

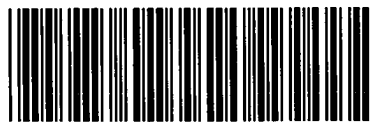
Registration number: 00610201

Costain Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

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Costain Limited

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Costain Limited

Company Information

Directors	A J Vaughan
	D R Taylor
	H M Willis
	C Warbrick
	S M Kershaw
	S M White
	N Geoghegan
	A Lalani
Company secretary	N Geoghegan
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 2022

The directors present their report for the year ended 31 December 2022.

Fair review of the business

Our purpose at Costain Limited 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 £1,380,135,108 (2021: £1,133,435,247). Statutory operating profit for the year was £3,542,719 (2021: 5,343,786). Net assets at 31 December 2022 were £107,757,332 (2021: £106,010,298).

The 2022 results also reflect £3,000,000 write-down of investments.

Adjusted operating profit (as explained in note 4) was £10,681,028 (2021: £10,971,771).

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 of £2.8 billion (2021: £3.3 billion) include the following, demonstrating the breadth of our services:

- Formal contracts – construction delivery phase:
 - M6 smart motorway programme
 - HS2 Southern Section Main Works
 - HS2 Southern Section Main Works
 - Thames Tideway Tunnel – East
- Early contractor involvement (ECI phase):
 - M62 smart motorway
- Framework contracts:
 - Water AMP frameworks
- Service based contracts:
 - United Utilities maintenance services
 - Highways England maintenance contracts
- Consultancy and technology contracts:
 - Smart motorway signage
 - Connected vehicle technology
 - EDF project controls

We have delivered an improved operating performance, including significant growth in adjusted operating profit and good free cash flow generation.

Costain Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Road revenue increased by 17.0% in FY22 over the prior year driven by increased schemes delivery and the impact of inflation on delivery costs. As a strategic partner for National Highways, we support their key investment programmes through the Regional Delivery Partnerships (RDP) major projects framework, and the Smart Motorways Programme (SMP) Alliance delivering smart motorway upgrades. On RDP, we continued to upgrade the A1 around Newcastle, with the A1 Scotswood to North Brunton scheme opening early, and we are upgrading to dual carriageway a section of both the A1 Birtley to Coal House and the A30 in Cornwall. Pre-construction and design activities continue on the A12 Chelmsford to A120 scheme, M60 Simister Island scheme and we completed and opened early the A19 improvements at Downhill Lane.

With the SMP Alliance, our work delivering the M6 Junction 21a-26 smart motorway upgrades continues, and we delivered infrastructure for cameras to detect stopped vehicles, and safety improvements to the central reserve on M62 junction 25-30. During 2022, National Highways selected Costain as one of its Delivery Integration Partners for the A66 Northern Trans-Pennine project which will upgrade east-west connectivity in the north of England; and in joint-venture with Mott MacDonald, Costain was appointed as Delivery Assurance Partner for the A303 Stonehenge Improvements Scheme. Costain also continued to provide specialist advice to National Highways under the SPaTS2 framework, to shape the future and help critical challenges around automation, decarbonisation and future programme delivery.

Rail revenue increased by 34.9% in 2022, principally as a result of our growth of work in delivering HS2. December 2022 saw the Costain Skanska joint venture (JV) successfully complete its seven-year programme of enabling works for the HS2 route from Euston to West Ruislip. The follow-on contract with the Skanska Costain STRABAG JV to construct the same section of route in twin bore tunnel was fully mobilised during 2022 and launched the first two of seven tunnel boring machines (TBMs). The completion of rail heads at Willesden and at Northolt means the TBMs are fully serviced by rail, removing thousands of heavy lorry journeys from local roads. Our project-wide carbon reduction initiatives have set the path to reduce CO2 emissions by around 40% and led to the first fully diesel-free sites on the HS2 programme. Throughout the year our specialist planning and constructability teams have continued to support HS2 by producing information for the Hybrid Bill submission that will promote the 'levelling up' agenda and enable the HS2 route from Crewe on to Manchester.

Our work on the Gatwick Airport Station Project for Network Rail continues with the opening of platform 5 and 6 enabling Network Rail timetable improvements, and we expect to finish work on this project during FY23. We completed our final work on Crossrail, with the Elizabeth Line successfully opening during the year. We continue to expand our portfolio of work for Network Rail through our framework contracts.

Integrated Transport provides a mix of consulting and complex project delivery to Local Authorities, Central Government and to customers in Aviation. Revenue decreased by 18.1% in FY22 on the prior year, reflecting the timing of complex schemes delivery. We continue to focus on supporting customers with inter-modal connectivity and decarbonisation solutions. During 2022, we completed work on A40 Westway for Transport for London (TfL) and initiated work for TfL for the Gallows Corner project. We extended the contract for CCTV video management system for TfL for a further four years and we were appointed by TfL to design critical upgrades to the signalling infrastructure on the Piccadilly line.

Costain Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Our delivery of the Preston Western Distributor Project continues to plan, and we continue to support Lancashire County Council with advice in the development of their South Lancaster highway scheme. We have successfully grown consulting services revenue across a range of local authorities, such as Lancaster, Bradford, Liverpool and in Cornwall.

During the year, we announced that we are a delivery partner to Heathrow Airport, providing construction, consulting and digital capabilities to help deliver its new investment programme. We will work with Heathrow throughout project lifecycles to shape, create and deliver asset renewal and construction projects through the Terminal Asset Renewal Partner and Major Project Partner lots of the H7 framework. The first commission is the design phase of the upgrade of baggage handling facilities and systems at Terminal 2, via the Major Project Partner lot. We also have secured work for ZEFI (zero emissions flight infrastructure) and with other aviation customers at Stansted, Gatwick and Manchester airports.

We continue to grow our consulting services to local government customers in support of accelerating progress to net zero carbon (including a decarbonisation project for Swindon council), green economic recovery and levelling up the UK, and have secured places on a number of targeted frameworks. Costain has continued its growth with the UK Government in helping deliver key policy interventions including embedment of the Construction Playbook, securing our borders through infrastructure investment and accelerating decarbonisation through being involved in projects such as the Electric Roads system and Net Zero Innovation programme.

Water delivers a broad range of services to improve asset and operational resilience across the water sector, together with decarbonisation capabilities. Revenue was up £38.2m, 19.1% on the prior year with good visibility across our five-year water AMP7 programmes through to 2025. We have made good progress in delivering on Tideway where, in a joint venture, we are responsible for the eastern section. The breadth of our service offering continues to grow with capital delivery programmes for Anglian Water, Severn Trent Water, Southern Water, and Thames Water; maintenance service provider services for United Utilities; a range of consultancy services for Yorkshire Water, Thames Water, Southern Water, and Welsh Water; digital services to Anglian Water and data and clear energy innovation projects with Ofwat. Alongside core AMP8 requirements, we continue to engage with customers to understand their potential needs for new value-added solutions for AMP8 to meet their ESG requirements and are in an early stage of working with customers regarding the Strategic Water Resource Options programme, which will run alongside AMP8.

key performance indicators

The company's key financial and other performance indicators during the year were as follows:

- Operating profit £3,542,719 (2021: £5,343,786)
- Operating margin 0.25% (2021: 0.47%)

Costain Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Engaging with our stakeholders

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 where relevant.

Employees

- Board members took part in several site visits and attended virtual meetings with colleagues.
- We held two leadership impact days where our people stopped their usual activities and took part in discussions related to the day's themes.
- We conducted a Group-wide people survey.
- We convened our quarterly employee forum, Your Voice.
- We launched a series of live divisional quarterly briefings for all employees.
- We refreshed our new joiner induction programme and annual code of conduct compliance training for all employees.
- We launched our Samaritans 24/7 fundraising campaign in 2022.

Shareholders

- Our Annual General Meeting (AGM) was again broadcast live. Questions could be asked before the meeting.
- We issued other regular announcements and streamed webcasts to accompany results announcements.
- We wrote to our largest shareholders describing the Directors' Remuneration Report in the 2021 annual report and later in the year on the proposal for the remuneration policy renewal (see page [54]).
- Since appointment, the chair has been meeting with major investors to discuss their views on the Company and receive feedback.
- The investor relations director has also dealt with shareholders on an ad hoc basis during the year on issues including the new chair appointment and the pension fund.

Clients

- We conducted customer satisfaction surveys for individual projects to help monitor our performance.
- The Board received presentations from the divisional managing directors on major customers and from the Infrastructure Projects Authority on trends and ambitions in the construction industry.
- We took our customers on site visits to flagship projects, helping to showcase our capabilities and the quality of work across our portfolio.
- We attended strategic customer events such as the opening of the Tideway Project.
- We attended a number of events with industry associations including the Hydrogen Summit.
- Visits to customers were undertaken by members of the leadership team with strong CEO and CFO customer engagement.
- In April, our 3,500 people, site teams, customers and suppliers came together on one of our leadership impact days to discuss increasing inclusion, receiving positive feedback across our stakeholders.

Supply chain

- Our supply chain managers provide a crucial link with suppliers, developing strong, enduring relationships to seek out the best solutions for our customers.
- We continue to seek opportunities to liaise with our supply chain at the earliest possible moment, providing and developing our customer solutions.
- We held another virtual intake to our supply chain academy, training SME businesses on a variety of topics including corporate responsibility, inclusive practices and carbon.
- We facilitated a series of supplier engagement sessions focused on alignment of their wellbeing, inclusion, safety, environmental and ethical business alignment to our ESG commitments.

Communities and Environment

- Costain's community relations continues to be recognised by the Considerate Constructors Scheme, averaging 45.5 compared to the industry average of 39.7 (out of 50). Every contract has an individual or team responsible for community/stakeholder relations.

Costain Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

- We use digital tools to help us keep our neighbours informed of our work, with inclusive and accessible communications.
- To ensure we are abreast of the societal issues affecting our neighbours, Costain has five senior leaders serving as regional board members for Business in the Community (BITC) and Catherine Warbrick is member of the Prince's Trust's Built Environment Group

Further information on how the directors have had regard to the need to foster the Costain Group PLC's and company's business relationships with suppliers, customers and others, and the effect on the principal decisions taken by Costain Group PLC and the company during the financial year, are included within the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

Costain Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Outlook

Looking ahead, despite the market headwinds and as a result of our broad customer focus, we have already secured more than £1bn of revenue, representing around 80% of expected revenue for 2023. We remain mindful of the macro-economic and geopolitical backdrop, recognising the challenges it has created for inflation and energy costs and its importance for near-term government priorities and timing of spending. With our broad customer focus, further improvements to our operational performance, strong cash position and clear strategic priorities, we remain confident of navigating these market headwinds and are well positioned for further growth.

Principal risks and uncertainties

The principal risks and uncertainties facing the ultimate parent company, Costain Group PLC and Costain Limited, and their ability to achieve their strategic objectives are set out below. Additional information on these principal risks, including controls and key mitigations, can be found in the consolidated group financial statements of Costain Group PLC copies of which are publicly available.

Costain Limited

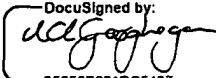
Strategic Report for the Year Ended 31 December 2022 (continued)

Title	What is the Risk?
Failure to prevent a major accident, hazard, or incident.	Costain operates in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards, including pandemics, may result in illness, loss of life or significant damage to the environment. Failure to manage this risk could result in reputational damage, loss of business and financial penalties.
Failure to increase the profitability and margin performance of the Group	The effective implementation of our strategy is critical to the Group's ability to increase profitability and margin performance of the Group and effectively align our services to meet the changing needs of our clients. Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value.
Failure to maintain a strong balance sheet.	A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our clients. Failure to manage this risk could affect our ability to achieve our business goals and our resilience to withstand economic downturns.
Failure to secure new work.	Our future growth and profitability is dependent on our ability to secure new work in our competitive marketplace. To be successful we need to maintain strong customer relationships and broaden our service offering by delivering innovative solutions across complex delivery, digital and consulting activities.
Failure to attract and transform the skills, capabilities and competence of our resources	The successful implementation of our strategy is dependent on our ability to attract and retain talent, grow the capabilities of our employees and maintain a high-performing, ethical and inclusive culture where our team can be at their best.
Failure to deliver projects effectively.	Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our clients and investors.
Failure to manage the legacy defined benefit pension scheme.	Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base and do not adversely impact our balance sheet.
Failure to ensure that our technology is robust, our systems are secure and our data protected.	Our ability to enable safe, secure, and resilient business operations (including finding, winning, and delivering work supported by efficient corporate services) is dependent on the delivery of our core IT strategy. The delivery of this strategy is also key to our ability to safely and securely acquire, host, use, and dispose of Costain, client, and third-party data.
Failure to anticipate and respond to changes in client circumstances.	We have seen changes in the business operations and investment priorities of our core clients and clients challenged by ever evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our clients and respond effectively, could restrict our ability to grow margins and increase market share.
Failure of climate change resilience	The risk that we lack the resilience to survive and thrive amid the impacts of climate change on a local, national and international level.

Costain Limited

Strategic Report for the Year Ended 31 December 2022 (continued)

Approved by the Board on 20 April 2023 and signed by its order by:

DocuSigned by:

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N Geoghegan
Company secretary

Costain Limited

Directors' Report for the Year Ended 31 December 2022

The directors present their report and the audited financial statements for the year ended 31 December 2022.

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 J Vaughan

D R Taylor

M D Hunter (resigned 18 March 2022)

H M Willis

S Harris (resigned 5 July 2022)

C Warbrick

S M Kershaw

M Higham (resigned 30 November 2022)

S M White (appointed 4 January 2022)

N Geoghegan (appointed 5 July 2022)

A Lalani (appointed 5 October 2022)

Principal activities

The principal activity 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 do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: £Nil).

Future developments

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

Costain Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

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 receivables 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 £175,088. The largest individual donations were:

	£
The Prince's Trust	50,000
Disaster Emergency Committee	25,000
Wateraid	20,000
Rotary Club of Preston Guild	12,000

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 2022 (continued)

Environmental matters

We are mindful of the macro-economic backdrop and market conditions due to wider economic and geopolitical challenges, and we continue to monitor and work to mitigate headwinds in commodity and energy costs, as well as challenges in the supply chain.

Social and community issues

Operating responsibly and sustainably is a business imperative for Costain and the safety and wellbeing of our people, our clients, partners and the general public is our highest priority. In line with the United Nation's Sustainable Development goals, we deliver on our purpose to improve people's lives, helping to build a sustainable future and ensuring that Costain is a safe, inclusive and great place to work.

Information on the Group and Company's commitment to responsible business during the year can be found on pages 32 to 35 of the 2022 Annual Report and Accounts of Costain Group PLC (available at www.costain.com).

Statement of directors' responsibilities in respect of the financial statements

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, 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 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 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 also 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.

Disclosure of information to the auditors

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

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

Costain Limited

Directors' Report for the Year Ended 31 December 2022 (continued)

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 20 April 2023 and signed by its order by:

DocuSigned by:

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N Geoghegan
Company secretary

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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Health and Safety, Data Protection laws, pension obligations, environmental obligations and relevant construction legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and relevant tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential posting of inappropriate journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates, particularly in relation to contract accounting; and
- Identifying and testing journal entries, in particular any journals entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

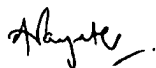
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 April 2023

Costain Limited

Income Statement
for the year ended 31 December 2022

	Note	2022 £	2021 £
Revenue	5	1,380,135,108	1,133,435,247
Cost of sales		<u>(1,332,504,284)</u>	<u>(1,074,829,343)</u>
Gross profit		47,630,824	58,605,904
Administrative expenses		(44,648,134)	(42,689,734)
Other operating income	6	3,560,029	2,433,274
Impairment losses	7	<u>(3,000,000)</u>	<u>(13,005,658)</u>
Operating profit	8	<u>3,542,719</u>	<u>5,343,786</u>
Finance income	12	1,273,436	390,276
Finance costs	13	<u>(3,249,697)</u>	<u>(2,115,031)</u>
Net finance costs		<u>(1,976,261)</u>	<u>(1,724,755)</u>
Profit before tax		1,566,458	3,619,031
Tax on profit	14	<u>(887,446)</u>	<u>(1,945,725)</u>
Profit for the financial year		<u><u>679,012</u></u>	<u><u>1,673,306</u></u>

The above results were derived from continuing operations.

Costain Limited**Statement of Comprehensive Income**
for the year ended 31 December 2022

	2022	2021
	£	£
Profit for the financial year	679,012	1,673,306
Items that may be reclassified subsequently to profit or loss		
(Loss)/profit on cash flow hedges (net)	<u>(25,000)</u>	<u>31,645</u>
Total comprehensive income for the year	<u><u>654,012</u></u>	<u><u>1,704,951</u></u>

Costain Limited

(Registration number: 00610201)
Statement of Financial Position
as at 31 December 2022

	Note(s)	2022 £	2021 £
Fixed assets			
Intangible assets	15	15,845,149	16,083,987
Property, plant and equipment	16	26,324,646	31,622,895
Investments	17	28,181,029	31,181,029
		<u>70,350,824</u>	<u>78,887,911</u>
Current assets			
Inventories	18	122,050	174,022
Trade and other receivables	19	296,813,802	280,469,437
Insurance recovery asset	22	13,365,000	-
Cash and cash equivalents	20	64,719,385	60,605,775
		<u>375,020,237</u>	<u>341,249,234</u>
Creditors - amounts falling due within one year	21	<u>(259,248,720)</u>	<u>(237,927,736)</u>
Net current assets		<u>115,771,517</u>	<u>103,321,498</u>
Total assets less current liabilities		186,122,341	182,209,409
Creditors - amounts falling due after more than one year	21	(66,120,077)	(69,999,111)
Provisions for liabilities	22, 14	<u>(12,244,932)</u>	<u>(6,200,000)</u>
Net assets		<u>107,757,332</u>	<u>106,010,298</u>
Equity			
Called up share capital	23	9,392,858	9,392,858
Share premium		76,500,000	76,500,000
Hedging reserve	24	396	25,396
Retained earnings		<u>21,864,078</u>	<u>20,092,044</u>
Total shareholders' funds		<u>107,757,332</u>	<u>106,010,298</u>

The financial statements on pages 17 to 60 were approved by the board of directors on 20 April 2023 and signed on its behalf by:

DocuSigned by:

Helen Willis

DC2F7562FAC34BE.....

H M Willis

Director

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Statement of Changes in Equity
for the year ended 31 December 2022

	Called up share capital £	Share premium £	Hedging reserve £	Retained earnings £	Total shareholders' funds £
At 1 January 2022	9,392,858	76,500,000	25,396	20,092,044	106,010,298
Profit for the financial year	-	-	-	679,012	679,012
Other comprehensive expense	-	-	(25,000)	-	(25,000)
Total comprehensive (expense)/income	-	-	(25,000)	679,012	654,012
Equity-settled share-based payment	-	-	-	1,093,022	1,093,022
At 31 December 2022	<u>9,392,858</u>	<u>76,500,000</u>	<u>396</u>	<u>21,864,078</u>	<u>107,757,332</u>

	Called up share capital £	Share premium £	Hedging reserve £	Retained earnings £	Total shareholders' funds £
At 1 January 2021	9,392,858	76,500,000	(6,249)	17,288,066	103,174,675
Profit for the financial year	-	-	-	1,673,306	1,673,306
Other comprehensive income	-	-	31,645	-	31,645
Total comprehensive income	-	-	31,645	1,673,306	1,704,951
Equity-settled share-based payment	-	-	-	1,130,672	1,130,672
At 31 December 2021	<u>9,392,858</u>	<u>76,500,000</u>	<u>25,396</u>	<u>20,092,044</u>	<u>106,010,298</u>

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022

1 General information

The company is a private company limited by share capital, incorporated in the United Kingdom and domiciled in England and registered in England.

The address of its registered office is:

Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB
United Kingdom

These financial statements were authorised for issue by the board on 20 April 2023.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

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

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 2022 (continued)

2 Accounting policies (continued)

Going concern

The Company's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and the Costain Group's borrowing facilities. These borrowing facilities give the Group access to an RCF cash drawdown of £125m with a maturity date of 24 September 2024.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2022, the Directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the financial statements. Having undertaken a rigorous assessment of the financial forecasts of the Group, including its liquidity and compliance with covenants, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements.

In assessing the going concern assumptions, the Board reviewed the base case plans for the period to 30 June 2024, being the first covenant deadline more than 12 months after the approval of the financial statements. The directors have assumed that the current RCF remains in place with the same covenant requirements through to its current expiry date, which is beyond the end of the period reviewed for Going Concern purposes.

The directors have assessed that the facility thereafter will either be renewed or an alternative source of finance agreed for the subsequent period. The base case assumes delivery of the Board approved strategic and financial plans. As part of the assessment, the Board also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, higher working capital requirements and adverse contract settlements.

Both the base case and severe but plausible forecasts show significant headroom and indicate that the Company will be able to operate within its available banking facilities and covenants throughout this period. Covenants are calculated on a rolling 12 month basis each quarter and therefore for all quarters until Q4 of FY23, and Q1 of FY24, a portion of the EBITDA/EBITA has already been earned, reducing the risk of a potential breach. Taking this into account along with the forecasts reviewed, it is considered that the EBITA/net interest covenant for the rolling 12 months to Q4 of FY23 and Q1 to Q2 of FY24 is the potential limiting factor, given the Company's strong net cash position. The Board concluded that there is sufficient liquidity headroom in the severe but plausible downside scenario, as well as headroom on the committed facilities and on the associated financial covenants.

Costain Limited's transactions are integral to the cash management of the Group and are the predominant contributor to the going concern assessment for the Group.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

In these financial statements, the company has taken advantage of the disclosure exemptions available 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.'
- (o) The requirements of Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2022 have had a material effect on the financial statements. These include:

- Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16;
- Reference to the Conceptual Framework - Amendments to IFRS 3; and
- Onerous Contracts - Cost of Fulfilling a Contract - Amendments to IAS 37.

The company also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12.

The 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

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions..

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Revenue recognition

Recognition

The company recognises revenue when control over the service or product is transferred to the customer and 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.

The principal source of revenue relates to work on the UK's infrastructure across transportation, water and energy. Over 90% arises under long-term contracts, which require delivery of a specified output to the customer, increasingly involve a technology element, with a large element of the works undertaken on the customer's land and perhaps taking a number of years to complete. The majority are structured in a cost reimbursement or target cost form, typically with incentive and penalty arrangements. Generally, the works specified within the contract are integrated and the customer procures the one complete package, which may incorporate design, engineering and advisory work into the scope. Where a contract comprises distinct performance obligations, each is accounted for separately. The scope of the works will be often subject to change and in the majority of contracts, the terms specify that changes are handled through compensation events. These are considered on a case-by-case basis to determine whether they are a new separate performance obligation and accounted for as such, or part of the original works and dealt with on a cumulative catch-up basis. On the majority of contracts, the compensation events relate to clarifications or revisions of the original works. Other design, advisory and consulting contracts requiring production of a specified scope or provision of other services, some of which may lead to the construction of the designed product, can be structured as inter-dependant or standalone contracts and the resulting performance obligations depends on how the customer procures the contract.

Revenue includes the company's share of revenue of joint operations. 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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

Research and development

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

Finance income and costs

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

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.

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 annually.

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

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

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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 life
Acquired intangibles	3 - 4 years
Other intangibles	3 to 5 years

Property, plant and equipment

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

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

Depreciation

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

Asset class	Depreciation method and rate
Leasehold buildings	Shorter of 50 years or lease term
Plant & Machinery	3 to 10 years

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.

Trade and other receivables

Trade receivables are amounts due from customers for 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 Fixed assets.

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

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for intercompany balances. To measure the expected credit losses, intercompany balances have been grouped based on shared credit risk characteristics and the days past due.

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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

A financial asset is derecognised only when the contractual rights to the cash flows from that asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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 Income statement and are reflected in accumulated provision balances against each relevant financial instruments balance.

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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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.

Inventories

Inventories 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.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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 payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

2 Accounting policies (continued)

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 major categories of leased items within the scope of IFRS 16 are properties, vehicles and site plant. Changes to contract scope can lengthen or shorten contract programmes and result in extensions or early terminations to site plant lease terms.

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.

Provisions

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

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

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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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.

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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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.

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', the carrying value of goodwill, the recognition of deferred tax assets in relation to tax losses and the items classified as other items and contract adjustments.

Contract in the water sector

In 2021, Costain recognised a provision of £6.2m in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where the Company had been prime contractor. During 2022, working with designers, insurers and the customer, there is now greater clarity as to the scope and cost of rectification work required, albeit a final solution has yet to be formally agreed with all relevant parties.

As at 31 December 2022, the Company's best estimate of the cost of the single most likely rectification solution is £17.0m, of which costs of £4.8m have been incurred. Accordingly a provision of £12.2m has been included in the statement of financial position and disclosed in note 22. The work is expected to be concluded in 2024.

Whilst the cost of rectification work is capable of being estimated, a number of assumptions have had to be made in arriving at the cost estimate. This, combined with the fact that the final design solution has not been finalised, results in there being inherent estimation uncertainty in determining the ultimate cost and associated provision. Management considers that the ultimate cost will fall within a range of $\pm 30\%$ of the estimated total cost of £17m.

Costain has engaged with its insurers and received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers made an interim payment on account during 2022. On this basis, management has made a judgement that the costs of rectification, after deduction of insurers' excess and amounts already received from insurers, will be recovered. Accordingly, an insurance receivable of £13.4m has been recognised in the statement of financial position in accordance with IAS 37 on the basis that recovery is considered virtually certain. There is a cap on insurance but the cap is significantly in excess of the cost estimate. As at 31 December 2021, discussions with insurers were at an early stage and the expected recovery from insurers was not recognised as a receivable on the basis that it could not be considered virtually certain.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Carrying value of goodwill

Assessing the recoverability of the carrying value of goodwill recognised on acquisition requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. These assessments involve estimation and judgement, principally, in respect of the levels of operating margins, growth rates and future cash flows of the cash generating units and also include consideration of the impact of potential sensitivities in respect of those assumptions.

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

Deferred tax

Included in deferred tax assets is an asset for tax losses recorded in current and previous year. The asset is recognised on the basis that the losses will be used against future taxable profits of the Group over the next 6 years. The significant judgement in assessing the recoverability relates to the ability of the Company to achieve its taxable profit forecasts and the ability to withstand the application of what the Board considers appropriate sensitivities. Details of deferred tax assets are shown in note 14.

Other items and adjusted profit

Management has used judgement to determine the items classified as other items and to determine the contract adjustments set out in note 4.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Long-term contracts

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 for 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, for example, of the impact of pain/gain arrangements to the extent that the amounts the Company expects to recover can be reliably estimated and are highly probable not to reverse.

Management bases its estimates of costs and revenues and its assessment of the expected outcome of each longterm 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 cases, assessments of recoveries from insurers, suppliers and contractors, where these are considered virtually certain. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered in management's judgement highly probable to be agreed.

There are four material contracts where management has been required to make significant accounting estimates and, which result in estimation uncertainty, as at 31 December 2022. In relation to these contracts, the Company has included estimated recoveries with a combined value of £12.2m, on the basis that these are considered highly probable not to reverse. However, there are a range of factors which will affect the ultimate outcome once these contracts are finalised. Management considers that the estimation uncertainty in relation to these four contracts ranges from a potential upside of £22.6m to a downside of £12.2m.

The ultimate financial impact of this estimation uncertainty will depend, inter alia, on the terms of the contract and the interaction with incentive arrangements, such as pain/gain mechanisms and bonus or KPI arrangements, as well as final conclusions regarding claims and compensation events and assessments of, for example, costs disallowed under the contract. The estimates of the forecast contract outcome 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. While management believes it has recorded positions that are highly probable not to reverse on the basis of existing facts and circumstances, there are uncertain factors which will impact the final contract outcome and could give rise to material adjustments within the next financial year. Given the inherent complexity and pervasive impact of the various judgements and estimates impacting revenue, cost of sales and related balance sheet amounts, it is not considered plausible to quantify the impact of taking alternative assessments on each of these judgements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

4 Reconciliation of reported operating profit to Adjusted operating profit

Adjusted revenue and operating profit are presented as non-GAAP alternative performance measurements. The Board considers the adjusted measures better reflect the underlying trading performance of the company.

The profit adjustments represent the amounts included in the income statement. The revenue adjustments represent the reversal of the contract asset recorded in the statement of financial position immediately prior to the initial write down and any subsequent adjustment to overall contract revenue.

During the year, Costain has embarked on a Transformation programme to deliver operational efficiencies. In 2022, the Company incurred £5.0m (2021: £nil) of restructuring costs and £0.7m (2021: £nil) of reorganisation costs.

During the year, the Company fully impaired tunnel boring machines held at net book value of £1.4m which were outmoded and no longer core to operations.

In 2022, the Company incurred £nil (2021: £0.4m) amortisation on acquired intangibles as these are now carried at net book value £nil.

In 2021, the Company also recognised a profit of £8.4m on the A465 Heads of the Valley Road contract as a result of lower costs to complete than forecast at the end of 2020 when a write down to the contract asset was recognised.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

4 Reconciliation of reported operating profit to Adjusted operating profit (continued)

Year to 31 December 2022	Adjusted	Impairment losses	Tunnel boring machines impairment	Transformation costs	Total
	£m	£m	£m	£m	£m
Revenue	1,380.1	-	-	-	1,380.1
Cost of sales	(1,332.5)	-	-	-	(1,332.5)
Gross profit	47.6	-	-	-	47.6
Admin and other expenses	(33.9)	(3.0)	(1.4)	(5.7)	(44.0)
Operating profit	13.7	(3.0)	(1.4)	(5.7)	3.6
Net finance expense	(2.0)	-	-	-	(2.0)
Profit before tax	11.7	(3.0)	(1.4)	(5.7)	1.6
Taxation	(2.3)	-	0.3	1.1	(0.9)
Profit for the year	9.4	(3.0)	(1.1)	(4.6)	0.7

2022: Admin and other expenses include Transformation costs of £5,728,960, and an Impairment of £1,409,529 on tunnel boring machines as detailed in note 7.

Year to 31 December 2021	Adjusted	A465	Other items	Total
	£m	£m	£m	£m
Revenue before contract adjustments	1,133.4	-	-	1,133.4
Contract adjustments	-	-	-	-
Company revenue	1,133.4	-	-	1,133.4
Cost of sales	(1,083.2)	8.4	-	(1,074.8)
Gross profit	50.2	8.4	-	58.6
Admin and other expenses	(40.3)	-	(13.0)	(53.3)
Operating profit	9.9	8.4	(13.0)	5.3
Net finance expense	(1.7)	-	-	(1.7)
Profit before tax	8.2	8.4	(13.0)	3.6
Taxation	(0.3)	(1.6)	-	(1.9)
Profit for the year	7.9	6.8	(13.0)	1.7

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

4 Reconciliation of reported operating profit to Adjusted operating profit (continued)

2021: The company recognised an £8,400,000 profit with regards to the lower costs to complete than forecast on the A465 contract.

Admin and other expenses Other items include £13,427,985 subsidiary investment and £600,000 loan write-downs, net of dividends received of £1,022,327 as detailed in note 7.

5 Revenue

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

	2022	2021
	£	£
External turnover	1,375,059,120	1,129,902,642
Intra-group turnover	<u>5,075,988</u>	<u>3,532,605</u>
	<u><u>1,380,135,108</u></u>	<u><u>1,133,435,247</u></u>

6 Other operating income

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

	2022	2021
	£	£
RDEC grant income	<u>3,560,029</u>	<u>2,433,274</u>

7 Impairment losses

	2022	2021
	£	£
Amounts written off fixed asset investments	(3,000,000)	(13,427,985)
Amounts written off loans to subsidiaries	-	(600,000)
Dividends received ahead of dissolution of subsidiaries	-	1,022,327
	<u><u>(3,000,000)</u></u>	<u><u>(13,005,658)</u></u>

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

7 Impairment losses (continued)

2022

Other items

- the company provided £1,500,000 against the investment in Costain Integrated Services Limited;
- the company provided £1,500,000 against the investment in Costain Integrated Technology Solutions Limited.

2021

Other items

- the company provided £12,500,000 against the investment in Costain Integrated Services Limited;
- the company dissolved its investments in Promanex Group Holdings Limited (loss £241,050), Promanex Holdings Limited (loss £474,321) and Rhead Holdings Limited (loss £212,614);
- the company provided a further £600,000 against the Inter Company Loan of £5,840,611 due from Costain Upstream Limited.

The losses on dissolution of the investments were after booking the following:

- the company received a dividend of £255,965 from Promanex Group Holdings Limited;
- the company received a dividend of £480,063 from Rhead Group Holdings Limited;
- the company received a dividend of £286,299 from Rhead Holdings Limited.

The above items are excluded from the Adjusted operating profit included in note 4 as the Board considers them to be of a one-off and unusual nature and, hence, will not reflect the long-term performance of the company, or are related to the accounting treatment of acquisitions.

8 Operating profit

Operating profit is stated after charging/(crediting):

	2022	2021
	£	£
Depreciation and impairment of owned property plant and equipment	4,153,151	2,335,561
Depreciation of leased property, plant and equipment	7,028,834	10,466,704
Amortisation of intangible assets	346,150	406,309
Profit on disposal of property, plant and equipment	(3,694,876)	-
Foreign exchange losses	23,598	1,389
Hire of plant and machinery (short-term leases and low value assets)	62,342,522	52,531,981
Transformation costs	<u>5,728,960</u>	<u>-</u>

The company has embarked on a Transformation programme to deliver operational efficiencies and incurred £5.0m of restructuring costs and £0.7m of reorganisation costs.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

9 Auditors' remuneration

	2022 £	2021 £
Audit of the financial statements	<u>703,000</u>	<u>686,500</u>

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.

10 Staff costs

The aggregate payroll costs (including staff seconded from a fellow subsidiary, as referenced below, and directors' remuneration) were as follows:

	2022 £	2021 £
Wages and salaries	196,707,905	171,532,601
Social security costs	23,452,230	19,162,548
Other pension costs	31,927,228	29,142,342
Share-based payment expenses	<u>1,093,022</u>	<u>1,130,672</u>
	<u>253,180,385</u>	<u>220,968,163</u>

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

	2022 No.	2021 No.
Operational personnel employed by the company	262	257
Administration and support seconded from a group undertaking	664	630
Operational staff seconded from a group undertaking	<u>2,103</u>	<u>1,993</u>
	<u>3,029</u>	<u>2,880</u>

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 Directors' remuneration

The directors' remuneration for the year was as follows:

	2022	2021
	£	£
Remuneration	3,562,570	2,218,866
Company contributions to money purchase pension schemes	131,086	101,152
Termination benefits	618,591	-
	<u>618,591</u>	<u>-</u>

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

	2022	2021
	No.	No.
Received or were entitled to receive shares under long term incentive schemes	7	9
Accruing benefits under money purchase pension scheme	<u>6</u>	<u>3</u>

In respect of the highest paid director:

	2022	2021
	£	£
Remuneration	768,960	423,455
Company contributions to money purchase pension schemes	<u>44,325</u>	<u>43,138</u>

12 Finance income

	2022	2021
	£	£
Interest income on bank deposits	149,992	33,896
Interest income from group undertakings	<u>1,123,444</u>	<u>356,380</u>
	<u>1,273,436</u>	<u>390,276</u>

13 Finance costs

	2022	2021
	£	£
Interest expense on lease liabilities	1,248,486	854,801
Other finance costs	23,883	1,269
Interest expense payable to group undertakings	<u>1,977,328</u>	<u>1,258,961</u>
	<u>3,249,697</u>	<u>2,115,031</u>

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Taxation

Tax charged in the income statement

	2022 £	2021 £
Current tax		
UK corporation tax	1,846,644	3,328,449
UK corporation tax adjustment to prior periods	535,199	-
Total current tax	<u>2,381,843</u>	<u>3,328,449</u>
Deferred tax		
Arising from origination and reversal of temporary differences	(780,050)	(2,286,411)
Deferred tax adjustment relating to previous years	(714,347)	903,687
Total deferred tax	<u>(1,494,397)</u>	<u>(1,382,724)</u>
Tax expense in the income statement	<u>887,446</u>	<u>1,945,725</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £	2021 £
Profit before tax	<u>1,566,458</u>	<u>3,619,031</u>
Corporation tax at standard rate	297,627	687,616
Decrease in current tax from adjustment for prior periods	535,200	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2,103,775	2,947,391
Decrease from effect of exercise employee share options	(68,758)	(37,135)
Deferred tax expense from unrecognised temporary difference from a prior period	(714,347)	903,687
Deferred tax credit relating to changes in tax rates or laws	(1,096,071)	(2,361,592)
Decrease from effect dividends from UK companies	-	(194,242)
Decrease from effect of adjustment in research development tax credit	(169,980)	-
Total tax charge	<u>887,446</u>	<u>1,945,725</u>

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 Taxation (continued)

The elements of deferred taxation at 19.0% (2021: 19.0%) are as follows:

	2022	2021
	£	£
General Provisions	2,749,540	1,377,049
Tax Losses	11,743,972	13,154,094
Accelerated capital allowances	1,726,667	263,397
Share Awards	184,989	116,231
Hedging reserve	(132)	(8,465)
Deferred tax asset	<u>16,405,036</u>	<u>14,902,306</u>

The movement in the deferred taxation asset was as follows:

	2022	2021
	£	£
Asset at the beginning of the year	14,902,306	13,529,234
Amount credited to the profit and loss account	780,050	2,286,411
Adjustments in respect of prior year	714,347	(903,688)
Amount credited/(debited) to reserves	8,333	(9,651)
Asset as end of year	<u>16,405,036</u>	<u>14,902,306</u>

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This rate was substantively enacted on 24th May 2021. Deferred tax balances in these financial statements have been calculated at the rate of 25% or at 19% where the asset will unwind prior to April 2023.

The Company has other deferred taxation assets of £112,065 (2021: 112,065) 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.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 Intangible assets

	Goodwill £	Acquired intangibles £	Other intangibles £	Total £
Cost or valuation				
At 1 January 2021	9,826,526	3,158,742	11,253,581	24,238,849
Additions	-	-	1,444,454	1,444,454
Disposals	-	-	(24,079)	(24,079)
At 31 December 2021	9,826,526	3,158,742	12,673,956	25,659,224
At 1 January 2022	9,826,526	3,158,742	12,673,956	25,659,224
Additions	-	-	107,312	107,312
At 31 December 2022	9,826,526	3,158,742	12,781,268	25,766,536
Accumulated amortisation				
At 1 January 2021	-	3,158,742	6,034,265	9,193,007
Charge for the year	-	-	406,309	406,309
Amortisation eliminated on disposals	-	-	(24,079)	(24,079)
At 31 December 2021	-	3,158,742	6,416,495	9,575,237
At 1 January 2022	-	3,158,742	6,416,495	9,575,237
Charge for the year	-	-	346,150	346,150
At 31 December 2022	-	3,158,742	6,762,645	9,921,387
Carrying amount				
At 31 December 2022	9,826,526	-	6,018,623	15,845,149
At 31 December 2021	9,826,526	-	6,257,461	16,083,987
At 1 January 2021	9,826,526	-	5,219,316	15,045,842

There is no reasonably possible change in key estimates that would result in an impairment.
The amortisation charges for the year are included in administration expenses.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Property, plant and equipment

	Owned plant and machinery £	Right-of-use land and buildings £	Right-of-use plant and machinery £	Total £
Cost				
At 1 January 2022	25,448,459	14,100,605	29,420,713	68,969,777
Additions	191,647	668,831	16,065,761	16,926,239
Disposals	<u>(2,439,653)</u>	<u>(1,427,129)</u>	<u>(14,166,789)</u>	<u>(18,033,571)</u>
At 31 December 2022	<u>23,200,453</u>	<u>13,342,307</u>	<u>31,319,685</u>	<u>67,862,445</u>
Accumulated depreciation				
At 1 January 2022	20,372,640	6,150,348	10,823,894	37,346,882
Charge for the year	4,153,151	2,058,108	4,970,726	11,181,985
Eliminated on disposals	<u>(2,439,653)</u>	<u>(591,215)</u>	<u>(3,960,200)</u>	<u>(6,991,068)</u>
At 31 December 2022	<u>22,086,138</u>	<u>7,617,241</u>	<u>11,834,420</u>	<u>41,537,799</u>
Carrying amount				
At 31 December 2022	<u>1,114,315</u>	<u>5,725,066</u>	<u>19,485,265</u>	<u>26,324,646</u>
At 31 December 2021	<u>5,075,819</u>	<u>7,950,257</u>	<u>18,596,819</u>	<u>31,622,895</u>

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 Property, plant and equipment (continued)

	Owned plant and machinery £	Right-of-use land and buildings £	Right-of-use plant and machinery £	Total £
Cost				
At 1 January 2021	25,545,775	20,556,954	30,259,472	76,362,201
Additions	605,292	1,049,007	16,987,636	18,641,935
Disposals	(702,608)	(7,505,356)	(17,826,395)	(26,034,359)
At 31 December 2021	25,448,459	14,100,605	29,420,713	68,969,777
Accumulated depreciation				
At 1 January 2021	18,733,745	8,432,117	9,672,415	36,838,277
Charge for the year	2,335,561	3,349,903	7,116,801	12,802,265
Eliminated on disposals	(696,666)	(5,631,672)	(5,965,322)	(12,293,660)
At 31 December 2021	20,372,640	6,150,348	10,823,894	37,346,882
Carrying amount				
At 31 December 2021	5,075,819	7,950,257	18,596,819	31,622,895

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Investments

	2022 £	2021 £
Investments in subsidiaries	28,181,002	31,181,002
Investments in joint ventures	27	27
Total Investments	28,181,029	31,181,029
Subsidiaries		£
Cost or valuation		
At 1 January 2021		105,454,007
Disposals		(22,893,102)
At 31 December 2021		82,560,905
At 1 January 2022		82,560,905
At 31 December 2022		82,560,905
Provision for impairment		
At 1 January 2021		60,845,020
Provision		12,500,000
Eliminated on disposals		(21,965,117)
At 31 December 2021		51,379,903
At 1 January 2022		51,379,903
Provision		3,000,000
At 31 December 2022		54,379,903
Carrying amount		
At 31 December 2022		28,181,002
At 31 December 2021		31,181,002
At 1 January 2021		44,608,987

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Investments (continued)

Subsidiaries (continued)

2022

- the company provided £1,500,000 against the investment in Costain Integrated Services Limited;
- the company provided £1,500,000 against the investment in Costain Integrated Technology Solutions Limited;

2021

- the company provided £12,500,000 against the investment in Costain Integrated Services Limited;
- the company dissolved its investments in Promanex Group Holdings Limited (loss £241,050), Promanex Holdings Limited (loss £474,321) and Rhead Holdings Limited (loss £212,614);
- the company received a dividend of £255,965 from Promanex Group Holdings Limited;
- the company received a dividend of £480,063 from Rhead Group Holdings Limited;
- the company received a dividend of £286,299 from Rhead Holdings Limited;

Details of the subsidiaries as at 31 December 2022 and 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2022	2021	
Costain Integrated Technology Solutions Limited*	Consulting	100%	100%	(1)
Costain Integrated Services Limited*	Professional services	100%	100%	(1)
Calvert & Russell Limited	Consulting	100%	100%	(1)
Construction Study Centre Limited	Consulting	100%	100%	(1)
Brunswick Infrastructure Services Limited	Consulting	100%	100%	(1)
Costain Upstream Limited*	Engineering and design services	100%	100%	(2)
Promanex (Civils & Industrial Services) Limited*	Not trading	100%	100%	(1)
Promanex (Construction & Maintenance Services) Limited*	Not trading	100%	100%	(1)
Promanex Group Holdings Limited*	Dissolved	0%	100%	(1)
Promanex Group Limited	Dissolved	0%	100%	(1)
Promanex (Total FM & Environmental Services) Limited*	Support services	100%	100%	(1)
Rhead Group Holdings Limited*	Dissolved	0%	100%	(1)
RG Bidco Limited*	Dissolved	0%	100%	(1)
Rhead Holdings Limited*	Dissolved	0%	100%	(1)
JBCC Rhead PTE Limited	Not trading	100%	100%	(3)

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Investments (continued)

* 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

Joint ventures

	£
Cost or valuation	
At 1 January 2021	27
At 31 December 2021	27
At 1 January 2022	27
Additions	6,530,600
At 31 December 2022	6,530,627
Impairment	6,530,600
At 31 December 2022	6,530,600
Carrying amount	
At 31 December 2022	27
At 31 December 2021	27
At 1 January 2021	27

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 Investments (continued)

Joint ventures (continued)

During the year, the Company acquired £6.5m of shares in an existing joint venture, ABC Electrification Ltd. In order to facilitate the settlement of the joint venture's net liabilities, consideration for these shares included a £3.4m cash payment and the write down of an existing £3.1m receivable owed to the Company by the joint venture. On the basis of the financial position of ABC Electrification Ltd., the Company does not expect to recover this equity investment and accordingly has booked an impairment charge of £6.5m. This charge has been offset against a corresponding payable previously held in respect of these joint venture losses, in accordance with IAS 28 paragraph 39. Therefore, there has been no net impact on the consolidated income statement in the year.

Details of the joint ventures as at 31 December 2022 and 31 December 2021 are as follows:

Name of Joint-ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2022	2021	
4Delivery Limited *	Civil engineering	40%	40%	(4)
Brighton & Hove 4Delivery Limited *	Civil engineering	49%	49%	(4)
ABC Electrification Ltd *	Rail electrification	33.3%	33.3%	(5)
ACM Health Solutions Limited *	Not trading	33.3%	33.3%	(6)
Gravitas Offshore Limited *	Not trading	45%	45%	(7)

* indicates direct investment of Costain Limited

Key to registered office/principal place of business:

(4) 210 Pentonville Road, London, N1 9JY, England

(5) 8th Floor, The Place, High Holborn, London, WC1V 7AA, England

(6) Booths Park, Chelford Road, Knutsford, WA16 8QZ, England

(7) Whitehill House, Windmill Hill Business Park, Whitehill Way, Swindon, SN5 6PE, England

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

18 Inventories

	31 December 2022	31 December 2021
	£	£
Raw materials and consumables	<u>122,050</u>	<u>174,022</u>

19 Trade and other receivables

	31 December 2022	31 December 2021
	£	£
Trade receivables	93,709,377	115,061,394
Amounts owed by group undertakings	101,964,940	73,023,038
Amounts owed by joint ventures	-	517,543
Contract assets	45,829,953	36,096,541
Other receivables	10,716,545	9,863,612
Prepayments	26,939,249	28,945,936
Income tax receivable	909,639	2,059,067
Group relief receivable	339,063	-
Deferred tax assets	<u>16,405,036</u>	<u>14,902,306</u>
	296,813,802	280,469,437
Less non-current portion	<u>(12,105,168)</u>	<u>(7,962,897)</u>
	<u>284,708,634</u>	<u>272,506,540</u>

Amounts owed from other group undertakings are unsecured, repayable on demand and accrue interest at the Bank of England base rate - 0.25% (2021: 0.5%-2.5%).

20 Cash and cash equivalents

	31 December 2022	31 December 2021
	£	£
Cash at bank	<u>64,719,385</u>	<u>60,605,775</u>

The Company's bankers have the right to set off the company's principal bank balances when in credit against any overdraft borrowings by, a fellow subsidiary of the Costain group, Richard Costain Limited. In addition, one of the arrangements requires that certain cash balances, whether in credit or debit, are swept to/from 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/payable from/to Richard Costain Limited.

The cash balance of £64,719,385 (2021: £60,605,775) represents uncleared items and cash held in separate accounts within joint arrangements and project specific bank accounts.

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

21 Creditors

Amounts falling due within one year

	31 December 2022	31 December 2021
	£	£
Trade creditors	95,894,802	80,009,658
Accrued expenses	84,085,310	81,603,198
Amounts owed to group undertakings	35,378,748	31,416,179
Amounts owed to associated undertakings	736,075	425,637
Contract liabilities	14,207,174	11,416,249
Social security and other taxes	1,313,489	1,347,771
Group relief payable	-	3,328,449
Other creditors	18,554,290	19,766,852
Lease liabilities	9,078,832	8,613,743
	<u>259,248,720</u>	<u>237,927,736</u>

Amounts falling due after more than one year

	31 December 2022	31 December 2021
	£	£
Amounts owed to group undertakings	50,000,000	50,000,000
Other creditors	1,098,839	1,764,337
Lease liabilities	15,021,238	18,234,774
	<u>66,120,077</u>	<u>69,999,111</u>

Amounts owed to other group undertakings are unsecured, repayable on demand and accrue interest at the Bank of England base rate + 2.75% (2021: 2.5%).

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

22 Provisions for liabilities

	Rectification provision £	Total £
At 1 January 2022	6,200,000	6,200,000
Additional provisions	10,804,966	10,804,966
Provisions used	<u>(4,760,034)</u>	<u>(4,760,034)</u>
At 31 December 2022	<u>12,244,932</u>	<u>12,244,932</u>
Non-current liabilities	<u>3,671,990</u>	<u>3,671,990</u>
Current liabilities	<u>8,572,942</u>	<u>8,572,942</u>

Rectification provision: Contract in the water sector

In 2021, Costain recognised a provision of £6.2m in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where the Company had been prime contractor. During 2022, working with designers, insurers and the customer, there is now greater clarity as to the scope and cost of rectification work required, albeit a final solution has yet to be formally agreed with all relevant parties.

As at 31 December 2022, the Company's best estimate of the cost of the single most likely rectification solution is £17.0m, of which costs of £4.8m have been incurred. Accordingly a provision of £12.2m has been included in the statement of financial position and disclosed in the table above. The work is expected to be concluded in 2024. Costain has engaged with its insurers and received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers made an interim payment on account during 2022. Accordingly, an insurance receivable of £13.4m has been recognised in the statement of financial position in accordance with IAS 37 on the basis that recovery is considered virtually certain. There is a cap on insurance but the cap is significantly in excess of the cost estimate.

As at 31 December 2021, discussions with insurers were at an early stage and the expected recovery from insurers was not recognised as a receivable on the basis that it could not be considered virtually certain. Whilst the cost provision is management's best estimate, the final solution is yet to be agreed and cost estimates finalised. It is therefore reasonably foreseeable that adjustments to the amounts recognised as a provision may be required.

However, given the relationship between the insurance policy and the liability, management does not consider that any increase in the cost of the rectification works will result in a material impact to the Company's financial position. Further information on estimates and judgements made in relation to this provision are given in note 2.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

23 Called up share capital

Allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	No.	£	No.	£
Ordinary shares of £1 each	<u>9,392,858</u>	<u>9,392,858</u>	<u>9,392,858</u>	<u>9,392,858</u>

24 Hedging reserves

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.

25 Share-based payments

Long-Term Incentive Plans (LTIP)

Shareholders approved a 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 and the last transactions completed in 2020.

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 using the funds saved (after which the options expire). 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).

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 Share-based payments (continued)

Share-based payment expense

The amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £1.1 million (2021: £1.1 million); the entire charge relates to subsidiaries.

Options outstanding at the end of the year

The movements in the outstanding LTIPs (nil-cost option), 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	DSBP Number	AIP Number	SAYE Number	Weighted average exercise price
	(m)	(m)	(m)	(m)	(p)
Outstanding at 1 January 2021	3.8	-	0.4	2.1	229.5
Adjusted during the year	-	-	-	-	-
Forfeited during the year	(1.0)	-	-	(0.8)	286.3
Exercised during the year	(0.2)	-	(0.2)	-	-
Granted during the year	2.9	-	-	-	-
Outstanding at 31 December 2021	5.5	-	0.2	1.3	191.9
Outstanding at 1 January 2022	5.5	-	0.2	1.3	191.9
Adjusted during the year	-	-	-	-	-
Forfeited during the year	(2.3)	-	-	(0.5)	278.7
Exercised during the year	-	-	(0.1)	-	-
Granted during the year	9.3	-	2.2	-	-
Outstanding at 31 December 2022	12.5	-	2.3	0.8	118.4
Exercisable at the end of the year	0.1	-	0.1	0.7	118.4

26 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 2022, these liabilities amounted to £Nil (2021: £40,000,000).

These are also contingent liabilities in respect of guarantees of bonds and guarantees of £900,000 and other undertakings entered into in the ordinary course of business by fellow Group undertakings (2021: £7,600,000).

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

27 Related party transactions

Income and receivables from related parties

	Joint arrangements £	Joint ventures £
2022		
Sale of goods	<u>118,131,788</u>	<u>749,836</u>
	Joint arrangements £	Joint ventures £
2021		
Sale of goods	<u>118,370,003</u>	<u>449,545</u>

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

27 Related party transactions (continued)

Major Joint Arrangements

		Activity	Percentage interest
A-one+ Joint Venture	ASC area 12 - Highways England	Engineering & Maintenance	33.3%
CH2M-Costain Joint Venture	Area 14 M&R Contract	Engineering & Maintenance	50%
Costain-Atkins-Black & Veatch Joint Venture	Thames Water AMP6	Engineering	70%
Costain-CH2M UK - ESCC JV	East Sussex highway maintenance	Engineering & Maintenance	50%
Costain-Galliford Try Joint Venture	M1 Smart Motorways	Civil Engineering	70%
Costain-MWH Joint Venture	Southern Water AMP6	Civil 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%
CVB Joint Venture	Thames Tideway Tunnel East	Civil Engineering	40%
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%

Other Joint arrangements, including completed

		Activity	Percentage interest
ACTUS Joint Venture	Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25%
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%

The notes on pages 21 to 60 form an integral part of these financial statements.
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Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

27 Related party transactions (continued)

Alstom-Costain C650 Joint Venture	HV power supply - Crossrail	Rail Engineering	32.5%
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 12	Engineering & Maintenance	33.3%
A-one+ Integrated Highway Services	MAC 14	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%
ATC Joint Venture - C695	Crossrail	Rail Engineering	32.5%
Balfour Beatty-BmJV-Carillion-Costain Joint Venture	National Major Projects - Highways England	Civil Engineering	29%
CosMott Joint Venture	Devonport Major Infrastructure Programme - Construction Delivery Partner	Consultancy	50%
Costain Arup Joint Venture	Yorkshire Water	Consultancy	50%
Costain-Dalekovod Joint Venture	National Grid HV Overhead Line System	Engineering	60%
Costain-Hochtief Joint Venture	Reading Station	Rail Engineering	50%
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	Bond Street station	Civil Engineering	50%
Costain-Laing O'Rourke Joint Venture	Farringdon station	Civil Engineering	50%

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

27 Related party transactions (continued)

Costain-Skanska C336 Joint Venture	Paddington New Yard - Crossrail	Civil Engineering	50%
Costain-Skanska C360 Joint Venture	Eleanor Street - Crossrail	Civil Engineering	50%
Costain-Skanska C405 Joint Venture	Paddington - Crossrail	Civil Engineering	50%
Costain-Skanska C411 Joint Venture	Bond Street - Crossrail	Civil Engineering	50%
Costain-Skanska C412 Joint Venture	Bond Street - Crossrail	Civil Engineering	50%
Costain-Skanska Joint Venture	A14 Ellington to Fen Ditton	Civil Engineering	50%
Costain-Skanska Joint Venture	Crossrail Civils Framework Enabling Works	Rail Engineering	50%
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-Taylor Woodrow Joint Venture	King's cross re-development & Phase II Northern Works	Civil Engineering	50%
Costain-Vinci Construction Joint Venture	Shieldhall	Civil Engineering	50%
Costain-Vinci Joint Venture	M4 corridor around Newport	Civil Engineering	50%
Costain-VWS Joint Venture	Mersey Valley Processing centre (Shell Green) Extension Project stage 2	Engineering	50%
Educo UK Joint Venture	Bradford Schools	Building	50%
Galliford-Costain-Atkins Joint Venture	United Utilities	Engineering	42.5%
Lagan-Ferrovial-Costain Joint Venture	A8	Civil Engineering	45%
The e5 Joint Alliance Joint Venture	Severn Trent Framework	Engineering	25%
TSIF-JLW Joint Venture	Trawsfynydd nuclear power station decommissioning	Civil Engineering	33.3%

The notes on pages 21 to 60 form an integral part of these financial statements.

Costain Limited

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

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.