

Registration number: 02440829

Costain Engineering & Construction Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019



Costain Engineering & Construction Limited

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Costain Engineering & Construction Limited

Company Information

Directors	A O Bickerstaff
	T A Wood
	M D Hunter
Company secretary	T A Wood
Registered office	Costain House
	Vanwall Business Park
	Maidenhead
	Berkshire
	SL6 4UB
Independent auditors	PricewaterhouseCoopers LLP
	1 Embankment Place
	London
	WC2N 6RH

Costain Engineering & Construction Limited

Strategic Report for the Year Ended 31 December 2019

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

Fair review of the business

The company is a holding and services company and is the main employer for Costain Group PLC and other Costain Group companies in the United Kingdom. The company also operates a defined benefit pension scheme, which was closed to future accrual on 30 September 2009, and several defined contribution pension plans.

Revenue for the year was £230.7 million (2018: £249.9 million) and the company recorded a profit for the financial year of £1.7 million (2018: £10.3 million).

Shareholders' funds decreased to £100.4 million at 31 December 2019 (2018: £104.6 million) as a result of the profit for the year less the loss from the impairment of the company's investment in Costain Alcadesa Ltd, offset by gain arising from market related changes to the defined benefit pension asset (net of deferred tax).

The balance sheet pension liability decreased by £9.1 million during the year and changed the liability to an asset of £4.9 million.

The average number of employees of the company during the year was 2,892 (2018: 3,155) and all employees of the company are seconded to fellow subsidiaries of the Costain Group. The company monitors the diversity profile of its employees. The number of female employees was 24.5% (2018: 23.8%).

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

Impact of Covid-19

We are closely monitoring the coronavirus situation, are following Government guidelines and sharing these with colleagues. We have robust business continuity procedures in place to cover all aspects of our operations in a scenario such as this which are regularly tested. We are prepared to take action to deal with this situation as it changes.

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

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

Shareholders

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

Costain Engineering & Construction Limited

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

Clients

The company provides staff to various fellow Costain Group subsidiaries and has regular meetings with the management of those entities.

Supply chain

The company's supply chain mostly relates to employee related services and the company has regular meetings with the key providers of those services.

Communities and Environment

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

Costain Engineering & Construction Limited

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

Principal risks and uncertainties

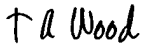
The principal risks and uncertainties facing the ultimate parent company, Costain Group PLC ("Costain"), and its ability to achieve its strategic objectives are set out below.

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

Costain Engineering & Construction Limited

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

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

DocuSigned by:

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T A Wood
Company secretary and director

Costain Engineering & Construction Limited

Directors' Report for the Year Ended 31 December 2019

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

Directors of the company

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

A Wyllie (resigned 7 May 2019)

A O Bickerstaff

T A Wood - Company secretary and director

M D Hunter

Principal activity

The principal activity of the company is providing employment services to other companies within the Costain group.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: £Nil).

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.

Future developments

Results are in line with expectations, with future years also expected to remain stable as the company recharges all costs to other group companies.

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.

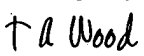
Costain Engineering & Construction Limited

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

Appointment of auditor

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

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

DocuSigned by:

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T A Wood

Company secretary and director

Costain Engineering & Construction Limited

Statement of Directors' Responsibilities

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

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

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

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

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

Independent Auditors' Report to the members of Costain Engineering & Construction Limited

Report on the audit of the financial statements

Opinion

In our opinion, Costain Engineering & Construction Limited's financial statements:

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

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

Basis of opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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

1 Embankment Place
London
WC2N 6RH

26 June 2020

Costain Engineering & Construction Limited

Profit and Loss Account for the Year Ended 31 December 2019

	Note	2019 £	2018 £
Revenue		230,656,383	249,911,430
Cost of sales		<u>(212,752,179)</u>	<u>(228,387,191)</u>
Gross profit		17,904,204	21,524,239
Other gains and losses	4	<u>(14,357,216)</u>	<u>(9,368,352)</u>
Operating profit	5	<u>3,546,988</u>	<u>12,155,887</u>
Finance income	9	1,292,377	630,145
Finance costs	10	<u>(120,762)</u>	<u>(405,000)</u>
Net finance income		<u>1,171,615</u>	<u>225,145</u>
Profit before tax		4,718,603	12,381,032
Income tax expense	11	<u>(3,057,984)</u>	<u>(2,067,578)</u>
Profit for the financial year		<u><u>1,660,619</u></u>	<u><u>10,313,454</u></u>

The above results were derived from continuing operations.

Costain Engineering & Construction Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 £	2018 £
Profit for the year		1,660,619	10,313,454
Items that will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on defined benefit pension schemes before tax	17	(7,001,000)	13,264,000
Deferred tax on actuarial (loss)/gain recognised on defined benefit pension scheme	11	<u>1,190,170</u>	<u>(2,520,160)</u>
Total comprehensive (expense)/income for the year		<u><u>(4,150,211)</u></u>	<u><u>21,057,294</u></u>

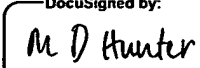
The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

(Registration number: 02440829)
Balance Sheet as at 31 December 2019

	Note	31 December 2019 £	31 December 2018 £
Fixed assets			
Investments	12	60,522,512	65,839,372
Current assets			
Debtors	13	105,207,424	114,013,992
Creditors: Amounts falling due within one year			
Trade and other payables	14	(69,694,088)	(70,623,874)
Income tax liability		<u>-</u>	<u>(414,154)</u>
Creditors: Amounts falling due within one year		<u>(69,694,088)</u>	<u>(71,038,028)</u>
Net current assets		<u>35,513,336</u>	<u>42,975,964</u>
Total assets less current liabilities		96,035,848	108,815,336
Provisions for liabilities	15, 11	<u>(471,723)</u>	<u>-</u>
Net assets excluding pension asset/(liability)		95,564,125	108,815,336
Gross pension asset/(liability)	17	<u>4,867,000</u>	<u>(4,234,000)</u>
Net assets		<u>100,431,125</u>	<u>104,581,336</u>
Capital and reserves			
Called up share capital	16	41,203,555	41,203,557
Share premium		19,804,043	19,804,041
Other reserves		12,425,095	12,425,095
Profit and loss account		<u>26,998,432</u>	<u>31,148,643</u>
Total shareholders' funds		<u>100,431,125</u>	<u>104,581,336</u>

The financial statements on pages 12 to 34 were approved by the Board of directors on 26 June 2020 and signed on its behalf by:

DocuSigned by:

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M D Hunter
 Director

Costain Engineering & Construction Limited

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

	Called up share capital £	Share premium £	Other reserves £	Profit and loss account £	Total £
At 1 January 2019	41,203,555	19,804,043	12,425,095	31,148,643	104,581,336
Profit for the financial year	-	-	-	1,660,619	1,660,619
Other comprehensive income	-	-	-	(5,810,830)	(5,810,830)
Total comprehensive income	-	-	-	(4,150,211)	(4,150,211)
At 31 December 2019	<u>41,203,555</u>	<u>19,804,043</u>	<u>12,425,095</u>	<u>26,998,432</u>	<u>100,431,125</u>

	Called up share capital £	Share premium account £	Other reserves £	Profit and loss account £	Total £
At 1 January 2018	41,203,557	19,804,041	12,425,095	10,091,349	83,524,042
Profit for the financial year	-	-	-	10,313,454	10,313,454
Other comprehensive income	-	-	-	10,743,840	10,743,840
Total comprehensive income	-	-	-	21,057,294	21,057,294
At 31 December 2018	<u>41,203,557</u>	<u>19,804,041</u>	<u>12,425,095</u>	<u>31,148,643</u>	<u>104,581,336</u>

The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

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

The address of its registered office is:

Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB
UK

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

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared in accordance with the Companies Act 2006 and under the historical cost convention, except for the following, which are measured at fair value:

- financial assets and liabilities measured;
- defined benefit pension plans.

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 Engineering & Construction Limited

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

2 Accounting policies (continued)

Summary of disclosure exemptions

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

- (a) The requirements of IAS 1 to provide a Balance Sheet at the beginning of the year in the event of a prior year adjustment;
- (b) The requirements of IAS 1 to provide a Statement of Cash flows for the year;
- (c) The requirements of IAS 1 to provide a statement of compliance with IFRS;
- (d) The requirements of IAS 1 to disclose information on the management of capital;
- (e) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRS's that have been issued but are not yet effective;
- (f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (g) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;
- (h) The requirements of IFRS 7 to disclose financial instruments;
- (i) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs;
- (j) IAS 7, 'Statement of Cash Flows'; and
- (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;
 - paragraphs 76 and 79(d) of IAS 40 Investment Property.

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.

Costain Engineering & Construction Limited

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

2 Accounting policies (continued)

Going concern

The financial statements have been prepared on a going concern basis.

The ultimate parent company, Costain Group PLC, manages its United Kingdom cash balances using a centralised cash system and surplus cash held by the Company, outside of joint arrangements, is loaned at interest to a fellow subsidiary on a day-to-day basis. These loans are repaid or new loans advanced daily to satisfy any cash requirements.

As explained in note 21, subsequent to the statement of financial position date, on 7 May 2020, Costain Group PLC announced an equity raise of £100m of new ordinary shares. The net cash proceeds of the equity raise were received on 29 May 2020.

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

New standards and changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial statements. These include:

- IFRS 16 'Leases'.
- IFRIC 23 - Uncertainty over Income Tax Treatments which clarifies the accounting for uncertainties in income tax.
- Prepayment Features with Negative Compensation - Amendments to IFRS 9.
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle.

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. 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.

Finance income and costs policy

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

Foreign currency transactions and balances

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

Costain Engineering & Construction Limited

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

2 Accounting policies (continued)

Tax

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

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

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

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

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

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.

Debtors

Debtors are recognised initially at the transaction price and subsequently measured at amortised costs using the effective interest method, less provision for impairment. A provision for the impairment of debtors is established when there is object evidence that the company will not be able to collect all amounts due according to the original terms of the debt.

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.

Trade and other payables

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

Costain Engineering & Construction Limited

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

2 Accounting policies (continued)

Defined benefit pension obligation

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in Note 16. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are calculated annually by independent actuaries, using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. The liability recognised in the statement of financial position in respect of the defined benefit pension scheme is the present value of the defined benefit obligations less the fair value of scheme assets at the statement of financial position date.

Administration costs of the scheme are recognised in the income statement. The interest cost on the scheme's net liabilities is included in finance expense. Remeasurements of the net liability are recognised in the consolidated statement of comprehensive income.

Past service costs are recognised immediately in the profit and loss account.

Defined contribution pension obligation

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

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.

Dividend income

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

IFRSs not applied

The following IFRSs and amendments having been endorsed, will be applicable from 1 January 2020:

- Definition of Material - Amendments to IAS 1 and IAS 8.
- Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the company.

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

Costain Engineering & Construction Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (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 policy and significant area of judgement and estimation arise from the assumptions used in the accounting for defined benefit pension schemes under IAS 19 Employee benefits.

Defined benefit pension schemes require significant judgements in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the Directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in Note 16.

4 Other gains and losses

The analysis of the company's other gains and losses for the year is as follows:

	2019 £	2018 £
Loss from changes in provisions	(14,550,000)	(1,250,000)
GMP equalisation charge (defined benefit pension scheme)	-	(8,600,000)
Income from fixed asset investments	192,784	481,648
	<u>(14,357,216)</u>	<u>(9,368,352)</u>

£14.55 million loss from changes in provisions relates to £5.25 million provision against the investment in Costain Alcaidesa Limited and £9.3 million provision against the intercompany loan to Costain Alcaidesa Limited (2018: £1.25 million, consisting of £1 million provision against the investment in Costain Alcaidesa Limited and £250,000 provision against the investment of Costain Building & Civil Engineering Limited).

The income from fixed asset investments arises from dividends received from Lewisham Schools for the Future LEP Limited and from Integrated Bradford LEP Limited.

In 2018, the £8.6 million GMP equalisation charge relates to a one-off pension charge in respect of the equalisation of Guaranteed Minimum Pensions (GMP) impacting UK companies with defined benefit pension schemes (note 16).

Costain Engineering & Construction Limited

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

5 Operating profit

Operating profit is stated after charging:

	2019 £	2018 £
Staff costs (Note 7)	200,771,039	211,916,642
Fees for the audit of the company (Note 6)	50,000	50,000

6 Auditors' remuneration

The deemed audit fee for the company was £50,000 (2018: £50,000).

There are no fees paid to PricewaterhouseCoopers LLP for other services other than the statutory audit of the company. The audit fee was borne by another group company.

7 Staff costs

The aggregate payroll costs, paid to a fellow subsidiary in relation to seconded staff (including directors' remuneration) were as follows:

	2019 £	2018 £
Wages and salaries	173,391,798	183,180,081
Social security costs	18,466,176	20,254,721
Other pension costs	8,913,065	8,481,840
	<u>200,771,039</u>	<u>211,916,642</u>

The monthly average number of persons employed by the company during the year in the United Kingdom was 2,892 (2018: 3,155). All staff were seconded to fellow subsidiaries.

8 Directors' remuneration

No remuneration was paid to the directors of the company during the year (2018: £nil).

9 Finance income

	2019 £	2018 £
Interest income from group undertakings	951,627	483,623
Interest income from associated undertaking	235,750	146,522
Finance income from defined benefit pension scheme net surplus	105,000	-
	<u>1,292,377</u>	<u>630,145</u>

Costain Engineering & Construction Limited

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

10 Finance costs

	2019 £	2018 £
Interest expense payable to group undertakings	120,762	-
Finance expense from defined benefit pension scheme net deficit	-	405,000
	<u>120,762</u>	<u>405,000</u>

11 Income tax

Tax charged in the Profit and Loss Account:

	2019 £	2018 £
Current taxation		
Group relief receivable	460,367	782,130
Adjustment in respect of prior periods	(62,084)	(37,113)
	<u>398,283</u>	<u>745,017</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,659,701	1,360,561
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	(38,000)
	<u>2,659,701</u>	<u>1,322,561</u>
Total deferred taxation	<u>2,659,701</u>	<u>1,322,561</u>
Tax expense in the profit and loss account	<u>3,057,984</u>	<u>2,067,578</u>

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

The differences are reconciled below:

Costain Engineering & Construction Limited

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

11 Income tax (continued)

	2019 £	2018 £
Profit before tax	<u>4,718,603</u>	<u>12,381,032</u>
Corporation tax at standard rate	896,535	2,352,396
Decrease in current tax from adjustment for prior periods	(62,084)	(37,113)
Increase from effect of expenses not deductible in determining taxable profit	2,867,327	581,516
Decrease from effect of exercise employee share options	(411,678)	(699,708)
Deferred tax expense (credit) from unrecognised tax loss or credit	-	(38,000)
Deferred tax expense (credit) relating to changes in tax rates or laws	(195,487)	-
Decrease from effect of dividends from UK companies	<u>(36,629)</u>	<u>(91,513)</u>
Total tax charge	<u>3,057,984</u>	<u>2,067,578</u>

Deferred tax

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

	2019 £	2018 £
Deferred tax (liability)/asset on pension asset/liability	(827,390)	804,460
Other timing differences	355,667	193,348
	<u>(471,723)</u>	<u>997,808</u>

The movements in the deferred taxation asset were as follows:

	2019 £	2018 £
Deferred taxation asset at the beginning of the year	997,808	4,840,529
Amount charged to profit and loss account	(2,659,701)	(1,360,561)
Amount charged to statement of comprehensive income	1,190,170	(2,520,160)
Adjustment in respect of prior year		38,000
Deferred taxation (liability)/asset at the end of the year	<u>(471,723)</u>	<u>997,808</u>

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

The gross potential deferred taxation assets not recognised were:

The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

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

11 Income tax (continued)

	2019	2018
	£	£
Trading tax losses	212,617	212,617

12 Investments

	2019	2018
	£	£
Subsidiaries	58,436,958	63,686,958
Other investments	559,960	559,960
Investments in joint ventures	1,525,594	1,592,454
Total Investments	60,522,512	65,839,372

Subsidiaries	£
Cost	
At 1 January 2018	140,486,956
At 31 December 2018	140,486,956
At 1 January 2019	140,486,956
At 31 December 2019	140,486,956
Provision	
At 1 January 2018	75,549,998
Provision	1,250,000
At 31 December 2018	76,799,998
At 1 January 2019	76,799,998
Provision in the year	5,250,000
At 31 December 2019	82,049,998
Carrying amount	
At 31 December 2019	58,436,958
At 31 December 2018	63,686,958

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

Costain Engineering & Construction Limited

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

12 Investments (continued)

Name of subsidiary	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2019	2018	
Alcaidesa Golf S.L.U.	Golf Course Operator	0%	100%	(1)
Alcaidesa Holding S.A.U.	Holding Company	0%	100%	(1)
Alcaidesa Servicios S.A.U.	Marina Operator	100%	100%	(1)
CLM Engineering (Overseas) Ltd*	Dormant	100%	100%	(2)
Costain Abu Dhabi Co WLL	Trading	49%	49%	(3)
Costain Alcaidesa Ltd*	Holding Company	100%	100%	(2)
Costain Building & Civil Engineering Ltd*	Holding Company	100%	100%	(2)
Costain Construction Ltd	Dormant	100%	100%	(2)
Costain Construction (Botswana) Pty Ltd	Dormant	100%	100%	(4)
Costain de Venezuela C.A.	Dormant	100%	100%	(5)
Costain Energy Solutions Ltd*	Trading	100%	100%	(2)
Costain Engineering & Construction (Overseas) Ltd*	Holding Company	100%	100%	(2)
Costain International Ltd	Dormant	100%	100%	(2)
Costain Holdings (Botswana) Pty Ltd	Holding Company	0%	100%	(4)
Costain Holdings (Malaysia) Sdn Bhd	Dormant	0%	100%	(6)
Costain (Malaysia) Sdn Bhd	Dormant	0%	100%	(6)
Costain Management Design Ltd	Dormant	100%	100%	(2)
COGAP (Middle East) Limited	Holding Company	100%	100%	(2)
Costain Oil, Gas & Process (Nigeria) Ltd	Dormant	95%	95%	(7)
Costain Oil, Gas & Process (Overseas) Ltd	Dormant	100%	100%	(2)
Costain Oil, Gas & Process (Malaysia) Sdn Bhd	Dormant	0%	100%	(6)
Costain Oil, Gas & Process Ltd*	Process Engineering	100%	100%	(2)
Costain Process Construction Ltd*	Dormant	100%	100%	(2)
Southview Holdings (Private) Limited	Trading	100%	100%	(8)
Southview Investments (Private) Limited	Trading	100%	100%	(8)
Westminster Plant Co Ltd	Dormant	100%	100%	(2)

The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

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

12 Investments (continued)

* indicates direct investment of the Company.

- (1) Avda. Pablo Cerezo, s/n, Club de Golf Alcaidesa, 11360 - San Roque-Cádiz, Spain
- (2) Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England
- (3) Building 4F, Corniche Road, Ground floor, Office 1, Mussafah Industrial Area, 3069, Abu Dhabi, UAE
- (4) Plot 67978, Mokolwane House, First Floor, Fairgrounds Office Park, Gaborone, Botswana
- (5) Dormant company - Venezuela, no record of address
- (6) Suite 16-10, Level 16, Wisma UOA II, No. 21 Jalan Pinang, 50450 Kuala Lumpur, Malaysia
- (7) Dormant company - Nigeria, no record of address
- (8) 10th Floor, Club Chambers Building, Corner Nelson Mandela Avenue / 3rd Street, Harare, Zimbabwe

Other investments

	£
Cost	
At 1 January 2018	2,219,551
At 31 December 2018	2,219,551
At 1 January 2019	2,219,551
At 31 December 2019	2,219,551
Provision for impairment	
At 1 January 2018	1,659,591
At 31 December 2018	1,659,591
At 1 January 2019	1,659,591
At 31 December 2019	1,659,591
Carrying amount	
At 31 December 2019	559,960
At 31 December 2018	559,960

Costain Engineering & Construction Limited

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

12 Investments (continued)

Details of the associates as at 31 December 2019 are as follows:

Name of associate	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2019	2018	
SleeperZ Limited	Hotels	11%	11%	(9)
SleeperZ Hotels Limited *	Hotels	11%	11%	(9)

* indicates direct investment of the Company.

(9) Regus Business Centre, 16 Upper Woburn Place, London, WC1H 0BS, England

Joint ventures

	£
Cost	
At 1 January 2018	1,630,674
Disposals	<u>(38,220)</u>
At 31 December 2018	<u>1,592,454</u>
At 1 January 2019	1,592,454
Disposals	<u>(66,860)</u>
At 31 December 2019	<u>1,525,594</u>
Carrying amount	
At 31 December 2019	<u>1,525,594</u>
At 31 December 2018	<u>1,592,454</u>

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

Name of joint ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2019	2018	
Budimex & Costain Sp. z.o.o	Dormant	50%	50%	(10)
China Harbour-Costain Mexico S de RL de CV	Dormant	50%	50%	(11)
Integrated Bradford LEP Limited	Construction and Operation of Schools	40%	40%	(13)

The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

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

12 Investments (continued)

Name of joint ventures	Principal activity	Proportion of ownership interest and voting rights held		Registered office
		2019	2018	
Integrated Bradford LEP FIN Co One Limited	Construction and Operation of Schools	40%	40%	(13)
Intergrated Bradford PSP Limited *	Holding company	50%	50%	(13)
Jalal Costain WLL	Dormant	49%	49%	(14)
L21 Lewisham PSP Limited *	Holding company	50%	50%	(12)
Lewisham Schools for the Future LEP Ltd	Construction and Operation of Schools	40%	40%	(12)
Nesma-Costain Process Company Ltd	Dormant	50%	50%	(15)

* indicates direct investment of the Company.

(10) Marszałkowska 82, Warsaw, Mazowieckie, 00-517, Poland

(11) Calle Delfines No. 268 - 2, Frac. Playa Ensenada, Ensenada, B.C., CP. 22880, Mexico

(12) Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England

(13) The Sherard Building, Edmund Halley Road, Oxford, Oxfordshire, OX4 4DQ, England

(14) Flat 33, Building 232, Road 18, Block 321, Manama, Bahrain

(15) P.O.Box, 6967, 21452, Jeddah, Saudi Arabia

13 Debtors

	31 December 2019 £	31 December 2018 £
Amounts owed by group undertakings	103,469,568	110,827,400
Other debtors	574,226	1,326,477
Prepayments	1,163,630	862,307
Deferred tax assets	-	997,808
	<u>105,207,424</u>	<u>114,013,992</u>

Amounts receivable from other group undertakings are unsecured, repayable on demand but accrue interest at a rate of 0%-2.5% (2018: 0%-2.5%).

Details of non-current trade and other debtors

£Nil (2018: £997,808) of deferred tax assets is classified as non current. There are deferred tax liabilities of £471,723.

The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

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

14 Trade and other payables

Current

	31 December 2019 £	31 December 2018 £
Accrued expenses	1,628,320	1,588,579
Amounts owed to group undertakings	59,126,381	50,843,865
Social security and other taxes	5,222,755	5,896,107
Group relief payable	109,481	59,528
Other creditors	3,607,151	12,235,795
	<u>69,694,088</u>	<u>70,623,874</u>

Amounts payable to other group undertakings are unsecured, repayable on demand but accrue interest at a rate of 0%-0.5% (2018: 0%-0.5%).

15 Provisions for liabilities

£471,723 of deferred tax liabilities are classified as provisions for liabilities (2018: deferred tax asset of £997,808).

16 Called up share capital

Allotted, called up and fully paid shares

	31 December 2019 No.	£	31 December 2018 No.	£
Ordinary shares of £1 each	<u>41,203,557</u>	<u>41,203,557</u>	<u>41,203,557</u>	<u>41,203,557</u>

17 Gross pension liability

Defined benefit pension schemes

Defined benefit pension scheme

The company operated a defined benefit pension scheme, which was closed for future accrual on 30 September 2009. From 1 April 2006 until the date of closure, participating employees were provided with benefits on a Career Average Revalued Earnings basis. The scheme was replaced by a defined contribution scheme.

A full actuarial valuation of the defined benefit scheme was carried out at 31 March 2016 and was updated to 31 December 2019 by a qualified independent actuary. Details of the scheme are included in the financial statements of Costain Group PLC.

Costain Engineering & Construction Limited

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

17 Gross pension liability (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2019 £	2018 £
Fair value of scheme assets	816,980,000	748,517,000
Present value of scheme liabilities	(812,113,000)	(752,751,000)
Defined benefit pension scheme surplus/(deficit)	<u>4,867,000</u>	<u>(4,234,000)</u>

Scheme assets

Changes in the fair value of scheme assets are as follows:

	31 December 2019 £	31 December 2018 £
Fair value at start of year	748,517,000	779,472,000
Interest income	20,660,000	19,227,000
Return on plan assets, excluding amounts included in interest income/(expense)	69,098,000	(29,378,000)
Employer contributions	16,292,000	15,741,000
Benefits paid	(37,292,000)	(36,228,000)
Administrative expenses paid	(295,000)	(317,000)
Fair value at end of year	<u>816,980,000</u>	<u>748,517,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

	31 December 2019 £	31 December 2018 £
Cash and cash equivalents	11,614,000	34,515,000
Equity instruments	324,616,000	273,812,000
Debt instruments	345,993,000	206,797,000
Real estate and PFI investments	17,664,000	21,191,000
Investment funds	117,093,000	212,202,000
	<u>816,980,000</u>	<u>748,517,000</u>

Actual return on scheme's assets

	31 December 2019 £	31 December 2018 £
Actual return on scheme assets	<u>89,758,000</u>	<u>(10,151,000)</u>

The notes on pages 16 to 34 form an integral part of these financial statements.

Costain Engineering & Construction Limited

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

17 Gross pension liability (continued)

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	31 December 2019 £	31 December 2018 £
Present value at start of year	752,751,000	803,389,000
Past service cost - GMP equalisation charge	-	8,600,000
Actuarial (gains)/losses arising from changes in demographic assumptions	(7,529,000)	(20,664,000)
Actuarial (gains)/losses arising from changes in financial assumptions	74,578,000	(25,945,000)
Actuarial gains arising from experience adjustments	9,050,000	3,967,000
Interest cost	20,555,000	19,632,000
Benefits paid	(37,292,000)	(36,228,000)
Present value at end of year	<u>812,113,000</u>	<u>752,751,000</u>

In the prior year's results, the GMP equalisation charge resulted from a decision on 26 October 2018 when the High Court issued a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits and has implications for the majority of defined benefit schemes with liabilities before 1997. The effect of GMP equalisation, which had been recorded as a past service cost, was an increase of £8.6 million on the reported pension liabilities.

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	31 December 2019 %	31 December 2018 %
Discount rate	2.1	2.8
Future pension increases	2.9	3.0
Inflation	<u>3.0</u>	<u>3.2</u>

Costain Engineering & Construction Limited

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

17 Gross pension liability (continued)

Post retirement mortality assumptions

	2019 Years	2018 Years
Current UK pensioners at retirement age - male	22.3	22.4
Current UK pensioners at retirement age - female	24.2	24.3
Future UK pensioners at retirement age - male	23.6	23.8
Future UK pensioners at retirement age - female	<u>25.7</u>	<u>25.9</u>

Amounts recognised in the income statement

	31 December 2019 £	31 December 2018 £
Amounts recognised in operating profit		
Past service cost - GMP equalisation charge	-	(8,600,000)
Administrative expenses paid by the pension scheme	(295,000)	(317,000)
Administrative expenses paid by the Company	<u>-</u>	<u>(1,711,000)</u>
Recognised in arriving at operating profit	<u>(295,000)</u>	<u>(10,628,000)</u>
Amounts recognised in finance income or costs		
Net interest	<u>105,000</u>	<u>(405,000)</u>
Total recognised in the income statement	<u>(190,000)</u>	<u>(11,033,000)</u>

Amounts taken to the Statement of Comprehensive Income

	31 December 2019 £	31 December 2018 £
Actuarial gains/(losses) arising from changes in demographic assumptions	7,529,000	20,664,000
Actuarial gains/(losses) arising from changes in financial assumptions	(74,578,000)	25,945,000
Actuarial gains/(losses) arising from experience adjustments	(9,050,000)	(3,967,000)
Return on plan assets, excluding amounts included in interest income/(expense)	<u>69,098,000</u>	<u>(29,378,000)</u>
Amounts recognised in the Statement of Comprehensive Income	<u>(7,001,000)</u>	<u>13,264,000</u>

Costain Engineering & Construction Limited

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

18 Contingent liabilities

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

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

19 Parent and ultimate parent undertaking

The company's immediate parent is Costain Group PLC.

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.

20 Impact of adoption of new accounting standards

IFRS 16 'Leases' - impact of adoption

The adoption of IFRS 16 'Leases' from 1 January 2019 whilst resulting in some changes in accounting policies did not result in adjustments to the amounts recognised in these financial statements.

21 Non adjusting events after the financial period

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