a new contract to deliver the A160/A180 Port of Immingham Improvement scheme in North Lincolnshire was secured. The three Managing Agent Contracts (MACs) all performed well and the five-year highway maintenance contract for the East Midlands was awarded a two year contract extension. The MAC10 contract came to the end of its term and was renewed with another party. Costain was also awarded a place by Transport for London on its Early Contractor Involvement and Construction framework, worth approximately £200 million overall, and the first project within this framework, the Hammersmith Flyover strengthening project, is now well underway.

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

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Significant milestones were reached on the major London Bridge Station redevelopment contract, and the works at Reading Station and on the complex Bond Street upgrade project continued to progress well. Costain continues to be a major partner to Crossrail, securing its eleventh contract with this customer during the year for Paddington New Yard.

The investment in developing our programme management and rail engineering capabilities continues to yield benefits. During the year, three Railway Systems contracts for Crossrail were secured and these are progressing well, as is the delivery of the West Coast Main Line Power Upgrade contract for Network Rail. Costain is also involved in providing consultancy services for HS2.

2013 also saw significant bidding activity associated with the next five year Asset Management Programme cycle (AMP6) in the water market and Costain secured the sector's first AMP6 contract for Thames Water and retained a place on the Severn Trent Water AMP6 Programme. We have also prequalified for further AMP6 long-term contract opportunities.

Costain has continued the successful delivery of its AMP5 framework contracts with Northumbrian Water, Southern Water, United Utilities, Severn Trent and Welsh Water whilst also continuing to deliver large capital wastewater treatment schemes for Liverpool and Brighton & Hove, the latter won Major Project of the year at the 2013 British Construction Industry Awards.

Costain is now a major contract partner in the construction of the new Hinkley Point C nuclear power station in Somerset, providing the design and delivery of the water cooling systems. During the year, Costain was also awarded a place on UK Power Networks' £40 million power transmission framework contract.

Costain continues to be active in the airports market, where there is growing pressure to increase the capacity of the UK's aviation infrastructure to accommodate economic growth and is a Tier One supplier on the Heathrow Framework and at Manchester Airport.

Costain is completing the PFI contract for the Greater Manchester Waste Disposal Authority, which utilises a range of sophisticated waste management technologies. Of the forty-six waste facilities under the contract, thirty-six have reached final acceptance, three are seeking to obtain final acceptance, six are currently in the post-completion (warranty) period and one remains to be completed. Design faults have been identified at four sites, including the site that remains to be completed and remedial work and testing is on-going in respect of that site. Costain is in discussions with relevant contract counterparties and Costain's insurers regarding the issues that have arisen and expects a successful outcome to discussions.

On 1 August 2013, we announced the acquisition of EPC Offshore, a specialist oil and gas project management services company, for an initial consideration of £10.6 million.

At the period end, Costain acquired the 27% interest from its partner Serco Group plc in the Managed Motorway Technology joint venture arrangement for a cash consideration of £2.4 million. The joint venture arrangement, in which Costain already held the remaining 73% interest, has a place on the Highways Agency framework to deliver new technology-led highways improvements.

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

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We are increasing our focus on research and development and we have initiatives in place to encourage and support entrepreneurial members of staff to develop their ideas into business opportunities. The 'Mario' asset management tool is now being sold commercially to rail and highways customers as an addition to Costain's range of services and other examples of innovation and technology being driven across our entire service offering include COpeth, an asset intelligence resource which gathers data intelligence on the behaviour and movement of people within major assets such as railway stations, and GRAVITAS offshore, which carries out research on the design and construction of concrete gravity foundations for large offshore wind turbines.

Our customers place great emphasis on the "good citizen" credentials of their supply-chain partners. Increasingly, customers insist that their Tier One providers share their corporate and social responsibility values and failure to embrace this means non-qualification for tender lists. We passionately share these values because we believe that investment in corporate social responsibility capital is a vital investment in Costain's future success.

Our 'Costain Cares' programme places responsible, effective and collaborative stakeholder relationships at the core of everything we do, is a central part of our value proposition to customers and has a direct impact on the size and quality of our order book.

We received a further Platinum award from Business in the Community, recognising our proactive commitment to mitigating the environmental and social aspects of our operation and we increased once again our training and development programmes across the organisation so that we have the requisite skills and resources and there was a further increase in the number of apprentices.

The Company has a number of key suppliers and is reliant on their performance in carrying out its business. Consequently, an internal performance measurement tool is used to assess the performance of key suppliers on a regular basis against a number of indicators and average for year was 70% (2012: 69%).

The Company participates within Costain Group's UK banking arrangements and bank balances are centrally aggregated on a daily basis. The Company's banker has the right to set off the Company's bank balance when in credit against borrowings by Richard Costain Limited.

Costain Limited's cash balance was £47.6 million (2012: £50.5 million) represented uncleared items and cash held in separate accounts within joint arrangements and project specific bank accounts.

Costain places the highest priority on the effective management of Safety, Health and Environment, and Costain's Accident Frequency Rate (AFR) was 0.14 (2012: 0.11), which continues to compare favourably with our major Tier One peer group. We received fourteen Gold Awards from RoSPA and two Gold Medals.

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

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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, Costain Group's 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, Repeat business, Net cash balance, Accident Frequency Rate and Supply chain performance.

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

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Charitable donations

During the year, the Company made charitable donations of £118,194. Individual donations of £2,000 and over were

	£
Heathrow Charity	2,550
Wateraid	7,250
St Andrews Hospice	3,200
Whitehaven Maritime Festival	5,300
Cash for Kids	3,215
Great Ormond Street Hospital	4,000
Tree of Hope	3,675
Redr UK	2,000
The Prince's Trust	25,000
Hawcoat Park RUFC	3,000
CATCH	4,787
Business In The Community	<u>29,200</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

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

Costain Limited

Strategic Report & Directors' Report for the Year Ended 31 December 2013

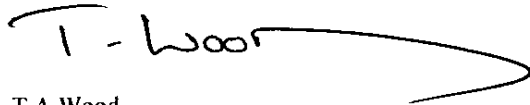
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Reappointment of auditor

KPMG Audit Plc have notified the Company that they will be resigning as auditors with effect from 07 May 2014 and have provided the Company with a statement under section 519 of the Companies Act 2006 confirming that there are no circumstances connected with their ceasing to hold office that they consider should be brought to the attention of the Company's members or creditors

The Directors have approved a resolution to appoint KPMG LLP to act as auditors of the Company with effect from 07 May 2014 until further notice

Approved by the Board on 11 April 2014 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'T - Wood', with a long, sweeping horizontal stroke extending to the right.

T A Wood
Director

Costain Limited
Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report & 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 2013, set out on pages 12 to 31. 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 9), 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 Financial Reporting Council 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 2013 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 Strategic Report & 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



Andrew Marshall (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor

15 Canada Square
London
E14 5GL

11 April 2014

Costain Limited
Profit and Loss Account for the Year Ended 31 December 2013

	Note	2013 £	2012 £
Turnover	2	689,654,066	633,510,018
Cost of sales		<u>(649,592,100)</u>	<u>(603,593,104)</u>
Gross profit		40,061,966	29,916,914
Administrative expenses		<u>(23,052,648)</u>	<u>(19,181,590)</u>
Operating profit		<u>17,009,318</u>	<u>10,735,324</u>
Loss on sale or termination of operations		(1,480,000)	-
Provision against the carrying value of investment		<u>(3,750,000)</u>	<u>-</u>
Non-operating exceptional items		(5,230,000)	-
Other interest receivable and similar income	6	431,851	550,787
Interest payable and similar charges		<u>(77,929)</u>	<u>(263,158)</u>
Profit on ordinary activities before taxation	3	12,133,240	11,022,953
Tax on profit on ordinary activities	7	<u>(4,329,364)</u>	<u>(3,096,867)</u>
Profit for the financial year	18	<u><u>7,803,876</u></u>	<u><u>7,926,086</u></u>

All activities relate to continuing operations

Costain Limited

Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2013

	Note	2013 £	2012 £
Profit for the financial year		7,803,876	7,926,086
Equity-settled share-based payments		2,725,626	2,819,319
Deferred tax on equity-settled share-based payments		<u>(572,381)</u>	<u>(651,235)</u>
Total recognised gains and losses relating to the year		<u>9,957,121</u>	<u>10,094,170</u>

Costain Limited
(Registration number: 00610201)
Balance Sheet at 31 December 2013

	Note	2013 £	2012 £
Fixed assets			
Intangible fixed assets	8	2,350,000	-
Tangible fixed assets	9	5,762,998	6,432,838
Investments	10	31,995,191	16,271,194
		<u>40,108,189</u>	<u>22,704,032</u>
Current assets			
Stocks		1,232,094	1,106,040
Debtors	11	252,247,085	248,743,996
Cash at bank and in hand	12	47,612,736	50,528,585
		301,091,915	300,378,621
Creditors Amounts falling due within one year	13	(253,325,336)	(248,537,798)
Net current assets		<u>47,766,579</u>	<u>51,840,823</u>
Total assets less current liabilities		87,874,768	74,544,855
Creditors Amounts falling due after more than one year	14	(9,912,763)	(3,724,596)
Provisions for liabilities	15	(625,984)	(1,141,359)
Net assets		<u>77,336,021</u>	<u>69,678,900</u>
Capital and reserves			
Called up share capital	17	3,892,858	3,892,858
Profit and loss account	18	73,443,163	65,786,042
Shareholders' funds	19	<u>77,336,021</u>	<u>69,678,900</u>

Approved by the Board on 11 April 2014 and signed on its behalf by



M D Hunter
Director

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

I 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

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.

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 long-term contracts is described below.

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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

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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.

Amortisation

Non-current intangible assets are amortised on a straight-line basis over their estimated economic useful lives.

Asset class	Amortisation method and rate
Order Book	Straight line over 3 years

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%

Research and development

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

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Fixed asset investments

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

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 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

	2013 £	2012 £
External turnover	673,503,107	621,034,677
Intra-group turnover	16,150,959	12,475,341

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

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689,654,066	633,510,018
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3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2013 £	2012 £
External hire of plant & machinery	25,276,306	24,234,090
Depreciation of owned assets	1,679,438	1,770,054
Auditor's remuneration	229,000	230,000
Loss on sale or termination of operations	1,480,000	-
Provisions against investments in subsidiaries	3,750,000	-

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

During the year the company disposed of its interest in Severn Trent Costain Ltd

During the year the company provided £3,750,000 against the value of Investments in the four promanex subsidiary companies

4 Particulars of employees

The average number of operational personnel employed by the company during the year in the United Kingdom was 291 (2012 340)

In addition, the average number of staff seconded from a group undertaking that worked during the year for the company was 1,839 comprising administrative 441 and operational 1,398 (2012 428 and 1,356)

The aggregate payroll costs were as follows

	2013 £	2012 £
Wages and salaries	110,312,023	103,413,533
Social security costs	12,599,073	11,611,436
Staff pensions	16,529,858	15,418,139
Share-based payments	3,186,998	2,819,319
	142,627,952	133,262,427

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

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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.

5 Directors' remuneration

The directors' remuneration for the year was as follows

	2013 £	2012 £
Remuneration (including benefits in kind)	1,998,976	1,879,311
Company contributions paid to money purchase schemes	<u>120,608</u>	<u>111,970</u>

In respect of the highest paid director

	2013 £	2012 £
Remuneration	332,313	326,518
Benefits under long-term incentive schemes	167,684	98,050
Company contributions to money purchase pension schemes	<u>10,113</u>	<u>5,508</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 Wylie and A O Bickerstaff receive their remuneration entirely as directors of Costain Group PLC.

The long-term incentive plans all relate to shares in Costain Group PLC.

6 Other interest receivable and similar income

	2013 £	2012 £
Bank interest receivable	126,681	91,615
Interest receivable from amounts due from group undertakings	<u>305,170</u>	<u>459,172</u>

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

	<u>431,851</u>	<u>550,787</u>
7 Taxation		
Tax on profit on ordinary activities		
	2013	2012
	£	£
Current tax		
Adjustments in respect of previous years	508,818	88,625
Group relief payable	4,677,645	-
Corporation tax charge	-	2,793,540
UK Corporation tax	<u>5,186,463</u>	<u>2,882,165</u>
Deferred tax		
Origination and reversal of timing differences	(32,331)	434,015
Deferred tax adjustment relating to previous years	<u>(824,768)</u>	<u>(219,313)</u>
Total deferred tax	<u>(857,099)</u>	<u>214,702</u>
Total tax on profit on ordinary activities	<u>4,329,364</u>	<u>3,096,867</u>
Factors affecting current tax charge for the year		
The differences are reconciled below		
	2013	2012
	£	£
Profit on ordinary activities before taxation	<u>12,133,240</u>	<u>11,022,953</u>
Corporation tax at standard rate	2,820,978	2,700,623
Decrease/(increase) in timing differences	508,191	(22,149)
Disallowed expenditure	476,601	115,066
Provisions against Investments	871,875	-
Adjustments in respect of prior year	<u>508,818</u>	<u>88,625</u>
Total current tax	<u>5,186,463</u>	<u>2,882,165</u>

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

8 Intangible fixed assets

	Order book £	Total £
Cost		
Additions during year	<u>2,350,000</u>	<u>2,350,000</u>
At 31 December 2013	2,350,000	2,350,000
Amortisation		
At 31 December 2013	<u>-</u>	<u>-</u>
Net book value		
At 31 December 2013	<u>2,350,000</u>	<u>2,350,000</u>

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

9 Tangible fixed assets

	Plant and machinery £	Total £
Cost or valuation		
At 1 January 2013	17,052,121	17,052,121
Additions	1,016,485	1,016,485
Disposals	<u>(68,005)</u>	<u>(68,005)</u>
At 31 December 2013	<u>18,000,601</u>	<u>18,000,601</u>
Depreciation		
At 1 January 2013	10,619,283	10,619,283
Charge for the year	1,988,786	1,988,786
Eliminated on disposals	<u>(370,466)</u>	<u>(370,466)</u>
At 31 December 2013	<u>12,237,603</u>	<u>12,237,603</u>
Net book value		
At 31 December 2013	<u>5,762,998</u>	<u>5,762,998</u>
At 31 December 2012	<u>6,432,838</u>	<u>6,432,838</u>

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

10 Investments held as fixed assets

Shares in group undertakings and participating interests

	Subsidiary undertakings £	Joints ventures and associates £	Total £
Cost			
At 1 January 2013	16,271,167	27	16,271,194
Additions	<u>19,473,997</u>	<u>-</u>	<u>19,473,997</u>
At 31 December 2013	35,745,164	27	35,745,191
Provision for impairment			
Provided in year	<u>(3,750,000)</u>	<u>-</u>	<u>(3,750,000)</u>
Net book value			
At 31 December 2013	<u>31,995,164</u>	<u>27</u>	<u>31,995,191</u>
At 31 December 2012	<u>16,271,167</u>	<u>27</u>	<u>16,271,194</u>

Acquisitions

During 2013, Costain Limited purchased the share capital of EPC Offshore Ltd for £19,473,997, representing an initial consideration of £10,600,000 and an estimated future contingent consideration of £8,873,997

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... *continued*

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows

Undertaking	Percentage of equity held	Principal activity
Subsidiary undertakings		
Promanex Group Holdings Ltd	100%	Holding and Service Company
Promanex Group Ltd*	100%	Service Company
Promanex (TFM & ES) Ltd	100%	Support Services
Promanex (C & MS) Ltd	100%	Support Services
Promanex (C & IS) Ltd	100%	Support Services
EPC Offshore Ltd Scotland	100%	Project Management Services

*Shares held by subsidiary company

Joint ventures		
4Delivery Ltd	40%	Civil Engineering
Brighton & Hove 4Delivery Ltd	49%	Civil Engineering
Stratus Integrated Services Ltd	25%	Construction

All subsidiary undertakings, joint ventures and joint arrangements operate in the United Kingdom

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

11 Debtors

	2013	2012
	£	£
Trade debtors	63,299,776	49,914,588
Amounts owed by group undertakings	83,996,908	104,410,834
Amounts owed by undertakings in which the company has a participating interest	2,257,763	691,763
Amounts recoverable on long term contracts	47,785,626	62,371,875
Other debtors	43,528,707	21,622,230
Deferred tax	4,373,935	4,089,217
Prepayments and accrued income	<u>7,004,370</u>	<u>5,643,489</u>
	<u><u>252,247,085</u></u>	<u><u>248,743,996</u></u>

Debtors includes other debtors of £21,497,000 (2012 £16,698,500) and deferred tax of £4,373,935 (2012 £4,089,217) receivable after more than one year

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

Deferred tax

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

	£
At 1 January 2013	4,089,217
Deferred tax for the current year	32,331
Adjustments in respect of prior years	824,768
Amount debited to reserves	<u>(572,381)</u>
At 31 December 2013	<u>4,373,935</u>

Analysis of deferred tax

	2013 £	2012 £
Difference between accumulated depreciation and amortisation and capital allowances	1,477,828	1,458,113
Other timing differences	<u>2,896,107</u>	<u>2,631,104</u>
	<u>4,373,935</u>	<u>4,089,217</u>

The Finance Act 2013 enacted on 17 July 2013 reduced the main rate of Corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. This will reduce the company's future current tax accordingly.

The deferred tax at the balance sheet date has been calculated at the rate of 21%.

It is not yet possible to quantify the further 1% rate reduction, although the effect on the deferred tax asset at the balance sheet date would be a decrease of £208,283.

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

	2013 £	2012 £
Capital losses	337,249	337,249

12 Cash at bank and in hand

The company's banker has the right to set off the company's principal 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 £47,612,736 (2012 £50,528,585) represented by uncleared items and cash held in separate accounts within joint arrangements and project specific bank accounts.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

13 Creditors: Amounts falling due within one year

	2013	2012
	£	£
Trade creditors	83,131,050	79,994,511
Bank loans and overdrafts	73,492	7,878,767
Credit balances on long term contracts in progress	5,490,155	7,401,079
Amounts owed to participating interests	4,604,473	8,272,473
Group relief payable	5,097,838	2,882,165
Other taxes and social security	949,594	642,614
Other creditors	9,070,628	3,955,873
Accruals and deferred income	119,839,260	127,394,048
Owed to parent and group undertakings	25,068,846	10,116,268
	<u>253,325,336</u>	<u>248,537,798</u>

14 Creditors: Amounts falling due after more than one year

	2013	2012
	£	£
Accruals and deferred income	1,038,766	3,724,596
Deferred consideration	8,873,997	-
	<u>9,912,763</u>	<u>3,724,596</u>

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... *continued*

15 Provisions

	Other provision £	Total £
At 1 January 2013	1,141,359	1,141,359
Charged to the profit and loss account	20,000	20,000
Utilised during the year	(535,375)	(535,375)
	(515,375)	(515,375)
At 31 December 2013	625,984	625,984

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

16 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).

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... continued

The amounts recognised in the profit and loss account, before income tax, for share-based payment transactions with employees was £2.7 million (2012: £2.8 million). The options outstanding at the year end have a weighted average contractual life of 5.6 years (2012: 6.4 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.

	LTIP Number	DSBP Number	SAYE Number	p
Outstanding at 1 January 2012	1,987,127	1,502,957	1,863,949	199
Adjusted during the year	-	145,889	-	-
Forfeited during the year	(59,359)	(7,852)	(401,718)	231
Exercised during the year	(626,924)	-	(10,714)	196
Granted during the year	925,670	523,494	-	-
Outstanding at 31 December 2012	2,226,514	2,164,488	1,451,517	190
Adjusted during the year	-	(225,371)	-	-
Forfeited during the year	(3,788)	-	(104,493)	187
Exercised during the year	(628,272)	(900,644)	(513,034)	196
Granted during the year	723,046	313,587	1,193,421	222
Outstanding at 31 December 2013	2,317,500	1,352,060	2,027,411	208
Exercisable at the end of the year	735,163	723,127	41,347	196

The share options exercised during the year related to the LTIP 2009, LTIP 2010 and LTIP 2011 schemes, the DSBP 2009, DSBP 2010 and DSBP 2011 schemes and the SAYE 2008 5 year plan.

17 Share capital

Allotted, called up and fully paid shares

	2013		2012	
	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 2013

..... continued

18 Reserves

	Profit and loss account £	Total £
At 1 January 2013	65,786,042	65,786,042
Profit for the year	7,803,876	7,803,876
Dividends	(2,300,000)	(2,300,000)
Equity-settled share-based payments net of deferred tax	2,153,245	2,153,245
At 31 December 2013	<u>73,443,163</u>	<u>73,443,163</u>

19 Reconciliation of movement in shareholders' funds

	2013 £	2012 £
Profit attributable to the members of the company	7,803,876	7,926,086
Equity-settled share-based payments for the year net of deferred tax	2,153,245	2,168,084
Dividends	(2,300,000)	(2,300,000)
Net addition to shareholders' funds	7,657,121	7,794,170
Shareholders' funds at 1 January	<u>69,678,900</u>	<u>61,884,730</u>
Shareholders' funds at 31 December	<u>77,336,021</u>	<u>69,678,900</u>

20 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 2013, these liabilities amounted to £25,000,000 (2012 £Nil).

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

21 Related party transactions

Other related party transactions

During the year the company made the following related party transactions

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

..... *continued*

	£	£
Joint Arrangements	87,141,981	68,057,334
Joint Ventures	13,140,516	19,588,299
	<u>100,282,497</u>	<u>87,645,633</u>

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

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 12	Engineering and Maintenance	33
A-one+ Integrated Highways Services - MAC 14	Engineering and Maintenance	33
ATC Joint Venture C610 - Crossrail	Engineering	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 C412 Joint Venture - Bond Street - Crossrail	Civil Engineering	50
Educo UK Joint Venture - Bradford Schools	Construction	50
Galliford-Costain-Atkins Joint Venture - United Utilities	Civil Engineering	42
Lagan-Ferrovial-Costain-A8	Civil Engineering	45
The e5 Joint Venture Severn Trent Framework	Civil Engineering	25

22 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.