Registration number: 00610201

Costain Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

Costain Limited

Contents

Costain Limited

Company Information

Directors	A O Bickerstaff
	T A Wood
	A J Vaughan
	D R Taylor
	M D Hunter
	M E Mayhew
	N A Marsh
	C Warbrick
	S M Kershaw
Company secretary	T A Wood
Registered office	Costain House Vanwall Business Park Maidenhead Berkshire SL6 4UB
Independent auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

Costain Limited

Strategic Report for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

Fair review of the business
Our purpose at Costain is to improve people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures

Revenue for the year was £1,021.7 million (2018: £1,357.9 million). The reduction in revenue resulted from a lower level of capital project activity, in line with the strategic change in mix of services, and the delay in contract starts and a contract cancellation. Operating loss for the year was £17.6 million (2018: profit £4.7 million). This reflects a charge of £20.0 million following the A465 arbitration decision.

Contract awards

The range of contracts we have secured reflects the progress being made in the transition in Costain's market positioning, the increasing breadth of our service offering and recognition as a leading and valued smart infrastructure solutions provider. Ongoing programmes and work within our order book include the following, demonstrating the breadth of our services:

• Formal contracts – construction delivery phase:
- M1 smart motorway programme
- A19 Testo's scheme
- Thames Tideway Tunnel – East
• Early contractor involvement (ECI phase):
- HS2 Southern section main works
- Highways England routes to market
- M6 smart motorway
• Framework contracts:
- Water AMP frameworks
• Service based contracts:
- United Utilities maintenance services
- Highways England maintenance contracts, areas 4, 12 & 14
- East Sussex highway services
• Consultancy and technology contracts:
- Smart motorway signage
- Connected vehicle technology
- EDF project controls

• Contract performance:
- A465 contract: £37.0 million cash outflow in the year
- Diamond arbitration: cash cost of £9.7 million in the year.

Market overview

Costain is one of the UK's leading smart infrastructure solutions companies operating across the transportation, water, energy and defence markets supporting the delivery, enhancement and operation of the UK's critical strategic infrastructure.

These markets have significant long-term investment programmes underwritten by government policy, regulation, legislation and critical national need. They are evolving rapidly and positioned for accelerated growth responding to population increases, climate change, customers' expectations of improved service, ageing assets, and the need for greater efficiency and performance including a growing use of technology. All of these factors are causing our clients to change their business strategies and investment priorities.

The new UK Government has significantly increased its commitment to invest in long-term UK infrastructure projects, with its 2019 manifesto plan for "national renewal." Evidence of the scale of this developing investment programme includes:

• In Transportation: The UK Government is committed to investing in a fundamental upgrade of the UK's transport infrastructure. We expect that over the next five years more than £28.8 billion will be invested on England's strategic and local road network, £5.5 billion will be spent in capital investment and renewals by Transport for London, around £125 billion on other rail investment and c £7 billion on increasing airport capacity in the UK.

• In Water: The regulator, Ofwat, is driving investment to improve water quality standards, supply resilience, decarbonisation and efficiency of operations. Water companies have pledged to spend more than £50 billion on improving services over the next five years.

In addition, our major clients are changing the nature of their investment to meet and address these continuing challenges, with examples including:
• In a joined-up approach, UK Government, regulators and clients are demanding greater innovation to address these challenges, collectively spending in excess of £1 billion in the short and medium term with their suppliers to unlock new solutions.

• Investment to address the effects of the climate change crisis:
- the water industry is investing £13 billion to reduce carbon emissions and improve supply resilience;
- transport networks are investing to overcome extreme weather events including heatwaves, storms and flooding that damaged infrastructure and halted thousands of services across the UK in 2019.

• Enhancing asset management practices recognising that underlying infrastructure that will be used in 30 years' time already exists today, and it is therefore essential that these assets are most effectively and efficiently utilised, maintained and enhanced.

• Digital is widely seen as an all-encompassing solution for improved efficiency and enhanced performance and has already led to increasing levels of investment in Highways England's 'Digital Roads' programme, Network Rail's 'Digital Rail' programme, water companies' 'Digital Water' programmes and use the of smart meters within the energy sector.

In response to these changing needs, our clients are continuing to consolidate their supply chains as they seek to derive business improvement and transformation by working in more strategic and collaborative relationships.

We have taken the steps to be capable of providing a broad range of services to our clients across design, programme delivery and operational support to meet their increasingly complex needs.

As a result, Costain is now one of a limited number of companies with the integrated consulting, digital technology, complex programme delivery and asset management capability that we believe is required to meet the needs of major UK clients in the rapidly developing multi-billion pound transportation, water, energy and defence markets.

Leading Edge strategy

Strategically we are well-positioned to benefit from these long-term positive market dynamics.
Our Leading Edge strategy, launched in 2019, closely aligns our services to meet the changing needs of our markets and clients and differentiates us through our long-term strategic client relationships, reputation for complex programme delivery and ability to meet their wider, evolving needs.
The ambition of our strategy is to broaden the services we provide to clients, step change our programme delivery performance and accelerate the deployment of higher margin activities.
The strategy positions our five key service offerings:

• Future-shaping strategic consultancy: shaping new solutions as a leading innovation partner and thought leader;
• Consultancy and advisory: supporting clients' business improvement as a valued advisor and consultant;
• Digital technology solutions: investing in technology and being an insightful digital technology integrator;
• Asset optimisation: optimising the performance of clients' existing assets; and
• Complex programme delivery: delivering complex capital programmes.

We are implementing our strategy through a programme of focused workstreams including the development of new skills and capabilities, working increasingly as One Costain, and enhancing the client outcomes we deliver through our services.

Recognising the increasingly important role our digital technology capability has in meeting our clients' changing needs we have invested in a new technology centre in Somerset, strengthened our digital leadership and increased our involvement in leading research programmes. We will continue to invest in the development of solutions to help our clients improve their business performance and grow our business returns.

Having a strong pipeline of opportunities is important for the future of the business, but it is equally important to ensure that we agree contracts on terms which are acceptable from a profit and risk profile perspective for Costain and its shareholders. We have recently reviewed and updated our policies in this area to ensure that our new contracts reflect this. We have also improved our contract monitoring and administration procedures to better address scope of work changes and variations at an early stage.

People

We have a highly skilled and experienced employee base of c 3,036 people, including chartered professionals with a diverse range of capabilities, graduates developing their skills and apprentices on a structured development programme. Our inclusion and wellbeing strategies ensure we support our teams to be at their best.

Costain Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Environment, Social Purpose and Governance

In addition to providing leading edge solutions, operating responsibly and sustainably is a business imperative for Costain Limited, and the safety of our people and the general public is our number one priority. Through the implementation of our WiiSE (wellbeing, safety and environment) strategy in 2019 we have maintained a world-leading safety performance, with only 19 reportable accidents occurring in over 41 million hours of work. This means our accident frequency rate (AFR) of 0.05 continues to lead the industry. I am also pleased to report that we had no major environmental incidents in 2019.

In 2019, we updated our Responsible Business Commitments and set the goals we aim to achieve. We will create a greener future and have published a detailed climate change action plan in which we commit to deliver low carbon whole life options for clients by 2023 and to be net zero carbon by 2035. We will also enhance the value that Costain contributes to society and ensure that Costain is a safe, inclusive and great place to work, where everyone can be at their best.

We are committed to building the best team at Costain and work hard to create a culture of inclusion where all employees are treated and valued equally.

Operational review

Highways

The Government, through Highways England, has made a substantial investment in the highways sector during its first Road Investment Strategy (RIS) cycle which ends in March 2020. During this period, well over 100 new highway projects have been introduced by Highways England to tackle the challenges of safety, congestion, connectivity and climate change. This investment is set to continue into RIS 2 (2020-2025) which provides good visibility of earnings in this sector.

Our services in the highways sector cover the full range of our integrated capabilities to achieve the outcomes of enhancing safety, increasing capacity and reducing congestion on the UK's roads. We deliver for both national highway infrastructure operators such as Highways England and the Welsh Government and sub-regional and local government organisations including Transport for London and local authorities.

Costain is known as one of the UK's most experienced providers of smart motorway solutions, working with Highways England to deliver the physical infrastructure and also develop the camera, radar and electronic signage technologies needed to enable such schemes in a safe, reliable and sustainable way.

The highways market is expected to evolve quickly in the coming years as the need for improved connectivity between vehicles and infrastructure, together with the switch to greener fuels, places new demands on the providers and operators of highway networks. We are already responding to these challenges, playing a leading role in the Midlands Future Mobility testbed project, and the A2/M2 Connected Corridor project, where specially-equipped vehicles can interact directly with roadside infrastructure.

We continue to deliver large capital investment programmes on critical sections of the road network, including the A14 Cambridge to Huntingdon Improvement scheme, which remains on-budget and on-time for completion in 2020. Part of the scheme opened one year early to traffic in December 2019 and is already delivering benefits to road users and the local community.

To support improvements in increasing local capacity and connectivity we have commenced work on two new large schemes. In the North East, construction work has commenced on the A19 Testo's junction improvement work and in the North West we have commenced the Preston Distributor Road contract.

Work is continuing to complete the A465 Heads of the Valleys road on the fringe of the Brecon Beacons National Park, a complex and environmentally sensitive project, that will radically improve east-west communications and help to unlock the economic potential of the region. As previously reported, the project has experienced significant additional scope and we continue to look to resolve the associated impact on the cost and schedule in accordance with the contractual process. During the year, a specific contractual matter was determined at arbitration, which partially reversed the decision of a previous adjudication and was contrary to the legal advice received by the Group concerning the relevant provisions of the contract. As a consequence, an assessment of the implications of this determination has been made and the appropriate allowance included in the results for the year. The group is engaged in discussions with the Welsh Government to reach agreement on a financial settlement.

We are currently providing design, pre-construction and construction delivery services to Highways England through its Regional Delivery Partnerships in Northern England and the East of England and have commenced work on a scheme to improve sections of the A1 in Northumbria.

We also have four long term asset maintenance contracts working with Highways England and East Sussex County Council, helping our clients to optimise the life and performance of their existing infrastructure.

Within the highways sector there is a high level of work winning activity, and we are playing a key role in leading a number of innovation and technology-led solutions contracts to meet the changing needs of road-users and the country.

Rail

Network Rail, the operator of the mainline railway in the UK, has commenced its latest five-year Control Period (CP6) and in doing so has also been implementing a substantial change in its operating model, moving the business to one which puts its passengers first and is structured to complement having stronger aligned relationships with the train operating companies. This restructuring has had some impact on the market environment and the timing of the procurement of some services and schemes.

In 2019, we secured the delivery contract for Gatwick Station, a significant enhancement project in the South East of England, which is jointly funded by Network Rail, Gatwick Airport and the Department for Transport, and delivers improved capacity and connectivity for Gatwick Airport.

In partnership with Jacobs Engineering, we have secured a place on one of Network Rail's three multi-disciplinary national design and consultancy frameworks which provides Costain the opportunity to support Network Rail in shaping a number of its future business solutions.

During the year we completed a number of strategically important contracts including London Bridge Station, a flagship redevelopment for Network Rail, which is already transforming the journeys of the 50 million passengers who travel through this station every year; and in Scotland, the electrification project to upgrade the railway lines between Stirling, Dunblane and Alloa is substantially complete with the new fleet of electric trains entering service on time and now providing both performance and environmental benefits on this route.

Our work on High Speed 2 has continued to progress. Our enabling works contract in joint venture with Skanska for the southern section of the route has involved the significant preparatory works for the new railway. Under our main works contract in joint venture with Skanska and Strabag we have substantially completed design services for the southern section of the route with an expectation to commence construction in the first half of 2020.

Activities to complete Crossrail (the Elizabeth Line) have continued throughout the year at Bond Street and Paddington stations and on our extensive tunnel systems contract, in line with the supplemental agreements reached with the client.

We have continued to develop the 'Meerkat' system for unguarded level crossings in conjunction with Network Rail and expect to begin deploying the system in 2020. Meerkat is a technology developed by Costain that combines trackside radars, a photovoltaic charging system, and warning lights and sirens at pedestrian crossings. The aim of this system is to eliminate the accidental death or injury of those using unguarded crossings and represents a significant safety improvement for Network Rail, with potential to bring wider benefits to other rail clients.

Aviation

Our activities in aviation are focused on working across the key regional airport network to support improvements to enhance capacity and efficiency of operations. We have recently secured a number of consultancy opportunities including a technical services framework, carbon management and programme management services.

Water

We are now in the final year of the AMP6 five-year programmes for Thames Water, Severn Trent Water and Southern Water. We are supporting these clients to improve water quality standards, enhance supply resilience, meet anticipated demographic shifts and address their Totex (capital and operational costs) efficiency challenges. These programmes are performing well and we are using our full range of integrated capabilities to deliver improved customer service, innovative solutions and achieve significant total whole life expenditure efficiency savings. Our AMP6 contract with Thames Water includes an element of incentivisation, aligned to the client's objectives, estimated through the life of the contract and finalised at the end of the programme. We are in constructive dialogue with the client to resolve this outstanding commercial matter.

The Thames Tideway project, on which we are in joint venture to deliver the east section, continues to progress well and will form an integral part of the modernisation of London's Victorian sewerage system and significantly improve water quality in the River Thames, providing capacity to cope with the growing demands of the city well into the 22nd century. The tunnelling elements of the contract commenced in 2019 with overall completion scheduled for 2024.

Tender activity for AMP7 advisory, asset delivery programmes and capital maintenance programmes has continued through the year, with several key opportunities now secured. The focus has been to provide innovative solutions, exploiting our deep domain knowledge, expertise and digital technology solutions to optimise existing asset infrastructure. This has enabled us to secure long-term frameworks with new clients as well as continuing our trusted long-term relationships. As a result, the water sector has diversified its service offering and breadth of clients in line with our strategy:

• We were awarded a place on the capital delivery framework for AMP7 for Severn Trent Water and have now mobilised to undertake design construction and consultancy expertise to undertake renewal and refurbishment projects along with the detailed design and build of capital projects.
• We were also pleased to announce that we have been selected with our joint venture partner MWH to extend our relationship with Southern Water for the delivery of the AMP7 investment programme.

Costain Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

• Mobilisation started in June and delivery is now well underway for the management and delivery of asset maintenance services through our role as the sole Maintenance Service Provider for United Utilities.
• In line with our strategy we are delivering a broader range of consultancy services including an ECI contract with United Utilities to support its flagship Manchester and Pennines resilience project and specialist, targeted assurance for Yorkshire Water's AMP7 capital investment programme through our health and safety assurance consultancy framework contract in joint venture with Arup.

Energy

In the period, we have completed the marine jetty at Hinkley Point C and agreed the final account for the project. Our contract with EDF Energy to provide consulting and project controls services across their portfolio continues to grow and we continue to support the development of a programme management office in preparation for the defueling and decommissioning of the existing EDF nuclear reactor fleet. Our Sellafield decommissioning framework contract continues to perform in line with expectations and provides access to significant future revenue streams in support of the legacy clean-up mission.

Defence

Our programme management contract for AWE continues to meet performance expectations, allowing us to secure further opportunities to support AWE on other projects. The recent annual Infrastructure Projects Authority review of the AWE project recognised the outstanding collaborative relationship between the Costain, client and contractor teams.

Impact of Covid-19

We are closely monitoring the coronavirus situation both Government statements and our own operational status and are having regular senior team meetings to both gather and disseminate information. We are following Government guidelines and are amending our working practices to ensure we comply. We have robust business continuity procedures in place to cover all aspects of our operations in a scenario such as this, which are regularly tested and for this particular issue, we are taking actions that we believe them necessary to deal best with the situation as it changes.

Summary and outlook

2019 has been a year of transition for Costain as we began the implementation of our Leading Edge strategy to reshape and focus our business. Our underlying financial performance was impacted by delays to certain contract start dates and new awards, together with a contract cancellation and the loss resulting from the A465 arbitration. However, we are pleased that the Group has continued to secure significant new work during the year.

Our Leading Edge strategy aligns our activities to meet our clients' changing needs, supporting a step change in our programme delivery performance and an acceleration in the deployment of our higher margin activities.

The UK infrastructure markets are growing and developing rapidly, with increasing demand for innovative solutions to upgrade, enhance and decarbonise the nation's strategic infrastructure. This is a significant opportunity for our business and we are well placed, with our breadth of integrated services, to benefit from these market dynamics.

Costain Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

The paragraphs below show how the directors have performed their duty under Section 172 Companies Act 2006 to have regard to various stakeholder factors. The Costain Group tries to have consistent policies in effect across its operating subsidiaries as and were relevant.

Employees
In 2019, we focused on three key methods of engagement: staff roadshows, monthly leadership briefings and site visits and continued the biannual leadership impact days, which require directors and senior leaders to visit every live project for a half-day shutdown to discuss a key industry theme. This year's themes were "this year I would like to do more of...", which focused on different ways of working to achieve personal goals, and decarbonisation. We extended our employee networks and launched our new religion, ethnicity and cultural heritage networks part of our inclusion strategy.

Shareholders
The company is a wholly owned subsidiary of Costain Group PLC and the directors have regular reviews with directors of the parent regarding performance of the company.

Clients
We obtain regular feedback from our clients to ensure that we are consistently delivering high performance standards and hosted numerous site visits, inviting our clients to attend project stand down days. We also attended client events and meetings and have representatives on numerous forums and boards. We conducted a materiality assessment with clients and stakeholders to help us to align our sustainability priorities.

Supply chain
We have a dedicated management team responsible for supply chain relationships and continued investing in these relationships in 2019, including holding regular business-to-business meetings to enhance our collaborative relationships. Supplier performance reviews are completed quarterly on all contracts for all strategic and preferred supply chain partners. Our supply chain academy continues to offer best practice guidance across a range of topics to our supply chain partners.

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

Costain Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties

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

Title	What is the Risk?
Failure to prevent a major accident or incident for which Costain is held primarily accountable.	Costain operates in complex and hazardous environments, which have the potential to result in significant loss, including the loss of life, widespread acute ill health or damage to the environment. Failure to manage these risks has the potential to result in personal or environmental harm, or operational loss. Significant SHE events could also have regulatory, legal, financial and reputational impacts with all stakeholders.
Failure to deliver the business strategy.	Failure to manage this risk could result in the transformation and diversification of the business being unsuccessful, new market opportunities may be missed, work in diversified markets may not be won and/or loss of stakeholder confidence.
Failure to maintain a strong balance sheet may limit our ability to grow.	We may fail to win work due to an inability to demonstrate the required level of financial resource.
Failure to identify and secure new work.	Failure to manage this risk could mean that we do not win work from current clients or new clients/markets.
Failure to attract and transform the skills, capabilities and competence of our resources	Failure to manage our skills and capabilities risk may result in an inability to grow the business as anticipated and consequently in a short term impact on performance.
Failure to deliver projects effectively.	Failure to maintain discipline in delivering projects could result in contract disputes, design faults that result in additional works to rectify, failure of our supply chain to complete the works, refusal of claims by insurers following a loss, compensation events or increase in scope not being fully reimbursed by our clients.
Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to its capital base.	Failure to manage this exposure adequately could lead to Costain being exposed to significant additional liabilities under the legacy defined benefit pension scheme and hence significantly higher deficit contributions adversely impacting the Group's operational results.
Failure to ensure that our technology is robust, our systems are secure and our data protected.	Failure to manage our technology and data risks could result in loss of confidential client or personal data, breaches of legislation and subsequent fines, breach of contract, inappropriate release of commercially sensitive data, business systems suffer a cyber-attack.
Failure to respond to changes in client circumstances resulting from different market, regulatory or political conditions.	Failure to adequately understand and respond to our clients' needs may result in a reduction in work won, loss of repeat clients, an inability to win work in diversified markets and/or a reduction in profitability and cash flow.
Failure to respond to the COVID-19 (coronavirus) outbreak	Failure to manage this risk could threaten the safe operation of our operational activities, loss of life, and impact the well-being of our people. It could also have a material adverse effect on our earnings, cash flows and financial condition.

Costain Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Approved by the Board on 26 June 2020 and signed on its behalf by:

DocuSigned by:
T A Wood
5828B1DE56F54C1...............
T A Wood
Company secretary and director

Costain Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Directors of the Company
The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

A Wyllie (resigned 7 May 2019)

A O Bickerstaff

T A Wood - Company secretary and director

A J Vaughan

D R Taylor

D G James (resigned 31 March 2020)

M D Hunter

S M Austin (resigned 28 June 2019)

M E Mayhew

N A Marsh (appointed 2 October 2019)

C Warbrick (appointed 23 September 2019)

The following director was appointed after the year end:

S M Kershaw (appointed 23 March 2020)

Principal activity
The principal activitity of the Company is the improvement of people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures.

Dividends

The directors recommended a payment of a dividend of £2,300,000 paid during the year (2018: £12,500,000).

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

Objectives and policies

The Company's operations expose it to a variety of financial risks, including the effects of credit risk, liquidity risk, cash flow risk and interest rate risk. The policies to mitigate the potential impact of these financial risks are set by the directors, who monitor their effectiveness on a monthly basis during board meetings.

Where appropriate, credit checks are made prior to the acceptance of a new customer and these are reviewed on a periodic basis together with ongoing checks in respect of existing customers. Weekly reviews of the debtors ledger are carried out with the finance and sales teams and action initiated, as appropriate, to collect any overdue amounts, thus optimising the Company's liquidity position. The rates of interest earned or paid on the Group's cash balances and loans and overdrafts are monitored on an ongoing basis with regular reviews of the Costain group banking arrangements. Deposits, loans and overdrafts are made with reference to these facilities, in conjunction with projections of future cash requirements.

The Costain Group actively maintains an appropriate level of cash reserves that are available for operations and planned expansions of the Group as a whole. The Group ensures that sufficient cash reserves are made available to its subsidiary undertakings.

Additional information on the Group's financial risk management can be found in the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

Charitable donations

During the year the Company made charitable donations of £84,653. The largest individual donations were:

	£
Business in the Community	32,000
The Prince's Trust	25,000
East Anglian Air Ambulance	4,691
East Anglia's Children's Hospices	2,197
Royal Engineers Central Charity	2,000

Diversity

Apart from ensuring that an individual has the ability to carry out a particular role, the Company does not discriminate in any way. The Company endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the Company and Costain Group. The Company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

Employee involvement

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

Costain Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Social and community issues
In addition to providing leading edge solutions, operating responsibly and sustainably is a business imperative for Costain Limited, and the safety of our people and the general public is our number one priority. Through the implementation of our WiiSE (wellbeing, safety and environment) strategy in 2019 we have maintained a world-leading safety performance, with only 19 reportable accidents occurring in over 41 million hours of work. This means our accident frequency rate (AFR) of 0.05 continues to lead the industry. I am also pleased to report that we had no major environmental incidents in 2019.

Disclosure of information to the auditors
The directors confirm that, so far as they are aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the company's external auditor is unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's external auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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

Approved by the Board on 26 June 2020 and signed on its behalf by:

DocuSigned by:
T A Wood
......582BB1DE56F54C1...............
T A Wood
Company secretary and director

Costain Limited

Statement of Directors' Responsibilities

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

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

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent Auditors' Report to the members of Costain Limited

Report on the audit of the financial statements

Opinion

In our opinion, Costain Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Profit and Loss Account, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent Auditors' Report to the members of Costain Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent Auditors' Report to the members of Costain Limited (continued)

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

....
Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

1 Embankment Place
London
WC2N 6RH

26 June 2020

Costain Limited

Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £	2018 £
Revenue	4	1,021,709,507	1,357,921,481
Cost of sales		(998,939,394)	(1,301,815,498)
Gross profit		22,770,113	56,105,983
Administrative expenses	5	(40,407,956)	(51,387,622)
Operating (loss)/profit	6	(17,637,843)	4,718,361
Finance income	10	605,752	216,629
Finance costs	11	(3,710,916)	(1,908,891)
Net finance cost		(3,105,164)	(1,692,262)
(Loss)/profit before tax		(20,743,007)	3,026,099
Income tax credit/(expense)	12	3,518,311	(5,238,742)
Loss for the year		(17,224,696)	(2,212,643)

The above results were derived from continuing operations.

Costain Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £	2018 £
Loss for the financial year	(17,224,696)	(2,212,643)
Items that may be reclassified subsequently to profit or loss		
Loss on cash flow hedges (net)	(851,332)	(477,587)
Total comprehensive expense for the year	(18,076,028)	(2,690,230)

Costain Limited

(Registration number: 00610201)
Balance Sheet as at 31 December 2019

	Note	31 December 2019 £	31 December 2018 £
Fixed assets			
Intangible assets	13	11,995,112	10,177,843
Tangible assets	14	37,764,964	7,539,884
Investments	15	76,859,014	76,859,114
		126,619,090	94,576,841
Current assets			
Stocks	16	1,038,780	1,012,535
Debtors	17	231,764,456	269,831,408
Cash at bank and in hand	19	98,362,014	92,099,997
		331,165,250	362,943,940
Creditors: Amounts falling due within one year			
Trade and other payables	18	(307,250,870)	(316,015,602)
Lease liabilities		(12,112,491)	-
Creditors: Amounts falling due within one year		(319,363,361)	(316,015,602)
Net current assets		11,801,889	46,928,338
Total assets less current liabilities		138,420,979	141,505,179
Creditors: Amounts falling due after more than one year			
Trade and other payables	18	(50,558,455)	(50,797,785)
Lease liabilities		(17,005,671)	-
Creditors: Amounts falling due after more than one year		(67,564,126)	(50,797,785)
Net assets		70,856,853	90,707,394
Capital and reserves			
Called up share capital	21	3,892,858	3,892,858
Hedging reserve		(337,294)	514,038
Profit and loss account		67,301,289	86,300,498
Total shareholders' funds		70,856,853	90,707,394

The financial statements on pages 19 to 60 were approved by the Board of directors on 26 June 2020 and signed on its behalf by:

DocuSigned by:

M D Hunter

098AB76F6B724E6...

M D Hunter

Director

The notes on pages 23 to 60 form an integral part of these financial statements.

Costain Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £	Hedging reserve £	Profit and loss account £	Total £
At 1 January 2019	3,892,858	514,038	86,300,498	90,707,394
Loss for the financial year	-	-	(17,224,696)	(17,224,696)
Other comprehensive expense	-	(851,332)	-	(851,332)
Total comprehensive expense	-	(851,332)	(17,224,696)	(18,076,028)
Dividends paid	-	-	(2,300,000)	(2,300,000)
Equity-settled share-based payment	-	-	525,487	525,487
At 31 December 2019	3,892,858	(337,294)	67,301,289	70,856,853

	Called up share capital £	Hedging reserve £	Profit and loss account £	Total £
At 1 January 2018	3,892,858	991,625	98,688,477	103,572,960
Loss for the year	-	-	(2,212,643)	(2,212,643)
Other comprehensive income	-	(477,587)	-	(477,587)
Total comprehensive income	-	(477,587)	(2,212,643)	(2,690,230)
Dividends	-	-	(12,500,000)	(12,500,000)
Equity-settled share-based payment	-	-	2,324,664	2,324,664
At 31 December 2018	3,892,858	514,038	86,300,498	90,707,394

1 General information

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

The address of its registered office is:
Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB
UK

These financial statements were authorised for issue by the Board on 26 June 2020.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. See note 28.

Basis of preparation
These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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.

The company is a wholly-owned subsidiary of Costain Group PLC and is included in the consolidated financial statements of Costain Group PLC, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

Functional and presentation currency
Items included in the financial statements of the company are measured using the currency of the primary economic environment which the company operates. The financial statements are presented in 'pounds sterling' (£), which is also the company's functional currency.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions
The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of IAS 1 to provide a Balance Sheet at the beginning of the year in the event of a prior year adjustment;

(b) The requirements of IAS 1 to provide a Statement of Cash flows for the year;

(c) The requirements of IAS 1 to provide a statement of compliance with IFRS;

(d) The requirements of IAS 1 to disclose information on the management of capital;

(e) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRS's that have been issued but are not yet effective;

(f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

(g) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;

(h) The requirements of IFRS 7 to disclose financial instruments;

(i) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs;

(j) IAS 7, 'Statement of Cash Flows';

(k) The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
• paragraph 79(a)(iv) of IAS 1;
• paragraph 73(e) of IAS 16 Property, Plant and Equipment;
• paragraph 118(e) of IAS 38 Intangible Assets;
• paragraphs 76 and 79(d) of IAS 40 Investment Property;

(l) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;

(m) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases; and

(n) 'The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.'

Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements. Where required, equivalent disclosures are given in the Group financial statements of Costain Group PLC.

2 Accounting policies (continued)

Going concern

The Company's principal business activity, which involves long-term contracts with a number of customers across the United Kingdom, is described in the Strategic Report on page 2. To meet its day-to-day working capital requirements, the Company uses cash balances provided from shareholders' capital and retained earnings and loans provided by its ultimate parent and/or fellow subsidiaries. The ultimate parent company, Costain Group PLC, manages its United Kingdom cash balances using a centralised cash system and surplus cash held by the Company, outside of joint arrangements, is loaned at interest to a fellow subsidiary on a day-to-day basis. These loans are repaid or new loans advanced daily to satisfy any cash requirements. 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.

As explained in note 29, subsequent to the statement of financial position date, on 7 May 2020, Costain Group PLC announced an equity raise of £100m of new ordinary shares. The net cash proceeds of the equity raise were received on 29 May 2020.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future. The directors have concluded that having undertaken a rigorous assessment of the financial forecasts and after taking account enhanced financial capability of the Costain Group following the receipt of the proceeds of the equity raise and the bank and bonding facilities available to the Costain Group, it is appropriate to adopt the going concern basis in preparing these financial statements.

2 Accounting policies (continued)

Changes in accounting policy

The accounting policies set out below have been applied consistently by the company to each period presented in these financial statements, except for the adoption of the new accounting standards noted below.

The following standards and interpretations are effective for the year ended 31 December 2019:

- IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The standard is mandatory for reporting periods beginning on or after 1 January 2019.

Under the new standard, an asset (the right-of-use asset) and a financial liability are recognised. The only exceptions are short term and low value leases.

The company has applied the modified retrospective approach to the transition to IFRS 16, recognising the cumulative effect at the date of initial application (1 January 2019). On transition, for leases previously accounted as operating leases with a lease term of less than 12 months and for leases of low-value assets, the company has applied the optional exemptions in the standard to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16. The company also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 and has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases. The company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

The impact of the adoption of this standard is discussed in note 27.

- IFRIC 23 - Uncertainty over Income Tax Treatments which clarifies the accounting for uncertainties in income tax.
- Prepayment Features with Negative Compensation - Amendments to IFRS 9.
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 Accounting policies (continued)

Revenue recognition

Recognition

The Company recognises revenue when performance obligations have been satisfied and for the Company, this is when control over the service or product is transferred to the customer. Revenue is measured at the fair value of the consideration received or receivable, net of value added tax. Where the consideration is variable, the amount recognised is highly probable not to suffer a significant reversal in future. This revenue is recognised in the accounting period when the services are rendered at an amount that reflects the consideration to which the entity expects to be entitled in exchange for fulfilling its performance obligations to customers.

Research and development

Research and development activities are usually directly attributable to a project and accounted within project costs. In 2018, in line with common practice, the company has adopted the research and development expenditure credit (RDEC) regime as these credits have characteristics similar to government grants and has changed its accounting policy to offset the credit against the relevant expenditure rather than reflect them in the tax charge. See also note 27.

Long-term contracts

Revenue arises from the increase in the value of work performed and the value of services provided during the year. Where the outcome of an individual long-term 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 statement of financial position 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. Contract costs are recognised as expenses in the period in which they are incurred.

Compensation events, variations and claims, gain from pain/gain arrangements and other bonus assessments are included in revenue where it is highly probable that the amount, which can be measured reliably, will be recovered from the customer and will not reverse. Pain from pain/gain arrangements is included where incurred or expected to be incurred. Revenue in respect of these items is determined on the most likely outcome method. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred, where it is highly probable those costs will be recoverable and will not reverse.

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

Contract work in progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and less amounts billed and is included in contract assets. Amounts valued and billed to customers are included in trade receivables. Where cash received from customers exceeds the value of work performed, the amount is included in contract liabilities.

Finance income and costs policy

Interest receivable and payable on bank deposits and between group undertakings is credited or charged to the profit and loss as incurred, using the effective interest method.

2 Accounting policies (continued)

Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at year-end exchange rates. Exchange differences on such items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities except when deferred in other comprehensive income as qualifying cash flow hedges. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date.

Deferred tax is measured at the rates that are expected to apply in the periods when the timing differences are expected to reverse, based on the tax rates and law enacted at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Tangible assets

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

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

Depreciation

Depreciation is charged so as to write off the cost or valuation of assets other than land over their estimated useful lives on a straight-line basis, as follows:

Asset class	Depreciation method and rate
Freehold Buildings	Straight Line 4%
Computer Equipment	Straight Line 20% - 33.33%
Fixtures & Fittings	Straight Line 10% - 33.33%
Plant & Machinery	Straight Line 5% - 20%

2 Accounting policies (continued)

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

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

Other intangible assets comprise acquired intangible assets (customer relationships, order book, brand and intellectual property), computer software and development expenditure. Customer relationships and other acquired intangibles are measured at the present value of cash flows attributable to the relationship less an appropriate contributory asset charge. Computer software and development expenditure are carried at cost. Once the asset is complete, subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, otherwise expenditure is expensed as incurred.

Internally generated development expenditure is recognised as an intangible asset only if all of the following conditions are satisfied:
- the asset can be identified
- it is probable that the asset will create future economic benefits
- the development costs can be measured reliably.

Amortisation
Intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation begins when an asset is available for use and is calculated on a straight-line basis to allocate the cost of assets over their estimated useful lives as follows:

Asset class	Amortisation method and rate
Order Book	Straight Line 33.33%
Customer relationships	Straight Line 25.00%

Investments
Fixed asset investments are stated at historical cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Impairments are reversed in line with improvements in the recoverable amount of the investment.

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

2 Accounting policies (continued)

Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debt. Please refer to 'impairment of financial assets' on page 24.

Financial instruments

Initial recognition

The Company recognises financial assets and financial liabilities in the Balance Sheet when, and only when, the Company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of directly attributable premiums, discounts and transaction costs.

Subsequent to initial measurement, financial assets and financial liabilities are measured at amortised cost.

Derecognition

Financial assets

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

Financial liabilities

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

Impairment of financial assets

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

Provisions for credit-impairment are recognised in the Profit and Loss Account and are reflected in accumulated provision balances against each relevant financial instruments balance.

2 Accounting policies (continued)

For trade receivables and contract assets, the Company applies IFRS 9 the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include forwards in the foreign exchange markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

Hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The Company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedge items.

These hedging relationships are discussed below.

Cash flow hedges

The Company makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

2 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Leases

Where the Company is party to a lease, except for short-term leases or leases of low value assets (as noted below), the Company recognises a right-of-use asset and a lease liability upon lease commencement.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which is located, less any lease incentives received.

The asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability associated with changes to the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate.

The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.
Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Trade and other payables

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

2 Accounting policies (continued)

Share based payments
These comprise equity-settled share-based compensation plans.

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. Fair value is measured by the use of a Black-Scholes option pricing model.

Where options are granted over shares in the Company to employees of subsidiaries, the Company recognises in its financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity.

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

Defined contribution pension obligation
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.

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

IFRSs not applied
The following IFRSs and amendments having been endorsed, will be applicable from 1 January 2020:

- Definition of Material - Amendments to IAS 1 and IAS 8.

- Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the company.

Except for the above, the directors do not currently anticipate that the adoption of any other standard or interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the company in future periods.

3 Critical accounting judgements and key sources of estimation uncertainty

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Long- term contracts
The most critical accounting policies and significant areas of estimation arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers' and the carrying value of goodwill and acquired intangible assets. There are no significant areas of judgement.

The majority of the company's activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted individually. The most common type of contracts undertaken by the company with multiple performance obligations are framework contracts. In most cases, the obligations are satisfied over time and estimates are made of the total contract costs and revenues. In many cases, these obligations span more than one financial period. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims and assessments of the impact of pain/gain arrangements to the extent that the amounts the company expects to recover or incur can be reliably estimated and are highly probable not to reverse based on most likely outcome.

Management bases its estimates of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations, progress on discussions over compensation events, variations and claims with customers, progress against the latest programme for completing the works, forecasts of the costs to complete and, in certain limited cases, assessments of recoveries from insurers. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered highly probable to be agreed. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates both positive and negative is then reflected in the financial statements.

Management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year could require material adjustment. Given the pervasive impact of judgements and estimates on revenue, cost of sales and related balance sheet amounts, it is difficult to quantify the impact of taking alternative assessments on each of the judgements above.

Carrying value of goodwill and imtangible assets
Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires estimation, principally, in respect of growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values are set out in note 13.

The company carries investments in some subsidiaries at above net asset value. In reviewing the recoverability of the carrying values eatimates are required about their values.

4 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2019 £	2018 £
External turnover	1,013,639,339	1,350,907,814
Intra-group turnover	8,070,168	7,013,667
	1,021,709,507	1,357,921,481

Contract assets is made up of a portfolio of contracts and represents unbilled amounts and includes amounts arising from changes to the scope of works that have been recognised as revenue but not yet billed to the customer. As shown in note 17, the contract asset value is similar to last year because of an increase in the amount of longer standing changes to contracts still to be billed that has offset the reduction that would be expected from lower revenue. There are no significant one-off factors outside of normal trading.

Contract liabilities result when cumulative cash received exceeds cumulative revenue on any particular contract.

On contracts undertaken by the Group, this typically results from work being undertaken, or on framework contracts awarded, in a different order to the programme envisaged in the contractual payments schedule. Revenue recognised in 2019 from performance obligations satisfied in previous periods was immaterial.

The amounts included in contract liabilities at 31 December 2018 have all been recognised as revenue in the year.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

5 Administrative expenses

Administrative expenses include the following:

	2019 £	2018 £
Amortisation of customer relationships	-	(97,133)
Deferred consideration expensed	(190,415)	(365,596)
Amounts written off fixed asset investments	(2,499,792)	(24,550,000)
RDEC Grant income in respect of prior years	-	1,736,325
	(2,690,207)	(23,276,404)

During the year the company expensed a total of £190,415 in respect of a revised estimate of deferred consideration on the acquisition of Costain Integrated Technology Solutions Limited (formerly SSL Limited).

During the year the company expensed £100 in respect of the Investment in EPC Limited.

During the year the company wrote back £308 in respect of the loan with LRR Holdings Limited.

During the year the company provided £2,500,000 against the Inter Company Loan of £5,840,611 due from Costain Upstream Limited.

In 2018 the company provided £10,000,000 against the Loan with of £15,840,611 due from Costain Upstream Limited.

In 2018 the company provided £7,550,000 against the Investment of £7,550,000 in Costain Upstream Limited.

In 2018 the company provided £7,000,000 against the Investment of £17,645,905 in Costain Integrated Technology Solutions Limited.

In 2018 the company expensed a total of £365,596 against deferred consideration of Costain Integrated Technology Solutions Limited (formerly SSL Limited).

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Operating profit

Operating profit is stated after charging/(crediting):

	2019 £	2018 £
Depreciation of owned property plant and equipment	2,125,294	1,742,511
Depreciation of leased property, plant and equipment	13,163,458	-
Amortisation of intangible assets	140,466	214,566
Foreign exchange losses	101,000	15,285
Lease expense - property (short-term leases) (2018: Operating lease expense under IAS 17, IFRIC 4)	200,000	4,123,350
Hire of plant and machinery (short-term leases and low value assets) (2018: Operating lease expense under IAS 17, IFRIC 4)	33,566,178	31,522,386

7 Auditors' remuneration

	2019 £	2018 £
Audit of the financial statements	495,404	242,200

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

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £	2018 £
Wages and salaries	176,118,276	195,105,701
Social security costs	19,502,721	21,623,514
Other pension costs	27,536,399	29,732,175
Share-based payment expenses	525,487	2,882,268
	223,682,883	249,343,658

The monthly average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Operational personnel employed by the company	448	501
Administration and support seconded from a group undertaking	621	694
Operational staff seconded from a group undertaking	1,967	2,199
	3,036	3,394

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £	2018 £
Remuneration	1,829,860	2,251,041

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

	2019 No.	2018 No.
Received or were entitled to receive shares under long term incentive schemes	10	9
Accruing benefits under money purchase pension scheme	5	4

9 Directors' remuneration (continued)

In respect of the highest paid director:

	2019 £	2018 £
Remuneration	348,434	417,082
Benefits under long-term incentive schemes (excluding shares)	-	151,800

10 Finance income

	2019 £	2018 £
Interest income on bank deposits	459,737	70,614
Interest income from group undertakings	146,015	146,015
	605,752	216,629

11 Finance costs

	2019 £	2018 £
Interest expense on lease liabilities	1,195,524	-
Other finance costs	67,721	10,015
Interest expense payable to group undertakings	2,366,169	1,757,901
Unwind of discount on deferred consideration	81,502	140,975
	3,710,916	1,908,891

12 Income tax

Tax charged/(credited) in the income statement

	2019 £	2018 £
Current tax		
UK corporation tax	(1,684,417)	5,184,152
UK corporation tax adjustment to prior periods	(507,020)	(3,565,542)
Total current tax	(2,191,437)	1,618,610
Deferred tax		
Arising from origination and reversal of temporary differences	(661,737)	(47,715)
Deferred tax adjustment relating to previous years	(665,137)	3,667,847
Total deferred tax	(1,326,874)	3,620,132
Tax (credit)/expense in the income statement	(3,518,311)	5,238,742

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Income tax (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £	2018 £
(Loss)/profit before tax	(20,743,007)	3,026,099
Corporation tax at standard rate	(3,941,171)	574,959
Decrease in current tax from adjustment for prior periods	(507,020)	(3,565,542)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	804,536	5,374,957
Increase (decrease) from effect of exercise employee share options	540,961	(557,604)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	(665,137)	3,667,847
Deferred tax expense (credit) relating to changes in tax rates or laws	433,897	(30,037)
Decrease from effect dividends from UK companies	(6,779)	(225,838)
Increase (decrease) from effect of adjustment in research development tax credit	(177,598)	-
Total tax (credit)/charge	(3,518,311)	5,238,742

The elements of deferred taxation at 17.0% (2018: 19.0%) are as follows:

	2019 £	2018 £
General Provisions	1,860,343	2,437,927
Tax Losses	2,208,158	-
Accelerated capital allowances	865,813	1,237,086
Share Awards	147,852	
Other timing differences	(557,605)	(477,326)
Hedging reserve	64,087	(97,666)
Deferred tax asset	4,588,648	3,100,021

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Income tax (continued)

The movement in the deferred taxation asset was as follows:

	2019	2018
	£	£
Asset at the beginning of the year	3,100,021	7,187,015
Amount credited to the profit and loss account	661,737	47,715
Adjustments in respect of prior year	665,137	(3,667,847)
Amount credited/(debited) to reserves	161,753	(466,862)
Asset as end of year	4,588,648	3,100,021

A reduction in the UK corporation tax rate from 19% to 17%, effective from 1 April 2020, was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and this was substantively enacted on 17 March 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £597,901.

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.

	2019	2018
	£	£
Gross capital losses	340,308	340,308

13 Intangible assets

	Goodwill £	Contractual customer relationships £	Computer software £	Order book £	Total £
Cost or valuation					
At 1 January 2019	9,826,526	388,535	5,998,125	2,770,207	18,983,393
Additions	-	-	1,957,735	-	1,957,735
At 31 December 2019	9,826,526	388,535	7,955,860	2,770,207	20,941,128
Amortisation					
At 1 January 2019	-	388,535	5,646,808	2,770,207	8,805,550
Charge for the year	-	-	140,466	-	140,466
At 31 December 2019	-	388,535	5,787,274	2,770,207	8,946,016
Carrying amount					
At 31 December 2019	9,826,526	-	2,168,586	-	11,995,112
At 31 December 2018	9,826,526	-	351,317	-	10,177,843

Intangible assets (continued)

Goodwill was recognised from the acquisition of the trade and net assets of its subsidiaries Promanex (Construction & Maintenance Services) Lomited and Promanex (Civils & Industrial Services) Limited. For the year ended 31 December 2019, no impairment was required (2018: £nil).

The non-amortisation of goodwill required by IFRS 3 conflicts with paragraph 22 of Schedule 1 to the Regulations (Companies Act 2006) which requires acquired goodwill to be amortised over its useful economic life. Previous UK GAAP used an indefinite life for goodwill and therefore the directors consider it appropriate to invoke a true and fair override as permitted by paragraph 10(2) of Schedule 1 of the Regulations in order to remain consistent with the group accounting policies which are in accordance with IFRS as adopted by the European Union.

14 Tangible assets

	Owned land and buildings £	Owned plant and machinery £	Right-of-use land and buildings £	Right-of-use plant and machinery £	Total £
Cost					
At 1 January 2019	200,000	25,701,730	-	-	25,901,730
Adjustment on transition to IFRS 16	-	-	20,012,859	11,179,876	31,192,735
At 1 January 2019 as restated	200,000	25,701,730	20,012,859	11,179,876	57,094,465
Additions	-	15,463,465	1,696,613	-	17,160,078
Disposals	-	(5,283,962)	(2,165,703)	-	(7,449,665)
At 31 December 2019	200,000	35,881,233	19,543,769	11,179,876	66,804,878
Depreciation					
At 1 January 2019	98,372	18,263,474	-	-	18,361,846
Charge for the year	9,578	10,643,895	4,635,279	-	15,288,752
Eliminated on disposals	-	(4,293,557)	(317,127)	-	(4,610,684)
At 31 December 2019	107,950	24,613,812	4,318,152	-	29,039,914
Carrying amount					
At 31 December 2019	92,050	11,267,421	15,225,617	11,179,876	37,764,964
At 31 December 2018	101,628	7,438,256	-	-	7,539,884

15 Investments

	2019 £	2018 £
Investments in subsidiaries	76,858,987	76,859,087
Investments in joint ventures	27	27
Total Investments	76,859,014	76,859,114

Subsidiaries	£
Cost or valuation	
At 1 January 2018	124,928,004
At 31 December 2018	124,928,004
At 1 January 2019	124,928,004
Disposals	(19,473,997)
At 31 December 2019	105,454,007
Impairment	
At 1 January 2018	33,518,917
Provision	14,550,000
At 31 December 2018	48,068,917
At 1 January 2019	48,068,917
Eliminated on disposals	(19,473,897)
At 31 December 2019	28,595,020
Carrying amount	
At 31 December 2019	76,858,987
At 31 December 2018	76,859,087
At 1 January 2018	91,409,087

15 Investments (continued)

Acquisitions and other adjustments

During the prior year £7,550,000 was provided against the carrying value of Costain Upstream Limited.

During the prior year £7,000,000 was provided against the carrying value of Costain Integrated Technical Solutions Limited.

During the year the disposal above of a fully impaired cost of £19,473,997 relates to EPC Offshore Limited which was dissolved in March 2020.

During the year the Company received a dividend of £35,681 (2018: £683,606) from Rhead Holdings Limited.

During the prior year the Company received a dividend of £505,017 from Rhead Group Holdings Limited.

Details of the subsidiaries as at 31 December 2019 and 31 December 2018 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held 2019	2018	Registered office
Costain Upstream Ltd*	Engineering and design services	100%	100%	(2)
EPC Offshore Ltd*	Dissolved March 2020	100%	100%	(2)
Promanex (Civils & Industrial Services) Ltd*	Not trading	100%	100%	(1)
Promanex (Construction & Maintenance Services) Ltd*	Not trading	100%	100%	(1)
Promanex Group Holdings*	Holding company	100%	100%	(1)
Promanex Group Ltd	Not trading	100%	100%	(1)
Promanex (Total FM & Environmental Services) Ltd*	Support services	100%	100%	(1)
Costain Integrated Services Ltd	Professional services	100%	100%	(1)
Rhead Group Holdings Ltd*	Holding company	100%	100%	(1)
RG Bidco Ltd	Holding company	100%	100%	(1)
Rhead Holdings Ltd	Holding company	100%	100%	(1)
L.R.R. Holdings Ltd	Dissolved February 2020	100%	100%	(1)
Construction Study Centre Ltd	Consulting	100%	100%	(1)
Brunswick Infrastructure Services Ltd	Consulting	100%	100%	(1)

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Investments (continued)

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held 2019	2018	Registered office
AB Rhead & Associates Ltd	Dissolved February 2020	100%	100%	(1)
C-in-A Ltd	Dissolved February 2020	100%	100%	(1)
Calvert & Russell Ltd	Consulting	100%	100%	(1)
JBCC Rhead PTE Ltd	Not trading	100%	100%	(3)

* indicates direct investment of Costain Limited.

Key to registered office/principal place of business:

(1) Costain House, Vanwall Business park, Maidenhead, Berkshire, SL6 4UB, England
(2) 56 Carden Place, Aberdeen, AB10 1UP, Scotland
(3) Peninsula Plaza #27-01, 111 North Bridge Road, 179098, Singapore

15 Investments (continued)

Joint ventures	**£**
Cost or valuation	
At 1 January 2018	27
At 31 December 2018	27
At 1 January 2019	27
At 31 December 2019	27
Carrying amount	
At 31 December 2019	27
At 31 December 2018	27
At 1 January 2018	27

Joint ventures

Details of the joint ventures as at 31 December 2019 and 31 December 2018 are as follows:

Name of Joint-ventures	**Principal activity**	**Proportion of ownership interest and voting rights held**	
		2019	**2018**
4Delivery Ltd *	Civil engineering	40%	40%
Brighton & Hove 4Delivery Ltd *	Civil engineering	49%	49%
ABC Electrification Ltd *	Rail electrification	33.3%	33.3%
ACM Health Solutions Limited *	Not trading	33.3%	33.3%
Gravitas Offshore Limited *	Engineering Services	45%	45%

* indicates direct investment of Costain Limited

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Stocks

	31 December 2019 £	31 December 2018 £
Raw materials and consumables	1,038,780	1,012,535

17 Debtors

	31 December 2019 £	31 December 2018 £
Trade debtors	62,729,599	71,665,741
Amounts owed by group undertakings	5,026,202	20,214,292
Amounts owed by joint ventures	2,737,191	1,479,918
Contract assets	118,685,688	132,170,471
Other debtors	9,545,943	24,096,130
Prepayments	20,356,893	15,572,314
Income tax receivable	7,523,167	1,532,521
Group relief receivable	571,125	-
Deferred tax assets	4,588,648	3,100,021
	231,764,456	269,831,408
Less non-current portion	(4,879,549)	(8,893,696)
	226,884,907	260,937,712

Amounts receivable from other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 0.5%-2.5% (2018: 0.5%-2.5%).

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Trade and other payables

Current

	31 December 2019 £	31 December 2018 £
Trade creditors	75,044,376	106,386,338
Accrued expenses	104,396,142	128,217,039
Amounts owed to group undertakings	103,271,175	49,715,887
Amounts owed to associated undertakings	425,637	425,637
Contract liabilities	6,338,610	13,708,632
Social security and other taxes	1,191,796	1,206,004
Deferred consideration	-	1,232,164
Other creditors	16,583,134	15,123,901
	307,250,870	316,015,602

Non-current

	31 December 2019 £	31 December 2018 £
Amounts owed to group undertakings	50,000,000	50,000,000
Other creditors	558,455	797,785
	50,558,455	50,797,785

Amounts payable to other group undertakings is unsecured, repayable on demand but accrues interest at a rate of 2.5% (2018: 2.5%).

19 Cash and cash equivalents

	31 December 2019 £	31 December 2018 £
Cash at bank	98,362,014	92,099,997

The Company's bankers have the right to set off the Company's principal bank balance when in credit against borrowings by, a fellow subsidiary, Richard Costain Limited. In addition these arrangements require that all cash balances are transferred to Richard Costain Limited on a daily basis; such arrangements are commonplace in large groups and facilitate effective cash management. The Company's cash balance is replaced with an inter-company receivable from Richard Costain Ltd the directly held cash balance at the balance sheet date reduces to £Nil. The cash balance of £98,362,014 (2018: £92,099,997) represented by uncleared items and cash held in separate accounts within joint arrangements and project specific bank accounts.

20 Obligations under leases

Operating leases

Costain Limited has various offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. Costain Limited also leases computers & phones under non-cancellable operating leases. None of the leases include contingent rents.

From 1 January 2019, the company has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 14 and note 27 for further information.

Disclosure under IAS 17 and IFRIC 4, as applicable for the prior period, is as follows:

	31 December 2019 £	31 December 2018 £
Within one year	-	5,219,673
In two to five years	-	11,662,524
In over five years	-	2,446,005
	-	19,328,202

21 Called up share capital

Allotted, called up and fully paid shares

	31 December 2019 No.	£	31 December 2018 No.	£
Ordinary shares of £1 each	3,892,858	3,892,858	3,892,858	3,892,858

22 Reserves

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23 Share-based payments

Certain staff seconded to the company have been granted options over the shares in Costain Group PLC. The options are exercisable three years after the date of grant, and expire five years after the date of grant. Staff are required to remain in employment with the group until the options become exercisable. The group makes annual grants in April each year.

The company recognises a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution.

On exercise of the shares by the employees, the company is charged the intrinsic value of the shares by Costain Group PLC. This amount is treated as a reduction of the capital contribution, and it is recognised directly in equity.

The outstanding LTIPs (exercise price £1 per individual grant), AIP (Nil-cost option) and DSBPs (Nil-cost option), which arrange for the grant of shares to executive directors and senior management, and the outstanding SAYE schemes are shown below.

	LTIP Number (m)	DSBP Number (m)	AIP Number (m)	SAYE Number (m)	SAYE Weighted average exercise price (p)
Outstanding at 1 January 2018	1.6	0.1	0.9	3.0	315.5
Adjusted during the year	-	-	0.1	-	-
Forfeited during the year	(0.3)	-	-	(0.3)	313.5
Exercised during the year	(0.4)	-	(0.3)	(0.7)	302.9
Granted during the year	0.4	-	0.3	1.1	336.8
Outstanding at 31 December 2018	1.3	0.1	1.0	3.1	326.1
Outstanding at 1 January 2019	**1.3**	**0.1**	**1.0**	**3.1**	**326.1**
Adjusted during the year	**0.1**	-	**(0.1)**	-	-
Forfeited during the year	-	-	**(0.2)**	**(1.0)**	**325.8**
Exercised during the year	**(0.4)**	-	**(0.2)**	**(0.2)**	**310.3**
Granted during the year	**0.6**	-	-	**1.3**	**118.4**
Outstanding at 31 December 2019	**1.6**	**0.1**	**0.5**	**3.2**	**243.0**
Exercisable at the end of the period	**0.2**	-	-	**0.6**	**279.0**

23 Share-based payments (continued)

Long-Term Incentive Plans (LTIP)

Shareholders approved a new Long-Term Incentive Plan at the 2014 AGM that allows for conditional awards with a maximum face value of up to 100% of base salary to be awarded. Performance conditions, such as those based on earnings per share, are determined by the Remuneration Committee of the Board at the time of grant.

Annual Incentive Plan (AIP)

Executive directors and other senior management are eligible to participate in the Company's Annual Incentive Plan, under which one third of the award is payable in shares. The total AIP award of up to 150% of base salary has performance conditions based on adjusted EBIT (Earnings before interest, tax and other items) (at least 50% of the award) and other measures. The share award element vests on the second anniversary of the date of grant and will be satisfied by shares purchased by a trust on behalf of the Group. It will not lead to any dilution of shareholder interest. Participants must be in employment with the Company and not under notice of termination (either given or received) on the date of vesting.

Deferred Share Bonus Plan (DSBP)

Prior to 2014, executive directors and other senior management were eligible to participate in the Company's Deferred Share Bonus Plan which allowed for conditional awards with a face value of up to 50% of base salary with a performance condition based on adjusted EBIT (Earnings before interest, tax and other items). The deferred bonus award was satisfied by shares purchased by a trust on behalf of the Group, so did not dilute shareholder interests. The last grant under the DSBP was made in 2014 and vested on 31 March 2016.

Save As You Earn Scheme (SAYE)

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

Share-based payment expense

The amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £0.5 million (2018: £2.9 million).

24 Dividends

	2019 £	2018 £
Final dividend for the years ended 31 December 2019 and 2018 respectively	2,300,000	12,500,000

25 Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow Group undertakings for borrowing facilities made available to the Group. At 31 December 2019 these liabilities amounted to £116.0 million (2018: £69.8 million).

These are also contingent liabilities in respect of guarantees of performance bonds and other undertakings entered into in the ordinary course of business by fellow Group undertakings.

26 Related party transactions

Income and receivables from related parties

2019	Joint arrangements £	Joint ventures £
Sale of goods	215,574,419	2,888,761

2018	Joint arrangements £	Joint ventures £
Sale of goods	248,072,372	7,170,589

Major Joint Arrangements		Activity	Percentage interest
Alstom-Babcock-Costain Joint Venture	Edinburgh to Glasgow Rail Improvement Programme	Rail Engineering	33.3%
Alstom-Costain C644 Joint Venture	Traction power - Crossrail	Rail Engineering	32.5%
Alstom-Costain C650 Joint Venture	HV power supply - Crossrail	Rail Engineering	32.5%
A-one+ Integrated Highway Services	MAC 14	Engineering & Maintenance	33.3%
A-one+ Joint Venture	ASC area 12 - Highways England	Engineering & Maintenance	33.3%
A-one+ Joint Venture	ASC area 4 - Highways England	Engineering & Maintenance	33.3%
ATC Joint Venture - C610	Crossrail	Rail Engineering	32.5%
Balfour Beatty-BmJV-Costain Joint Venture	National Major Projects - Highways England	Civil Engineering	29.3%

26 Related party transactions (continued)

CH2M-Costain Joint Venture	Area 14 M&R Contract	Engineering & Maintenance	50%
Costain-CH2M UK - ESCC JV	East Sussex highway maintenance	Engineering & Maintenance	50%
Costain-Atkins Black & Veatch Joint Venture	Thames Water AMP6	Civil Engineering	70%
Costain-Carillion Joint Venture	M1 Widening and A5/M1 Link	Civil Engineering	50%
Costain-Galliford Try Joint Venture	M1 Smart Motorways	Civil Engineering	70%
Costain-Laing O'Rourke Joint Venture	Bond Street station	Rail Engineering	50%
Costain-MWH Joint Venture	Southern Water AMP6	Civil Engineering	50%
Costain-Skanska C360 Joint Venture	Eleanor Street - Crossrail	Rail Engineering	50%
Costain-Skanska C405 Joint Venture	Paddington - Crossrail	Rail Engineering	50%
Costain-Skanska C412 Joint Venture	Bond Street - Crossrail	Rail Engineering	50%
Costain-Skanska Joint Venture	HS2 Enabling Works	Civil Engineering	50%
Costain-Skanska Joint Venture	A14 Cambridge to Huntingdon Improvement Scheme	Civil Engineering	50%
Costain-Skanska Joint Venture	Balfour Beatty Joint Venture - A14	Civil Engineering	33.3%
Costain-Skanska Joint Venture	NGT Tunnels, London	Civil Engineering	52.6%
Costain-Skanska Joint Venture	Paddington Station Bakerloo Line Link Project	Civil Engineering	50%
Costain-Vinci Construction Joint Venture	Shieldhall	Civil Engineering	50%
Costain-Vinci Construction Joint Venture	M4 corridor around Newport	Civil Engineering	50%
CVB Joint Venture	Thames Tideway Tunnel East	Civil Engineering	40%
Educo UK Joint Venture	Bradford Schools	Building	50%
Galliford-Costain-Atkins Joint Venture	United Utilities	Civil Engineering	42.5%

26 Related party transactions (continued)

Skanska Costain Strabag SCS S1 Joint Venture	HS2 Main Works	Rail Engineering	34%
Skanska Costain Strabag SCS S2 Joint Venture	HS2 Main Works	Rail Engineering	34%
The ASP Batch Joint Venture	Severn Trent - Large capital schemes outside AMP6	Civil Engineering	33.3%
Costain Arup Joint Venture	Yorkshire Water	Civil Engineering	50%
Other Joint arrangements, including completed		**Activity**	**Percentage interest**
ACTUS Joint Venture	Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25%
Amec-Costain-Jacobs Joint Venture	Magnox ILW Management Programme	Civil Engineering	33.3%
A-one+ Integrated Highway Services	MAC 7	Engineering & Maintenance	33.3%
A-one+ Integrated Highway Services	MAC 10	Engineering & Maintenance	25%
A-one+ Integrated Highway Services	MAC 14	Engineering & Maintenance	33.3%
Bachy Soletanche-Costain Skanska Joint Venture	CTRL 240 - Stratford Box	Rail Engineering	33.3%
Black & Veatch-Costain Joint Venture	Margate & Broadstairs UWWTD Scheme - Southern Water	Civil Engineering	50%
Costain-Dalekovod Joint Venture	National Grid HV Overhead Line System	Engineering	60%
Costain-Hochtief Joint Venture	Reading Station	Rail Engineering	50%
Costain-John Mowlem-Skanska Joint Venture	A2/M2 widening (Cobham to Jct.2)	Civil Engineering	30%
Costain-Lafarge Joint Venture	East and South East Framework	Civil Engineering	50%
Costain-Lafarge Joint Venture	Midlands Framework	Civil Engineering	50%
Costain-Laing O'Rourke Joint Venture	Farringdon station	Civil Engineering	50%

26 Related party transactions (continued)

Costain-Laing O'Rourke Joint Venture	King's Cross Eastern Range Refurbishment	Civil Engineering	50%
Costain-Skanska C411 Joint Venture	Bond Street - Crossrail	Civil Engineering	50%
Costain-Skanska Joint Venture	A14 Ellington to Fen Ditton	Civil Engineering	50%
Costain-Skanska Joint Venture	A43 Silverstone	Civil Engineering	50%
Costain-Skanska Joint Venture	Crossrail Civils Framework Enabling Works	Rail Engineering	50%
Costain-Skanska Joint Venture	Kings College Hospital, London	Building	50%
Costain-Skanska Joint Venture	Lower Precinct Shopping Centre, Coventry	Building	50%
Costain-Skanska Joint Venture	The new Met Office	Building	50%
Costain-Taylor Woodrow Joint Venture	King's cross re-development & Phase II Northern Works	Civil Engineering	50%
Costain-VWS Joint Venture	Mersey Valley Processing centre (Shell Green) Extension Project stage 2	Engineering	50%
Lagan-Ferrovial-Costain Joint Venture	A8	Civil Engineering	45%
The e5 Joint Alliance Joint Venture	Severn Trent Framework	Engineering	25%
TSIF-ILW Joint Venture	Trawsfynydd nuclear power station decommissioning	Civil Engineering	33.3%

27 Impact of adoption of new accounting standards

IFRS 16 'Leases' - impact of adoption

The company has adopted IFRS 16 'Leases' using the modified retrospective approach as described in the standard. Comparative information has not been restated and continues to be reported under IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

The accounting policy set out in note 1 replaces the following policy applicable before 1 January 2019:

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease liabilities

On adoption of IFRS 16, the company recognised liabilities in relation to leases which had previously been classified as operating leases and short-term cancellable leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the company's lease assets was 3.2%.

The following is a reconciliation of total operating lease commitments (2018 Annual Report and financial Statements, note 14) at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	Land and buildings	Other operating leases	Total
	£	£	£
Total committed operating lease commitments disclosed at 31 December 2018	**18,079,111**	**1,594,210**	**19,673,321**
Discounted using incremental borrowing rate	(1,629,730)	-	(1,629,730)
Recognition exemptions:			
- Leases of low value assets	-	(1,594,210)	(1,594,210)
- Hindsight adjustment of lease lengths	3,578,703	-	3,578,703
Lease payments not recognised	20,028,084	-	20,028,084
Non-committed operating leases recognised	-	4,352,657	4,352,657
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**20,028,084**	**4,352,657**	**24,380,741**
Comprising:			
Current lease liabilities	6,301,728	3,210,379	9,512,107
Non-current lease liabilities	13,726,356	1,142,278	14,868,634
Total lease liabilities	**20,028,084**	**4,352,657**	**24,380,741**

Right-of-use assets

The associated right-of-use assets were measured at amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position as at 31 December 2018.

The recognised right-of-use assets are included in note 14.

Adjustment to balance sheet items

The change in accounting policy increased tangible fixed assets at 1 January 2019 (right-of-use assets) as above by £31,192,735 and increased liabilities by a matching credit (current liabilities: £13,005,713 and non-current liabilities £18,187,022).

28 Parent and ultimate parent undertaking

The company's immediate parent is Costain Civil Engineering Limited.

The ultimate parent is Costain Group PLC.

The parent of the largest and smallest group producing publicly available financial statements in which these financial statements are consolidated is Costain Group PLC. These financial statements are available upon request from Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB.

The ultimate controlling party is Costain Group PLC.

29 Non adjusting events after the financial period

On 7 May 2020, the Company's ultimate parent, Costain Group PLC, announced an equity capital raise of £100m of new ordinary shares subject to approval by shareholders at an extraordinary general meeting on 27 May 2020. The capital raise was approved, and the proceeds less related costs were received on 29 May 2020.

On 9 June 2020, in order to strengthen its capital base, the Company issued 2 million new ordinary shares to its parent company, Costain Civil Engineering Limited, for a cash consideration of £40 million.