Costain Group PLC
("Costain" or "the Group" or "the Company")

Results for the year ended 31 December 2013

Costain, one of the UK's leading engineering solutions providers, announces another strong performance with a 12% increase in underlying operating profit[3], an order book up 25% to £3.0 billion, and a recommended 7% increase in the total dividend for the year.

	2013	2012 (restated)[1]
Revenue[2]	**£960.0m**	**£934.5m**
Operating Profit		
- Underlying[3]	**£27.4m**	**£24.5m**
Profit before tax		
- Adjusted[4]	**£31.0m**	**£28.1m**
- Reported	**£12.9m**	**£24.7m**
Basic earnings per share		
- Adjusted[4]	**44.1p**	**39.7p**
- Reported	**18.8p**	**35.4p**
Net Cash balance	**£57.7m**	**£105.7m**
Dividend per share	**11.5p**	**10.75p**

1. Restated for revised IAS19 Employee benefit accounting standard.
2. Including share of joint ventures and associates.
3. Underlying operating profit before Other items (amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc) and in 2012 excludes the £2.8m one-off costs resulting from pension scheme liability actions.
4. Results stated before Other items (amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc and non-cash impairment of £9.8 million on carrying value of assets in non-core Land Development activity in Spain).

Highlights

- Underlying operating profit[3] up 12% to £27.4 million (2012: £24.5 million)
- Increase of 10% in adjusted profit before tax[4] to £31.0 million (2012: £28.1 million)
- Adjusted basic earnings per share[4] increased by 11% to 44.1 pence (2012: 39.7 pence)
- Forward order book up 25% to £3.0 billion (2012: £2.4 billion): over 90% of order book comprises repeat orders and over 90% lower risk cost reimbursable forms of contract
- £57.7 million year-end net cash balance (2012: £105.7 million), reflecting the anticipated transition to lower risk cost reimbursable contracts, reduced levels of advance payments and increasing support services revenues
- Acquisition of EPC Offshore Ltd, a specialist oil & gas project management services company, and launch of Costain Upstream, to provide services across the life-cycle of upstream offshore oil and gas assets
- Recommended increase in final dividend for the seventh successive year, taking the total for the year to 11.5 pence, a 7% increase on the prior year

- Proposed firm placing and placing and open offer announced today to raise c.£75 million (before expenses) to take advantage of the growing number of opportunities available to accelerate the Group's development in the medium and long-term

David Allvey, Chairman, commented:

"Costain has delivered another strong performance in 2013, with a forward order book up 25% to £3.0 billion, and the Board is recommending an increase in the final dividend for the seventh successive year.

"The Group has been transformed, and is now one of the UK's leading Tier One engineering solutions providers. Costain is established in a developing market of a limited number of providers who can deliver the innovative integrated consulting, project delivery and operations and maintenance services increasingly demanded by major customers.

"The proposed capital raising announced today alongside these good results provides us with the opportunity to accelerate our growth in the medium and long-term in rapidly evolving markets in which it is expected that over £400 billion will be spent in the next 10 years."

27 February 2014

A video interview with Andrew Wyllie, Chief Executive, and Tony Bickerstaff, Finance Director, in which they discuss the highlights of the results, is available at www.costain.com

Enquiries

Costain **Tel: 01628 842 444**
Andrew Wyllie, Chief Executive
Tony Bickerstaff, Finance Director
Graham Read, Communications Director

College Hill **Tel: 020 7457 2020**
Mark Garraway
Helen Tarbet

Notes to Editors (for further information please visit the Company website: www.costain.com)

Costain is one of the UK's leading engineering solutions providers, delivering integrated consulting, project delivery and operations and maintenance services, with a portfolio spanning almost 150 years of innovation and technical excellence. The Group's core business segments are in Infrastructure (Highways, Rail, Power and Airports) and Natural Resources (Water, Oil & Gas, Nuclear Process and Waste).

The Group's 'Engineering Tomorrow' strategy involves focusing on blue chip customers in chosen sectors whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements.

Costain has worked on a number of high profile infrastructure projects in the UK. Current major contracts include EVAP D at Sellafield, one of the largest decommissioning nuclear projects in the UK; the redevelopment of London Bridge Station for Network Rail; the design, installation and commissioning of railway systems for Crossrail; and the design and delivery of the water cooling systems for the new nuclear power station at Hinkley for EDF.

CHAIRMAN'S STATEMENT

Overview & Strategic Update

Costain has delivered another strong performance.

The Group has been transformed in recent years and is now recognised as one of the UK's leading engineering solutions providers. The Group is part of a select group of companies with the integrated consulting, project delivery and operational capability required to meet the needs of major customers in a rapidly developing multi-billion pound market.

We recognise the changing dynamics of the UK marketplace in which major customers are seeking to build strategic relationships with fewer service providers involving larger, longer term contracts incorporating a broader range of services across the full life cycle of an asset.

Through the successful implementation of our 'Engineering Tomorrow' strategy, Costain now provides a range of integrated consulting, project delivery and operations and maintenance services to blue chip customers in the UK's infrastructure, energy and water markets. The Group has a well-respected brand, excellent reputation and strong track record of performance.

The opportunities in our marketplaces are substantial as investment by the major customers in transportation, energy and water resources is expected to grow significantly, and supplier consolidation is anticipated to continue. In this changing and competitive environment, it is essential that Costain is able to demonstrate that it has the scale, skills, experience and financial strength necessary to secure, and then deliver, a strong performance on these increasingly large and complex contracts.

The proposed under-written capital raising announced today will enable Costain to capitalise on these opportunities by demonstrating the Group's financial capacity to support a greater number of longer, larger contracts, investing in innovation and technology, financing bid costs for projects, funding increased working capital requirements and, where opportunities arise, adding further expertise by acquisition, thereby accelerating the Group's development.

Performance

Revenue, including the Group's share of joint ventures and associates, for the year increased to £960.0 million (2012: £934.5 million), 30% of which was derived from support service related activities. Our focus on higher margin activities led to an increase of 12% in Group underlying operating profit of £27.4 million (2012: £24.5 million). Adjusted profit before tax increased by 10% to £31.0 million (2012: £28.1 million). Adjusted basic earnings per share were up 11% to 44.1 pence (2012: 39.7 pence).

The Group's net cash position at 31 December 2013 was £57.7 million (2012: £105.7 million). This reduction was expected given the Group's rapid transformation and strategic focus on major customers who utilise target cost, cost reimbursable contracts. Over 90% of the order book now includes this lower risk form of contract, which is more suited to complex, long-term projects. The lower net cash position also reflects an increase in support service related activities, a reduction in advanced payments and a delayed contract.

We were successful in securing a number of major new contract awards and extensions to existing contracts. Consequently, the order book was up 25% to £3.0 billion as at 31 December 2013, compared to the start of the year (2012: £2.4 billion).

Dividend

In light of another successful performance and our continuing confidence in the long-term prospects for the Group, the Board is recommending a 7% increase in the final dividend, the seventh successive year of increase. If approved, the 7.75 pence per share (2012: 7.25 pence) final dividend will be paid on 25 April 2014 to shareholders on the register as at the close of business on 14 March 2014. This would bring the total dividend for the full year to 11.5 pence per share (2012: 10.75 pence), an increase of 7% over the prior year.

Group Pension Scheme

The deficit on the Group's legacy Costain Pension Scheme ('CPS') at 31 December 2013 was £29.4 million net of deferred tax (2012: £40.0 million). The assumptions and sensitivities used in the valuation of the pension scheme are set out in the notes to the financial statements. In accordance with the requirement for a triennial review, another full actuarial valuation of the CPS is being carried out as at 31 March 2013.

Proposed Capital Raising

Costain has today announced a proposed capital raising to enable the Group to take greater advantage of the opportunities in its chosen markets and thereby accelerate the Group's medium and long-term growth prospects.

The Group proposes to raise approximately £70.3 million (net of expenses) by way of a firm placing and placing and open offer of, in aggregate, 33,382,068 new ordinary shares at an offer price of 225 pence per new ordinary share. 11,111,112 new ordinary shares will be issued through the firm placing and 22,270,956 new ordinary shares will be issued through the placing and open offer on the basis of 1 new ordinary share for every 3 existing ordinary shares.

The proceeds will be utilised:

- to demonstrate to customers the Group's financial capacity to support the anticipated further increases in contract size and duration;
- to invest in innovation and technology necessary to enhance the service offering to the customers;
- to finance bid costs associated with a greater number of large scale projects for which the Company is in a position to tender;
- to fund likely increased working capital requirements arising from the move in the market towards target cost, cost reimbursable contracts;
- to provide flexibility to make selected in-fill acquisitions to complement Costain's existing capabilities as opportunities arise; and
- for general corporate purposes.

The capital raising has been fully underwritten by Investec Bank plc and Liberum Capital Limited.

Please see the separate announcement made by Costain today for further details of the terms and conditions of the proposed capital raising.

People

On 20 November 2013 we announced that Mr Samer Younis, a Non-Executive Director of Costain and the nominee of Mohammed Abdulmohsin Al-Kharafi & Sons Co. W.L.L. ("Kharafi"), had notified the Board of his resignation as a Director of the Company with effect from 30 November 2013. We would like to thank Samer for his contribution during his years of service.

We were pleased to welcome to the Board Mr Ahmed Aly Samy, a nominee of Kharafi, as a Non-Executive Director with effect from 30 November 2013. Mr Samy, the Deputy Director General Investment Affairs at Kharafi, is also a member of Costain's Nomination Committee.

We announced on 28 January 2014 that Alison Wood would join the Board as a Non-Executive Director with effect from 1 February 2014. Alison is currently a Non-Executive Director at Cobham plc and Senior Independent Director at e2v Technologies plc and was formerly Non-Executive Director at BTG plc and Thus Group plc. Alison will succeed Mike Alexander as Chair of the Remuneration Committee when he retires, as previously announced, on 31 March 2014.

There were a number of operational management changes in the year and these are covered in the Chief Executive's Review.

On behalf of the Board, I would like to place on record our recognition and appreciation of the excellent colleagues we have at Costain who continue to play a major role in our success.

Summary & Outlook

Costain has delivered another strong performance in 2013, with a forward order book up 25% to £3.0 billion, and the Board is recommending an increase in the final dividend for the seventh successive year.

The Group has been transformed, and is now one of the UK's leading Tier One engineering solutions providers. Costain is established in a developing market of a limited number of providers who can deliver the innovative integrated consulting, project delivery and operations and maintenance services increasingly demanded by major customers.

The proposed capital raising announced today alongside these good results provides us with the opportunity to accelerate our growth in the medium and long-term in rapidly evolving markets in which it is expected that over £400 billion will be spent in the next 10 years.

DAVID ALLVEY
Chairman

CHIEF EXECUTIVE'S REVIEW

This has been another year of significant progress in the transformation of Costain into a full engineering service provider for major customers who continue to invest billions of pounds addressing essential national needs.

The development of new skills and capabilities, broadening the scope of our activities, and the introduction of new technology has ensured that we were able to deliver a strong financial performance and secure a 25% increase in our order book to £3.0 billion, of which over 90% is repeat business. We have increased to over £750 million the revenue secured for 2014 (2012: over £700 million secured for 2013) and in excess of a further £2.2 billion of revenue secured for 2015 and beyond. In addition, the Group has maintained a strong preferred bidder position of over £400 million. It is encouraging to have started the new financial year with such good long-term revenue visibility.

Costain is now established as a leading Tier One UK engineering solutions provider.

Through the implementation of our 'Engineering Tomorrow' strategy, we are focused on providing innovative and cost effective solutions to customers who are increasingly seeking more strategic relationships through larger and longer-term contracts in order to meet their complex requirements.

This change in customer procurement approach, and associated supplier consolidation, along with the very substantial expenditure expected in the next few years is creating a dynamic marketplace which provides Costain with a tremendous opportunity to accelerate the development of the business.

Market Trends & Developments

The UK transport, energy and water markets are defined by significant and long-term planned expenditure programmes underpinned by committed regulated spend and essential capital investment. The future opportunities in these markets are substantial.

The UK Government, as set out in their recent National Infrastructure Plan, estimates that average annual infrastructure investment in the UK has increased to £45 billion per annum compared to an average of £41 billion per year between 2005 and 2010. The National Infrastructure plan has set out an overall investment of £224bn to 2020 in an identified pipeline of projects in the UK.

Rail remains a priority area of investment for the UK Government to stimulate economic growth with a 14% increase in demand for rail travel estimated for the next five years. To address this demand, £38 billion has been allocated to national rail networks in areas including electrification, track and network upgrades. A further £43 billion has been allocated for High Speed 2.

In highways, the Chancellor promised in June 2013 the most extensive programme of road building in over 50 years. By 2020-21, the UK Government is expected to invest over £28 billion in enhancements and maintenance of national and local roads.

In energy, it is estimated £110 billion is to be invested by 2020 in new energy infrastructure to meet the forecast energy supply capacity gap; and £50 billion is expected to be spent to address the UK's nuclear waste legacy, whilst the ongoing capital investment in North Sea oil and gas is at its strongest for over 30 years (£13 billion forecast in 2013).

In water, there remains an ongoing need for asset performance improvements, increased water standards and a greater focus on the combination of capital and operating costs, with continued regulated investment planned. The 5 year AMP6 period commencing in April 2015, is expected to include an investment level similar to the £21 billion invested over 5 years during AMP5.

Alongside these planned levels of infrastructure investment, our major customers are consolidating their supply chains as they seek to derive business benefits by working in a more strategic and collaborative manner with a reduced number of preferred Tier One engineering solutions providers like Costain who have the ability to satisfy the full range of their service needs for increasingly complex and large scale projects.

The complex nature of the customers' requirements also dictates that a target cost, cost reimbursable form of contract is the most appropriate to be utilised. Consequently, over 90% of our order book is now comprised of this form of contract. Contracts of this form benefit from generally being lower-risk than lump sum contracts, but they do tend to be associated with higher bid costs and working capital requirements. The speed of the move to this form of contract is reflected in the cash flow movement in the year.

The provision of an increasing range of skills and services, along with our strong brand and reputation for excellent delivery, has enabled us to secure over £1.5 billion worth of large, integrated and complex projects and contract extensions during the course of the year including:

- a contract with EDF to design and deliver the water cooling systems for the new Hinkley Point C nuclear power station;

- the electrification upgrade of the West Coast Mainline for Network Rail;

- the AMP6 programmes for Thames Water and Severn Trent;

- a number of contracts for Crossrail including the design, fit-out and commissioning of the railway systems;

- delivery of the Front End Engineering design ('FEED') for Centrica's gas terminal at Barrow, following successful completion of the design and construction of the Easington terminal for the York field; and

- a highways framework contract with Transport for London including the Hammersmith Flyover strengthening project.

'Engineering Tomorrow' Strategy

Our customers' endorsement of Costain as a Tier One provider and our market leading reputation is founded on our commitment to excellence in engineering. 'Engineering Tomorrow' is the Costain commitment to identifying, developing and implementing innovative solutions to major national needs. It is this that enables us to win large and long-term, strategic contracts involving highly complex work across the full life cycle of our major customers' assets.

We are increasing our investment in Research and Development, and we have initiatives in place to encourage and support entrepreneurial members of staff to develop their ideas into business opportunities. The 'Mario' asset management tool was one such idea, which is now being sold commercially to rail and highways customers as an addition to Costain's range of services. Other examples of new innovation and technology being driven across our entire service offering include: COpath, an asset intelligence resource which gathers data intelligence on the behaviour and movement of people within major assets such as railway stations; carbon capture and storage technology; Nuclear Waste Management Graphite Gasification; and GRAVITAS offshore, which carries out research on the design and construction of concrete gravity foundations for large offshore wind turbines.

The wide range of new technology within the business was showcased for customers at a successful innovation event held in September at the Darwin Centre in the Natural History Museum in London.

Broadening Our Capabilities Through Acquisition

On 1 August 2013, we were delighted to announce the acquisition of EPC Offshore, a specialist oil & gas project management services company, for an initial consideration of £10.6 million (including £1.0 million for excess cash). The acquisition is expected to be earnings enhancing to Costain in the first full year of acquisition.

Costain also announced the launch of Costain Upstream, to provide services across the life-cycle of upstream offshore oil and gas assets. Costain Upstream will combine the capabilities of ClerkMaxwell, the oil and gas engineering and support services provider, which has more than doubled in size since its acquisition in 2011, and EPC Offshore, to increase the scale of the Group's services in the growing, high-value North Sea upstream oil and gas market.

Operating Results

The strong performance of the Group is reflected by a 12% increase in Group underlying operating profit to £27.4 million (2012: £24.5 million).

The Infrastructure division in particular has had a very successful year, with an increase in revenue, underlying operating profit and order book. This strong performance is a result of our previous focus on a number of opportunities in the Infrastructure markets now delivering excellent operating returns for the Group.

During the year, the Natural Resources division has continued its transformation and the reduced profitability reflects lower revenues, additional costs to complete a small number of projects and restructuring and business development costs including the deployment of new skills and capabilities under a strengthened leadership team. The transformation is now complete and the division finished the year with an increased order book and a high level of tendering activity.

Significant Developments in Joint Venture Activities

During the period, Costain completed the sale of its minority shareholdings in three joint venture companies to Severn Trent PLC for a total consideration of £12.0 million. Severn Trent will therefore become 100% owner of the three companies, which provide services in the water sector. As a result of the transaction, Costain realised a profit of £9.1 million in 2013.

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

The Group has re-assessed the carrying value of the assets in its non-core Land Development activity in Spain, which is undertaken in a 50:50 joint venture with Santander Bank. As a consequence of continuing uncertainty regarding future market conditions in Spain, a non-cash impairment has been taken against the assets, the Group's share of which is £9.8 million, reducing Costain's total carrying value in the joint venture to £26.6 million

Lapsed All-Share Merger with May Gurney Integrated Services plc ('May Gurney')

The Boards of Costain and May Gurney announced in March that they had reached agreement on the terms of a recommended all-share merger of Costain and May Gurney (the 'Proposed Merger').

Following an offer from another party in April, Costain announced that, having undertaken several months of detailed due diligence, it did not believe that it would be in the best interests of Costain shareholders for Costain to amend the terms of the Proposed Merger and that it would not be making a revised offer for May Gurney. Accordingly, the Proposed Merger lapsed in accordance with its terms.

The Group incurred transaction pre-tax costs of £3.7m associated with the May Gurney proposal and these have been expensed in the results and treated as a one-off non trading item.

'Costain Cares'

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

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

We received a further Platinum award from Business in the Community, recognising our proactive commitment to mitigating the environmental and social aspects of our operations.

Costain places the highest priority on the effective management of Safety, Health and Environment, and the Group's Accident Frequency Rate (AFR) was 0.12, which continues to compare favourably with our major Tier One peer group. We also received 16 Gold Awards from RoSPA, four Gold Medals and two prestigious Orders of Distinction.

Costain improved its position in the annual assessment by Management Today magazine of Britain's Most Admired Companies, ranking 55th overall and improving to 2nd place in the sector.

Teamwork

The strong results generated by Costain in 2013 were delivered by our outstanding multi-disciplined team of approximately 4,000. During the year, we increased once again our training and development programmes across the organisation so that we have the requisite skills and resources. There was a further increase in the number of apprentices across the Group.

During the period, Alex Vaughan was appointed Managing Director of the Natural Resources division, succeeding Mark Rogerson who left the Group to pursue other opportunities. Tim Bowen replaced Alex Vaughan as Corporate Development Director.

Operational Review

We continue to focus and prioritise our group-wide resources, and our customer-aligned divisional structure, on identifying the most attractive new business opportunities across the sectors in which we operate.

Infrastructure

The Infrastructure Division, which incorporates activities in the highways, rail, power and airports sectors, experienced another year of profit growth as customers invested in upgrading and renewing the UK's infrastructure assets.

Revenue was £560.6 million (2012: £494.9 million) whilst adjusted profit from operations rose over 30% to £31.4 million (2012: £23.5 million) as we delivered excellent performance across the division including the award of gain-share on a number of contracts. The order book for the division has grown to £1.9 billion (2012: £1.5 billion) and the level of tendering activity remains high, particularly in the highways, rail and power sectors.

In Highways, Costain is benefitting from the development of its innovative technology offering, developing and delivering complex solutions for the Welsh Government's All Wales Technology framework and the Highways Agency. The Group continues to be a leading supplier to the Highways Agency, with a large portfolio of design, construction and maintenance projects for this customer. During the period, some major projects, such as the M1 J10-13 Managed Motorway and Walton Bridge across the Thames, were completed, whilst a new contract to deliver the A160/A180 Port of Immingham Improvement scheme in North Lincolnshire was secured. The Group's three Managing Agent Contracts (MACs) all performed well with one of them, the five-year highway maintenance contract for the East Midlands, being awarded a two year contract extension. During the year, the MAC10 contract came to the end of its term and was renewed with another party.

Costain was also awarded a place by Transport for London (a new customer for the Group) on its Early Contractor Involvement (ECI) and Construction framework, worth approximately £200 million overall. The Group's first project within this framework, the Hammersmith Flyover strengthening project, is now well underway.

In Rail, the division experienced growth in both revenues and order book. Significant milestones were reached on the major London Bridge Station redevelopment contract, and works at Reading Station and on the complex Bond Street upgrade project continued to progress well. The Group continues to be a major partner to Crossrail, securing its eleventh contract with this customer during the year for Paddington New Yard.

The Group's investment in developing its Programme Management and Rail Engineering capabilities continues to yield benefits. During the year, three Railway Systems contracts for Crossrail were secured and these are progressing well, as is the delivery of the West Coast Main Line Power Upgrade contract for Network Rail. Costain is also involved in providing consultancy services for HS2.

In Power, the Group is now a major contract partner in the construction of the new Hinkley Point C nuclear power station in Somerset, providing the design and delivery of the water cooling systems. During the year, Costain was also awarded a place on UK Power Networks' £40 million power transmission framework contract. The Group also consolidated its position as a leading player in power station maintenance, with work being carried out for SSE, Eon and Scottish Power. Good progress continued to be made on the London Cable Tunnels project for National Grid, as part of their investment to upgrade the power infrastructure in the South-East.

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

Natural Resources

The Natural Resources division, encompassing the Water, Oil & Gas, Nuclear Process and Waste sectors, was established in November 2012, combining most of the Energy & Process and Environment Divisions and some support service activities previously in Infrastructure.

Customer spend in this market is underpinned by regulatory and legislative requirements and we expect this to grow over the medium and long term to meet the energy and water needs of the UK's rapidly growing population.

Revenue (including share of joint ventures and associates) in the division for the year was £397.6 million (2012: £437.7 million), with adjusted profit from operations, including £9.1 million profit on sale of interest in associates, of £12.8 million (2012: £19.5 million including £10.5 million profit on sale of interest in joint venture). The reduction in revenue reflected the prioritisation of resources towards attractive opportunities for growth across the Group. Operating profits in this division declined in the period as a result of those lower revenues, additional costs to complete a small number of projects, and restructuring and business development costs including the deployment of new skills and capabilities under a strengthened leadership team. The division finished the year with a forward order book of £1.1 billion (2012: £0.9 billion).

In Oil & Gas, Costain announced during the year the launch of Costain Upstream, which combines the ClarkMaxwell and EPC Offshore businesses, the latter was acquired in August. Costain Upstream will provide engineering and advisory services in the upstream oil and gas market, where there are significant opportunities to secure work in this high value, highly specialised area.

Elsewhere in the sector, the Group continued to deliver high complexity projects for blue chip customers: the Easington contract for Centrica was completed, and significant progress was made on the Barrow Terminal Optimisation project for the same customer; the scheme is expected to be complete by 2015.

The Group is continuing to deliver support services for the Oil and Pipelines Agency (OPA), implementing a programme of upgrades and improvements in performance across OPA's network of jet fuel pipelines and storage facilities.

Work in Nuclear Process was dominated by the achievement of all major contractual milestones on two very significant projects: the Evaporator D construction project at Sellafield saw the successful delivery of the final module-920 in October, and the FED (Fuel Element Debris) dissolution construction at Bradwell entered into the final construction and full-time commissioning phases. In addition, as one of two suppliers to the Magnox framework contract, additional facilities were delivered and continue to be maintained. It is expected that the nuclear sector's frameworks within the Nuclear Decommissioning Authority (NDA) estate will continue to bring repeat-order business into the Group's overall portfolio.

In Water, 2013 saw significant bidding activity associated with the next five year Asset Management Programme cycle (AMP6) and Costain secured the sector's first AMP6 contract for Thames Water, whilst also retaining a place on the Severn Trent Water AMP6 Programme. The Group has also prequalified for further AMP6 long-term contract opportunities.

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

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

Land Development

Our non-core Land Development activity in Spain undertaken in a 50:50 joint venture with Santander Bank continued to be subject to challenging market conditions. The joint venture has a portfolio of in excess of 500 hectares of land in Southern Spain with varying levels of planning approval and although the Spanish economy is showing some early signs of improvement, there remains considerable uncertainty as to when significant recovery will be achieved. As a consequence of continuing uncertainty regarding future market conditions, a non-cash impairment has been taken against the assets, the Group's share of which is £9.8 million, reducing Costain's total carrying value in the joint venture to £26.6 million.

As anticipated, no significant land sales were completed in the year, and revenue was £1.8 million (2012: £1.9 million) and the loss after tax was £2.1 million (2012: £2.3 million), excluding the exceptional asset write down outlined in the previous paragraph.

Our activities have continued to focus on our leisure businesses of golf courses and our 624 berth yacht marina adjacent to Gibraltar, both of which have reported improving revenue streams, particularly in the marina where our new boat repair yard is in demand and assisting in raising marina occupancy.

The Future

Costain has delivered another strong performance and demonstrated again that it has the right strategy to drive profitable growth by responding to the complex and fast-evolving requirements of its blue chip customers.

Our established status as one of the UK's leading engineering solutions providers, our increased order book and our market leading reputation for innovation means that we are confident of delivering further progress and being able to take advantage of significant opportunities in our chosen sectors.

Today's proposed capital raising will enable us to accelerate the rate at which we address these opportunities, and will thereby enhance the Group's medium and long term growth prospects, by demonstrating the Group's financial capacity to support a greater number of longer, larger contracts, investing in innovation and technology, financing bid costs for projects, funding increased working capital requirements and, where opportunities arise, adding further expertise by acquisition.

I look forward to reporting on further progress during the year.

ANDREW WYLLIE
Chief Executive

FINANCE DIRECTOR'S REVIEW

This review brings together the key financial metrics of the Group and sets out the matters of financial significance.

The Group generated a 12% increase in underlying[1] operating profit to £27.4 million (2012[2]: £24.5 million) on Group revenue, including share of joint ventures and associates, of £960.0 million for the twelve months to 31 December 2013 (2012: £934.5 million). The increased profitability reflects the Group's continued focus on higher margin work.

Profit before tax, before other items[3], for the year ended 31 December 2013 increased to £31.0 million (2012[2]: £28.1 million). Basic earnings per share, before other items[3], amounted to 44.1 pence (2012[2]: 39.7 pence per share), reflecting increased profits and a tax timing benefit. Reported basic earnings per share were 18.8 pence (2012[2]: 35.4 pence).

In 2013, the Group sold its minority shareholdings in three joint venture companies as part of the continued disposal of its PFI equity portfolio, for an aggregate consideration of £12.0 million. The Group realised a profit of £9.1 million as a result of the sale.

The Group has re-assessed the carrying value of the assets in its non-core Land Development activity in Spain, and as a consequence of continuing uncertainty regarding future market conditions, a non-cash impairment has been taken against the assets, the Group's share of which is £9.8 million.

In 2012 the Group transferred two PFI investments into The Costain Pension Scheme ('CPS') at an agreed value of £20.3 million which resulted in a profit on the transfer of £10.5 million. In addition during 2012 the Group implemented an Enhanced Transfer Value and Pension Increase Exchange offers to the members of the CPS which resulted in a one-off accounting cost of £2.8 million in the year.

During the year the Group secured a number of new contracts and extensions and the Group's order book stood at £3.0 billion (31 December 2012: £2.4 billion).

As a result of the Group's ongoing strategic focus on major blue chip customers who increasingly utilise a target cost based form of contract, our net cash position includes a lower level of advanced payments typically paid on lump sum contracts. Additionally, our increasing emphasis on support service related activities and changing industry cash flow trends, together with the cash flow implications of a delayed contract, accounted for the reduction in net cash to £57.7 million (December 2012: £105.7 million). We expect these trends will continue to be reflected in a lower average net operating cash position.

The results of the Group's operating divisions are considered in the operational review section and are shown in the segmental analysis in the financial statements.

Acquisitions

In August 2013, the Group acquired the 100% share capital of EPC Offshore Limited for an initial consideration of £10.6 million (including £1.0 million for excess cash). EPC Offshore Limited is a field development and project management specialist providing client-side services to North Sea oil and gas companies and enhances the Group's skills and capabilities in the North Sea upstream oil and gas market. Further consideration may be payable depending on the financial performance of the business in the financial years ending 31 December 2014, 2015 and 2016 and the retention of certain key employees in 2016. This performance consideration is subject to a minimum of £2.0 million and a maximum of £14.4 million.

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

In accordance with accounting standards, any deferred consideration for acquisitions that is related to employment is expensed in the income statement over the period of deferment. In 2013 employment related and other deferred consideration amounted to £2.8 million (2012: £1.7 million), the increase from the prior period is due to an increase

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[1] Underlying operating profit is before Other items (amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc) and in 2012 excludes the £2.8m one-off costs resulting from pension scheme liability actions.

[2] Restated for revised IAS19 Employee benefit accounting standard.

[3] Other items are the amortisation of acquired intangible assets of £1.8 million (2012: £1.7 million), employment related and other deferred consideration of £2.8 million (2012: £1.7 million) and in 2013 the £3.7 million one-off costs associated with the offer for May Gurney Integrated Services plc and the non-cash impairment of £9.8 million on carrying value of assets in non-core Land Development activity in Spain.

in the expected performance of a previous acquisition, including a deferred consideration element not related to employment. This expense is shown separately in the income statement under 'other items' to aid the user of the financial statements in understanding the underlying performance of the company.

Interest

Net finance expense amounted to £4.0 million (2012[2]: £2.7 million). The interest payable on bank overdrafts and other similar charges was £2.6 million (2012: £1.8 million) and the interest income from bank deposits and other loans and receivables amounted to £0.7 million (2012: £1.0 million). In addition, the net finance expense includes the interest cost on the net liabilities of the pension scheme of £2.1 million (2012[2]: £1.9 million).

Tax

The Group's effective rate of tax was 3.1% of the profit before tax (2012: 6.5%). The lower than normal rate of tax arose owing to tax relief on the sale of shareholdings in PFI assets, Research and Development tax relief claims, timing differences, not previously recognised as deferred tax assets, and the effect on the brought forward deferred tax balances of the reduced rate of corporation tax of 21% from 1 April 2014.

Dividend

The Board has recommended a final dividend for the year of 7.75 pence per share (2012: 7.25 pence per share) to bring the total for the year to 11.5 pence per share (2012: 10.75 pence per share), an increase of 7%.

Subject to finalisation of the 31 March 2013 actuarial review, as in previous years, the Group will make an additional cash contribution to the pension scheme equal to the amount of dividend paid to shareholders.

Shareholders' Equity

Shareholders' equity increased in the year to £43.3 million (2012: £31.8 million). The profit for the year amounted to £12.5 million and other comprehensive expenses to £4.2 million. The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements. On 27 February 2014 the Group announced a proposed £70.3 million (net of expenses) capital raising which, if approved at the extraordinary general meeting on 17 March 2014, will increase the level of shareholders equity significantly in 2014.

Pensions

As at 31 December 2013, the Group's pension scheme deficit in accordance with IAS 19, net of deferred tax, was £29.4 million (2012: £40.0 million). The scheme deficit position has reduced primarily as a result of the return on assets and Company contributions exceeding the increased liabilities arising from changes in the financial assumptions.

In February 2012, the Group announced two further actions being taken to manage the obligations in the CPS. The first of these was the transfer of the Group's interest in two PFI investments into the CPS at an agreed value of £20.3 million which was completed on 22 February 2012 and resulted in an accounting profit on the transfer of £10.5 million. The second action was the implementation of Enhanced Transfer Value ('ETV') and Pension Increase Exchange ('PIE') offers to the members of the CPS. The ETV and PIE exercises resulted in a reduction in the scheme liabilities and assets of approximately £35 million and in a one-off accounting cost of £2.8 million expensed in 2012.

A full actuarial valuation of the CPS was last performed by the Scheme Actuary as at 31 March 2010 and a recovery plan agreed with the Trustee of the Scheme. A full actuarial valuation is being carried out as at 31 March 2013.

Cash Flow and Borrowings

The Group has a positive net cash balance, which was £57.7 million as at 31 December 2013 (2012: £105.7 million) and included £26.6 million of borrowings (2012: £1.7 million) and cash held by jointly controlled operations of £25.6 million (2012: £29.6 million).

As set out in the consolidated cash flow statement and explained above, during the year, the Group had an operating cash outflow, together with outflows for payment of dividends and matching pension deficit contributions. The average month-end net cash balance during 2013 was £50.7 million (2012: £103.4 million).

Key Risks and Uncertainties

The principal risks and uncertainties of the business, and the factors which mitigate these risks, are set out on pages 18 to 19. The Board proactively monitors these risks and the Chairman's Statement and the Chief Executive's Review in these financial statements include consideration of uncertainties affecting the Group.

Contract Bonding and Banking Facilities

The Group's long-term contracting business is dependent on it being able to supply performance and other bonds as necessary. This means maintaining adequate facilities from banks and surety bond providers to meet the current and projected usage requirements. During the period, the Group increased its contract bonding and banking facilities to £495 million and extended the maturity date to 30 June 2017 with its relationship banks and surety companies.

Treasury

The Group's treasury and funding activities are undertaken by a centralised treasury function. Its primary activities are to manage the Group's liquidity, funding and financial risk, principally arising from movements in interest rates and foreign currency exchange rates.

The Group's policy is to ensure that adequate liquidity and financial resources are available to support the Group's growth development, while managing these risks. The Group's policy is not to engage in speculative transactions. Group Treasury operates as a service centre within clearly defined objectives and controls and is subject to periodic review by internal audit.

Liquidity Risk

The Group finances its operations primarily by a mixture of working capital, funds from shareholders, retained profits and borrowings. The Directors regularly monitor cash usage and forecast usage to ensure that projected financing needs are supported by adequate cash reserves or bank facilities.

Foreign Currency Exposure

Translation exposure: the results of the Group's overseas activities are translated into sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The balance sheets of overseas subsidiaries and investments are translated at foreign exchange rates ruling at the balance sheet date.

Transaction exposure: the Group has small transactional currency exposures arising from subsidiaries' commercial activities overseas and from overseas supply purchases for business in the UK. Where appropriate, the Group requires its subsidiaries to use forward currency contracts to minimise any currency exposure unless a natural hedge exists elsewhere within the Group.

Interest Rate Risks and Exposure

The Group enters into financial instruments, where necessary, for two main purposes: to finance its operations and, in its project finance investments, to manage interest rate risks arising from its operations and its sources of finance. Various financial instruments (for example, trade receivables and trade payables) arise directly from the Group's operations.

The main exposure to interest rate fluctuations within the Group's operations arises from surplus cash, which is generally deposited with the Group's relationship banks, and bank borrowings. Within the investments in joint ventures and associates, interest rate movements will affect the value of any swaps that may be entered into and are classified as cash flow hedges and this will impact the Group's equity.

Going Concern

The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009. The Directors have considered the Group's financial requirements, its current order book and future opportunities and its available bonding facilities. Having reviewed the latest projections, including the application of reasonable downside sensitivities, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, the Group continues to adopt the going concern basis in preparing these financial statements.

TONY BICKERSTAFF
Finance Director

Principal Risks and Uncertainties

This section highlights the principal risks and uncertainties facing the Group.

The Board formally reviews the material risks and ensures that that these are appropriately managed by the management team. The Board retains the ultimate responsibility for the Group's risk management framework, including reviewing its effectiveness. It has, however, delegated responsibility for annually reviewing the overall effectiveness of the risk management programme to the Audit Committee. The internal audit function provides assurances to the Audit Committee of the effectiveness of the internal control procedures through completion of the annual audit plan, which takes into account current business risks.

The table below lists the principal risks and uncertainties facing the Group at the date of this Report. This list is not intended to be exhaustive. Some risks have not been included in this section on the basis that they are not considered to be material or are not presently known to the Board.

Risk and Impact	Mitigation
Economic conditions - Change in Government policy on spending - Loss of material contract - Failure of customers/subcontractors/ suppliers/joint venture partners	The Group focuses on targeting and working with blue-chip customers whose spending plans are driven by national need, regulatory commitments or essential maintenance requirements. The Group also regularly monitors the pipeline of opportunities available and develops relationships with customers across a range of markets in both the private and public sectors. The Company seeks to ensure that it is not over-reliant on any one subcontractor, supplier or joint venture partner. In addition, the Company maintains a list of preferred subcontractors and suppliers which is reviewed regularly. The Company also undertakes financial monitoring of subcontractors and suppliers and endeavours to maintain a dialogue with them in order to identify any issue or cause for concern. The Company has in use an external audit system to ensure compliance by its preferred and strategic suppliers.
Winning new work - Working capital impact of moving away from fixed price contracts towards target cost - Failure to estimate accurately risks, costs, contractual terms - Competition and failure to win work	Target cost contracts tend to have less advantageous cash flow characteristics but they benefit from generally being lower- risk than lump sum contracts. Costain has defined delegated authority levels for approving all tenders. All significant contracts are subject to review by the Investment Committee. To mitigate the cost risk, experienced and qualified staff are used to prepare bids, which are subject to internal review and approval before submission. During the life of the contract, regular project manager's report meetings and end forecast meetings take place to discuss safety, progress, quality, cost, financial performance, risk, etc. The Company's strategy of targeting blue-chip customers with committed long-term capital and operational spending plans will enable us to continue to pursue and win work less affected by the downturn. The Company's ongoing drive, both organically and by acquisition, to broaden its skills and services along with its strong brand and excellent reputation for delivery will also provide us with a competitive edge.
Operational Delivery - Cost overruns, time overruns, disallowed costs - Design faults - Procurement delay or failure - Failure to obtain/renew insurance or refusal of claim by insurers	Work on site is audited by in-house specialists and reports prepared so that corrective action, where required, can be taken. A senior executive is responsible for overall quality issues, the updating of best practice and ensuring compliance. The senior executive is also responsible for reviewing and updating the Company's procedures in line with the changing business.

Health and Safety - Major incident exposing an inadequate safety regime	Costain has detailed health & safety policies in place. Regular Health and Safety visits by experienced professionals and on-site training take place to reduce the risk of human error. Any breaches in procedures are reported quickly and acted upon as appropriate. Employees are encouraged to take responsibility for safety in their work areas. A health & safety committee also meets monthly to develop a consistent approach and consider best practice.
People Failure to attract, develop and retain highly skilled management or personnel may limit the Group's ability to grow the business as anticipated.	The Company has in place a well-developed succession planning process which is regularly monitored. This process includes carrying out 'talent reviews' and encouraging ongoing development at all levels. The Company seeks to actively engage with employees through engagement surveys and its Employee Consultative Committee. Pay and conditions of employment are also regularly reviewed against the prevailing market and benchmarked against competitors to ensure that the Company remains competitive at all levels.
Pension liabilities The Group operates a defined benefit scheme which was closed to new members from 1 June 2005 and was closed to future accrual on 30 September 2009. The current deficit on the scheme is £37.2 million (before deferred tax). If the market value of the scheme's assets decline in relation to its assessed liabilities, the Group may be required to increase its cash contributions to cover funding shortfalls which could have an adverse impact on the Group's operational results.	The valuation under IAS 19 for the scheme as at 31 December 2013 valued the scheme's assets at £592.5 million and liabilities of £629.7 million. An actuarial valuation of the scheme as at 31 March 2010 was concluded during 2010 and Costain agreed a deficit recovery plan with the Trustee. A full actuarial valuation is being carried out as at 31 March 2013. The value of the deficit recognised in the Group's balance sheet pursuant to IAS 19 is dependent on certain critical assumptions, including mortality rates, pension increases, investment returns and inflation and is likely to vary from year to year. The Company reviews the options regarding what actions Costain can take to mitigate its long-term risk and consults professional advisers as necessary.
Acquisitions Failure to integrate successfully an acquired business or recognise and mitigate new and related risks could have a damaging impact on the Group’s future revenue and profits.	Full due diligence is carried out before any acquisition is made. Integration plans are put in place and managed by a dedicated team.
Failure of IT systems Failure of IT systems, inability to manage and/ or to integrate IT systems, as well as the failure to store key documentation securely, could cause financial loss to the Group and expose the Company to breaches of legislation and fines.	A senior executive is responsible for the IT systems and has a suitably qualified team in support. Critical areas are subject to testing and include rapid recovery as well as sound data backup procedures. Online security training is provided for safe usage and storage of documentation.

Costain Group PLC

Results for the year ended 31 December 2013

Consolidated income statement

Year ended 31 December	Notes	**2013**			2012 (restated)		
		Before other items	**Other items**	**Total**	Before other items	Other items	Total
		£m	**£m**	**£m**	£m	£m	£m
Continuing operations							
Revenue	2	**960.0**	**-**	**960.0**	934.5	-	934.5
Less: Share of revenue of joint ventures and associates	9	**(74.8)**	**-**	**(74.8)**	(86.1)	-	(86.1)
Group revenue		**885.2**	**-**	**885.2**	848.4	-	848.4
Cost of sales		**(826.7)**	**-**	**(826.7)**	(794.2)	-	(794.2)
Gross profit		**58.5**	**-**	**58.5**	54.2	-	54.2
Administrative expenses		**(31.1)**	**-**	**(31.1)**	(29.7)	-	(29.7)
Pension liability management		**-**	**-**	**-**	(2.8)	-	(2.8)
Exceptional transaction costs	2	**-**	**(3.7)**	**(3.7)**	-	-	-
Amortisation of acquired intangible assets		**-**	**(1.8)**	**(1.8)**	-	(1.7)	(1.7)
Employment related and other deferred consideration		**-**	**(2.8)**	**(2.8)**	-	(1.7)	(1.7)
Group operating profit		**27.4**	**(8.3)**	**19.1**	21.7	(3.4)	18.3
Profit on sales of interests in joint ventures and associates		**9.1**	**-**	**9.1**	10.5	-	10.5
Share of results of joint ventures and associates	9	**(1.5)**	**(9.8)**	**(11.3)**	(1.4)	-	(1.4)
Profit from operations	2	**35.0**	**(18.1)**	**16.9**	30.8	(3.4)	27.4
Finance income	4	**0.7**	**-**	**0.7**	1.0	-	1.0
Finance expense	4	**(4.7)**	**-**	**(4.7)**	(3.7)	-	(3.7)
Net finance expense		**(4.0)**	**-**	**(4.0)**	(2.7)	-	(2.7)
Profit before tax		**31.0**	**(18.1)**	**12.9**	28.1	(3.4)	24.7
Income tax	5	**(1.8)**	**1.4**	**(0.4)**	(2.2)	0.6	(1.6)
Profit for the year attributable to equity holders of the parent		**29.2**	**(16.7)**	**12.5**	25.9	(2.8)	23.1
Earnings per share							
Basic	6	**44.1p**	**(25.3)p**	**18.8p**	39.7p	(4.3)p	35.4p
Diluted	6	**42.4p**	**(24.3)p**	**18.1p**	38.3p	(4.1)p	34.2p

The impact of business disposals in either year was not material and, therefore, all results are classified as arising from continuing operations.

Consolidated statement of comprehensive income and expense

Year ended 31 December

	2013 £m	2012 (restated) £m
Profit for the year	**12.5**	23.1
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(0.2)**	(1.1)
Cash flow hedges		
Group:		
* Effective portion of changes in fair value during year	**(0.1)**	-
* Net changes in fair value transferred to the income statement	**0.2**	0.1
Joint ventures and associates:		
* Effective portion of changes in fair value (net of tax) during year	**(0.2)**	(0.4)
* Net changes in fair value (net of tax) transferred to the income statement	**1.2**	4.0
Total items that may be reclassified subsequently to profit or loss	**0.9**	2.6
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit liability	**8.6**	(23.0)
Tax recognised on remeasurement of defined benefit liability	**(5.3)**	2.4
Total items that will not be reclassified to profit or loss	**3.3**	(20.6)
Other comprehensive income/(expense) for the year	**4.2**	(18.0)
Total comprehensive income for the year attributable to equity holders of the parent	**16.7**	5.1

Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2012	32.4	3.3	6.1	(4.9)	(6.1)	30.8
Profit for the year	-	-	-	-	23.1	23.1
Other comprehensive income/(expense)	-	-	(1.1)	3.7	(20.6)	(18.0)
Issue of ordinary shares under employee share option plans	0.3	-	-	-	(0.3)	-
Equity-settled share-based payments	-	-	-	-	2.1	2.1
Dividends paid	0.1	0.4	-	-	(6.7)	(6.2)
At 31 December 2012	32.8	3.7	5.0	(1.2)	(8.5)	31.8
At 1 January 2013	**32.8**	**3.7**	**5.0**	**(1.2)**	**(8.5)**	**31.8**
Profit for the year	**-**	**-**	**-**	**-**	**12.5**	**12.5**
Other comprehensive income/(expense)	**-**	**-**	**(0.2)**	**1.1**	**3.3**	**4.2**
Issue of ordinary shares under employee share option plans	**0.5**	**0.6**	**-**	**-**	**(0.3)**	**0.8**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**(1.5)**	**(1.5)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**2.2**	**2.2**
Dividends paid	**0.1**	**0.4**	**-**	**-**	**(7.2)**	**(6.7)**
At 31 December 2013	**33.4**	**4.7**	**4.8**	**(0.1)**	**0.5**	**43.3**

Consolidated statement of financial position

As at 31 December

	Notes	2013	2012
		£m	£m
Assets			
Non-current assets			
Intangible assets	8	**33.0**	18.7
Property, plant and equipment		**7.9**	9.1
Investments in equity accounted joint ventures	9	**27.1**	36.1
Investments in equity accounted associates	9	**0.2**	1.6
Loans to equity accounted associates		**4.8**	2.7
Other		**22.0**	17.5
Deferred tax		**9.8**	17.4
Total non-current assets		**104.8**	103.1
Current assets			
Inventories		**1.6**	1.7
Trade and other receivables		**190.6**	181.5
Cash and cash equivalents	10	**84.3**	107.4
Total current assets		**276.5**	290.6
Total assets		**381.3**	393.7
Equity			
Share capital		**33.4**	32.8
Share premium		**4.7**	3.7
Foreign currency translation reserve		**4.8**	5.0
Hedging reserve		**(0.1)**	(1.2)
Retained earnings		**0.5**	(8.5)
Total equity attributable to equity holders of the parent		**43.3**	31.8
Liabilities			
Non-current liabilities			
Retirement benefit obligations	11	**37.2**	51.9
Other payables		**4.3**	5.0
Provisions for other liabilities and charges		**0.4**	1.9
Total non-current liabilities		**41.9**	58.8
Current liabilities			
Trade and other payables		**266.1**	297.6
Income tax liabilities		**1.6**	1.7
Bank overdrafts	10	**1.6**	1.7
Interest bearing loans and borrowings		**25.0**	-
Provisions for other liabilities and charges		**1.8**	2.1
Total current liabilities		**296.1**	303.1
Total liabilities		**338.0**	361.9
Total equity and liabilities		**381.3**	393.7

Consolidated cash flow statement

Year ended 31 December

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Profit for the year		**12.5**	23.1
Adjustments for:			
Share of results of joint ventures and associates	9	**11.3**	1.4
Finance income	4	**(0.7)**	(1.0)
Finance expense	4	**4.7**	3.7
Income tax	5	**0.4**	1.6
Profit on sales of interests in joint ventures and associates	3	**(9.1)**	(10.5)
Depreciation of property, plant and equipment		**2.4**	2.3
Amortisation of intangible assets		**2.3**	1.8
Employment related and other deferred consideration		**2.8**	1.7
Shares purchased to satisfy employee share schemes		**(1.5)**	-
Share-based payments expense		**2.7**	2.9
Cash from operations before changes in working capital and provisions		**27.8**	27.0
Decrease in inventories		**0.1**	0.6
(Increase)/decrease in receivables		**(12.2)**	4.1
Decrease in payables		**(40.7)**	(48.1)
Movement in provisions and employee benefits		**(7.9)**	(5.9)
Cash used by operations		**(32.9)**	(22.3)
Interest received		**0.6**	1.0
Interest paid		**(2.9)**	(1.8)
Income tax paid		**(0.3)**	-
Net cash used by operating activities		**(35.5)**	(23.1)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		**1.3**	0.6
Additions to property, plant and equipment		**(1.3)**	(0.8)
Additions to intangible assets		**(1.2)**	(0.1)
Proceeds of disposal of property, plant and equipment		**0.2**	0.6
Additions to loans to joint ventures and associates		**(2.2)**	(5.4)
Additions to cost of investments		**(2.7)**	-
Proceeds of sale of interests in associates		**11.7**	-
Acquisition related deferred consideration		**(3.0)**	-
Acquisition of subsidiary (net of acquired cash and cash equivalents and overdrafts)		**(9.4)**	-
Net cash used by investing activities		**(6.6)**	(5.1)
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		**0.8**	-
Ordinary dividends paid		**(6.7)**	(6.2)
Drawdown of revolving credit facility		**25.0**	-
Net cash from/(used by) financing activities		**19.1**	(6.2)
Net decrease in cash, cash equivalents and overdrafts		**(23.0)**	(34.4)
Cash, cash equivalents and overdrafts at beginning of the year	10	**105.7**	140.1
Cash, cash equivalents and overdrafts at end of the year	10	**82.7**	105.7

Notes to the financial statements

1 Basis of preparation

Costain Group PLC ("the Company") is a public limited company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Group and the Group's interests in associates and jointly controlled entities and have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted for use in the EU in accordance with EU law (IAS Regulation EC 1606/2002).

The financial information set out herein (which was authorised for issue by the directors on 26 February 2014) does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies, and those for 2013 will be delivered in advance of the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to fully comply with IFRS.

Accounting policies have been consistently applied in 2013 and the comparative period except the Group has adopted:

- IAS 19 (revised 2011) 'Employee Benefits' (see below)

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' which requires an entity to present the items of other comprehensive income that may be recycled to profit or loss in the future, separately from those that would never be recycled to profit or loss

- Amendments to IFRS 7 'Financial Instruments' – 'Offsetting Financial Assets and Financial Liabilities' changes the disclosure requirements in respect of financial instruments that are set-off in accordance with guidance in IAS 32, and

- IFRS 13 'Fair Value Measurement', which defines fair value with a single definition in a new standard replacing existing guidance on fair value measurement in different IFRSs, providing a framework for measuring fair values and disclosures about fair value measurements.

IAS 19 (revised 2011) 'Employee Benefits' requires the financing cost of a defined benefit scheme to be calculated on the net surplus or deficit. It is effective for 2013 and the 2012 figures have been restated; this has reduced the previously reported operating profit by £0.6 million, increased pension interest expense by £0.8 million and reduced the tax charge by £0.3 million with a corresponding increase in other comprehensive income. Earnings per share has reduced by 1.7p. There is no impact on the pension deficit or cash.

Basis of preparation - continued

The directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009. The directors have considered these requirements, the Group's current order book and future opportunities and its available bonding facilities. Having reviewed the latest projections, including the application of reasonable downside sensitivities, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Significant areas of judgment and estimation

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 judgment and estimation arise from the accounting for long-term contracts under IAS 11 Construction contracts, assessments of the carrying value of land and the carrying value of goodwill and acquired intangible assets and the assumptions used in the accounting for defined benefit pension schemes under IAS 19 Employee benefits.

The majority of the Group's activities are undertaken via long-term contracts and these contracts are accounted for in accordance with IAS 11, which requires estimates to be made for contract costs and revenues. In many cases, these contractual obligations span more than one financial period. Also, the costs and revenues 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.

Management bases its judgments of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations and forecasts of the costs to complete. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates is then reflected in the financial statements.

Alcaidesa Holding SA, one of the Group's joint ventures, operates in the Spanish real estate market and holds land and property within its current and non-current assets. The company has also developed and operates a marina under a long-term concession agreement and two golf courses. At 31 December 2013, a review of the net realisable value of each of its land holdings has been undertaken using external professional valuers. A review of the carrying value of the marina and golf course assets has been undertaken using a discounted cash flow model. As a consequence of those reviews, write downs in the value of Alcaidesa's assets of £9.8m (Costain's share) have been reflected in these financial statements (Note 9).

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires judgments, principally, in respect of growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values.

Defined benefit pension schemes require significant judgments 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 11.

Notes to the financial statements – continued

2 Operating segments

The Group now has two core business segments (see below): Natural Resources and Infrastructure plus the Land Development operations in Spain. The core segments are strategic business units with separate management and have different core customers or offer different services. This information is provided to the Chief Executive who is the chief operating decision maker.

In November 2012, the Group announced the formation of the new Natural Resources operating division, encompassing Water, Oil & Gas, Nuclear Process and Waste sectors. The division combined most of the existing Energy & Process and Environment divisions with some support service activities previously in Infrastructure.

The new divisional structure enables the Group to align itself more closely with its customers' evolving requirements and to combine further its front end process engineering, project delivery and operations capability into an integrated service for customers. Results for the year ended 31 December 2012 have been restated for consistency with 2013.

2013	Natural Resources £m	Infrastructure £m	Land Development £m	Central costs £m	Total £m
Segment revenue					
External revenue	324.6	560.6	-	-	885.2
Share of revenue of joint ventures and associates	73.0	-	1.8	-	74.8
Total segment revenue	397.6	560.6	1.8	-	960.0
Segment profit/(loss)					
Operating profit/(loss)	3.1	31.4	-	(7.1)	27.4
Profit on sale of interest in associates	9.1	-	-	-	9.1
Share of results of joint ventures and associates	0.6	-	(2.1)	-	(1.5)
Profit/(loss) from operations before other items	12.8	31.4	(2.1)	(7.1)	35.0
Other items:					
Exceptional transaction costs	-	-	-	(3.7)	(3.7)
Amortisation of acquired intangible assets	(1.2)	(0.6)	-	-	(1.8)
Employment related and other deferred consideration	(2.1)	(0.7)	-	-	(2.8)
Impairment of assets of joint venture	-	-	(9.8)	-	(9.8)
Profit/(loss) from operations	9.5	30.1	(11.9)	(10.8)	16.9
Net finance expense					(4.0)
Profit before tax					12.9

Costs of £3.7 million associated with the lapsed all share merger with May Gurney Integrated Services plc have been shown within exceptional transaction costs within other items.

2012 (restated)	Natural Resources £m	Infrastructure £m	Land Development £m	Central costs £m	Total £m
Segment revenue					
External revenue	353.5	494.9	-	-	848.4
Share of revenue of joint ventures and associates	84.2	-	1.9	-	86.1
Total segment revenue	437.7	494.9	1.9	-	934.5
Segment profit/(loss)					
Operating profit/(loss)	8.1	23.5	-	(7.1)	24.5
Pension liability management	-	-	-	(2.8)	(2.8)
Profit on sale of interest in joint venture	10.5	-	-	-	10.5
Share of results of joint ventures and associates	0.9	-	(2.3)	-	(1.4)
Profit/(loss) from operations before other items	19.5	23.5	(2.3)	(9.9)	30.8
Other items:					
Amortisation of acquired intangible assets	(0.8)	(0.9)	-	-	(1.7)
Employment related and other deferred consideration	(1.2)	(0.5)	-	-	(1.7)
Profit/(loss) from operations	17.5	22.1	(2.3)	(9.9)	27.4
Net finance expense					(2.7)
Profit before tax					24.7

3 Profit on sales of interests in joint ventures and associates

In December 2013, the Group sold three minority shareholdings in three joint venture companies to Severn Trent Plc for an aggregate cash consideration of £12.0 million, realising a profit of £9.1 million. The three companies were Severn Trent Costain Holdings Limited, Severn Trent Costain Services Limited and Severn Trent Costain Limited.

In February 2012, the Group transferred two PFI investments to The Costain Pension Scheme for £20.3 million realising a profit of £10.5 million. The transfer amount was included as a contribution received by the Scheme (Note 11). The two investments were Integrated Bradford Holdco Two Limited and Lewisham Schools for the Future Holdings 2 Limited.

4 Net finance expense

	2013	2012 (restated)
	£m	£m
Interest income from bank deposits	**0.1**	0.3
Interest income on loans to related parties	**0.6**	0.7
Finance income	**0.7**	1.0
Interest payable on bank overdrafts and other similar charges	**(2.6)**	(1.8)
Interest cost on the net liabilities of the defined benefit pension scheme	**(2.1)**	(1.9)
Finance expense	**(4.7)**	(3.7)
Net finance expense	**(4.0)**	(2.7)

Interest income on loans to related parties relates to shareholder loan interest receivable from investments in equity accounted joint ventures and associates.

5 Income tax

	2013	2012 (restated)
	£m	£m
On profit for the year		
United Kingdom corporation tax at 23.25% (2012: 24.5%) – Adjustment in respect of prior years	**0.1**	0.1
Current tax credit for the year	**0.1**	0.1
Deferred tax charge for current year	**(1.4)**	(1.9)
Adjustment in respect of prior years	**0.9**	0.2
Deferred tax charge for the year	**(0.5)**	(1.7)
Income tax expense in the consolidated income statement	**(0.4)**	(1.6)

	2013	2012 (restated)
	£m	£m
Tax reconciliation		
Profit before tax	**12.9**	24.7
Income tax at 23.25% (2012: 24.5%)	**(3.0)**	(6.1)
Share of results of joint ventures and associates at 23.25% (2012: 24.5%)	**(2.6)**	(0.3)
Disallowed provisions and expenses	**(0.1)**	(0.2)
Non-taxable gains and profits relieved by capital losses	**2.2**	2.6
Utilisation of previously unrecognised temporary differences	**0.7**	1.5
Rate adjustments relating to deferred taxation and overseas profits and losses	**1.4**	0.6
Adjustments in respect of prior years	**1.0**	0.3
Income tax expense in the consolidated income statement	**(0.4)**	(1.6)

6 Earnings per share

The calculation of earnings per share is based on profit of £12.5 million (2012: £23.1 million (restated)) and the number of shares set out below.

	2013 Number (millions)	2012 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**66.3**	65.3
Diluted potential ordinary shares arising from employee share schemes	**2.6**	2.3
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**68.9**	67.6

7 Dividends

	Dividend per share pence	**2013 £m**	2012 £m
Final dividend for the year ended 31 December 2011	6.75	**-**	4.4
Interim dividend for the year ended 31 December 2012	3.50	**-**	2.3
Final dividend for the year ended 31 December 2012	7.25	**4.7**	-
Interim dividend for the year ended 31 December 2013	3.75	**2.5**	-
Amount recognised as distributions to equity holders in the year		**7.2**	6.7
Dividends settled in shares		**(0.5)**	(0.5)
Dividends settled in cash		**6.7**	6.2

8 Intangible assets

	Goodwill £m	**Customer relationships £m**	**Other acquired intangibles £m**	**Software & development £m**	**Total £m**
Cost					
At 1 January 2012	15.2	4.1	1.7	5.1	26.1
Other additions	-	-	-	0.2	0.2
At 31 December 2012	15.2	4.1	1.7	5.3	26.3
At 1 January 2013	**15.2**	**4.1**	**1.7**	**5.3**	**26.3**
Acquired through business combinations	**7.1**	**4.5**	**1.4**	**-**	**13.0**
Additions	**-**	**-**	**2.4**	**1.2**	**3.6**
At 31 December 2013	**22.3**	**8.6**	**5.5**	**6.5**	**42.9**
Amortisation					
At 1 January 2012	-	0.7	0.2	4.9	5.8
Provided in year	-	1.5	0.2	0.1	1.8
At 31 December 2012	-	2.2	0.4	5.0	7.6
At 1 January 2013	**-**	**2.2**	**0.4**	**5.0**	**7.6**
Provided in year	**-**	**0.4**	**1.4**	**0.5**	**2.3**
At 31 December 2013	**-**	**2.6**	**1.8**	**5.5**	**9.9**
Net book value					
At 31 December 2013	**22.3**	**6.0**	**3.7**	**1.0**	**33.0**

At 31 December 2012	15.2	1.9	1.3	0.3	18.7
At 1 January 2012	15.2	3.4	1.5	0.2	20.3

9 Investments

The analysis of Group share of joint ventures and associates is set out below:

	2013				**2012**			
	Alcaidesa Holdings SA £m	**Other joint ventures £m**	**Associates £m**	**Total £m**	Alcaidesa Holdings SA £m	Other joint ventures £m	Associates £m	Total £m
Revenue	**1.8**	**43.1**	**29.9**	**74.8**	1.9	52.9	31.3	86.1
(Loss)/profit before tax	**(11.9)**	**0.4**	**0.3**	**(11.2)**	(2.3)	-	1.3	(1.0)
Income tax	**-**	**-**	**(0.1)**	**(0.1)**	-	-	(0.4)	(0.4)
(Loss)/profit for the year	**(11.9)**	**0.4**	**0.2**	**(11.3)**	(2.3)	-	0.9	(1.4)
Non-current assets	**18.4**	**-**	**0.8**	**19.2**	20.0	-	0.9	20.9
Current assets	**19.6**	**18.3**	**41.2**	**79.1**	29.5	15.3	58.9	103.7
Current liabilities	**(2.6)**	**(17.8)**	**(15.9)**	**(36.3)**	(3.4)	(15.2)	(10.3)	(28.9)
Non-current liabilities	**(8.8)**	**-**	**(25.9)**	**(34.7)**	(10.1)	-	(47.9)	(58.0)
Investments in joint ventures and associates	**26.6**	**0.5**	**0.2**	**27.3**	36.0	0.1	1.6	37.7

During 2013, the Group has re-assessed the carrying value of the assets in its non-core Land Development activity in Spain, which is undertaken in a 50:50 joint venture with Santander Bank. As a consequence of continuing uncertainty regarding future market conditions in Spain, a non-cash impairment has been taken against the assets, the Group's share of which is £9.8 million, reducing Costain's carrying value in the joint venture to £26.6 million.

10 Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by jointly controlled operations of £25.6 million (2012: £29.6 million).

	2013 £m	2012 £m
Cash and cash equivalents	**84.3**	107.4
Bank overdrafts	**(1.6)**	(1.7)
Cash, cash equivalents and overdrafts in the cash flow statement	**82.7**	105.7

11 Pensions

A defined benefit pension scheme is operated in the United Kingdom and a number of defined contribution pension schemes are in place in the United Kingdom and Overseas. Contributions are paid by subsidiary undertakings and employees. The total pension charge in the income statement was £9.2 million comprising £7.1 million included in operating costs plus £2.1 million included in net finance expense (2012: £10.6 million, comprising £8.7 million in operating costs plus £1.9 million in net finance expense).

Defined benefit scheme
The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme is being carried out as at 31 March 2013 and this data was updated to 31 December 2013 by a qualified independent actuary.

	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligations	**(629.7)**	(610.7)	(600.8)
Fair value of scheme assets	**592.5**	558.8	547.9
Recognised liability for defined benefit obligations	**(37.2)**	(51.9)	(52.9)

Movements in present value of defined benefit obligations:

	2013 £m	2012 £m
At 1 January	**610.7**	600.8
Interest cost	**26.2**	27.4
Amendments (Pension Increase Exchange 'PIE')	**-**	(1.7)
Plan Settlements (Enhanced Transfer Value 'ETV')	**-**	(29.3)
Remeasurements	**21.6**	40.7
Benefits paid	**(28.8)**	(27.2)
At 31 December	**629.7**	610.7

Movements in fair value of scheme assets:

	2013 £m	2012 £m
At 1 January	**558.8**	547.9
Interest income	**24.1**	25.5
Remeasurements	**30.2**	17.6
Contributions by employer (2012: including PFI transfer (Note 3))	**8.2**	27.8
Plan Settlements (ETV)	**-**	(32.8)
Benefits paid	**(28.8)**	(27.2)
At 31 December	**592.5**	558.8

Expense recognised in the income statement:

	2013 £m	2012 £m
Pension liability management (ETV and PIE, including costs of £0.9 million)	**-**	(2.8)
Administrative expenses	**(1.1)**	(0.6)
Interest cost on the net liabilities of the defined benefit pension scheme	**(2.1)**	(1.9)
Total	**(3.2)**	(5.3)

Fair value of scheme assets:

	2013 £m	2012 £m
Equities	**175.6**	184.2
Multi-credit (2012: High yield bonds)	**65.7**	46.2
Government bonds	**212.4**	195.8
Infrastructure and property	**64.8**	63.8
Absolute return funds and cash	**74.0**	68.8

Total	**592.5**	558.8

Principal actuarial assumption (expressed as weighted averages):

	2013 %	2012 %
Discount rate	**4.60**	4.40
Future pension increases	**3.20**	2.85
Inflation assumption	**3.30**	2.95

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2013 and 31 December 2012 is:

	2013		2012	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Currently aged 65	**22.0**	**24.5**	21.7	23.8
Non-retirees	**23.8**	**26.4**	24.5	25.6

The discount rate, inflation and pension increase and mortality assumptions have a significant effect on the amounts reported. Changes in these assumptions would have the following effects on the defined benefit scheme:

	Pension liability £m	**Pension cost £m**
Increase discount rate by 0.25%, decreases pension liability and reduces pension cost by	23.7	1.0
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	20.6	0.9
Increase life expectancy by one year, increases pension liability and increases pension cost by	17.6	0.8

Subject to finalisation of the actuarial valuation as at 31 March 2013, the Group expects to make contributions of up to £6 million, plus an element of dividend matching and the expenses of administration to its defined benefit scheme in the next financial year.

Defined contribution schemes
Several defined contribution pensions are operated. The total expense relating to these plans was £6.0 million (2012: £5.3 million).

12 Related party transactions
The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and jointly controlled operations, in relation to the sales of construction services and materials and the provision of staff and with The Costain Pension Scheme. The total value of these services in 2013 was £112.7 million (2012: £126.7 million); transactions with The Costain Pension Scheme are included in Note 11.

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

14 Responsibility statements
The responsibility statement set out below has been prepared in connection with (and will be set out in) the Annual Report and Accounts for the year ended 31 December 2013.

“Each of the directors of the Company confirms that, to the best of his or her knowledge:

- the Group accounts, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and result of the Group taken as a whole; and

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that it faces."

The directors of the Company are David Allvey (Chairman), Andrew Wyllie (Chief Executive), Tony Bickerstaff (Group Finance Director), James Morley (Senior Independent Director), Ahmed Samy (Non-Executive Director), Jane Lodge (Independent Non-Executive Director), Mike Alexander (Independent Non-Executive Director) and Alison Wood (Independent Non-Executive Director).

On behalf of the Board:

DAVID ALLVEY
Chairman

ANDREW WYLLIE
Chief Executive