3 March 2015

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

Results for the year ended 31 December 2014

Costain, the engineering solutions provider, announces another strong performance with increases in revenue and underlying operating profit, a record order book and a recommended final dividend of 6.25 pence per share.

	2014	2013
Revenue[1]	**£1,122.5m**	**£960.0m**
Operating Profit		
- Underlying[2]	**£28.7m**	**£27.4m**
Profit before tax		
- Adjusted[3]	**£28.5m**	**£31.0m**
- Reported	**£22.6m**	**£12.9m**
Basic earnings per share		
- Adjusted[3]	**27.8p**[4]	**41.0p**[5]
- Reported	**22.2p**[4]	**17.6p**[5]
Net Cash balance	**£148.5m**	**£57.7m**
Dividend per share	**9.5p**[4]	**11.5p**

1. Including share of joint ventures and associates
2. 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.
3. Results stated before Other items (as stated in 2 above) and in 2013 a non-cash impairment of £9.8m on carrying value of assets in non-core Land Development activity in Spain.
4. On the enlarged capital base following the capital raise completed in March 2014
5. Restated for the bonus element of the capital raise completed in March 2014

Highlights

- **Another good trading performance**
  - Revenue increased to £1.1 billion (2013: £960.0 million)
  - Underlying operating profit[2] up to £28.7 million (2013: £27.4 million)
- **Enhanced balance sheet with a strong net cash position**
  - Successful capital raise of £70.3 million (net of expenses) completed in March 2014, to take advantage of the growing number of opportunities available to accelerate the Group's development
  - Net cash balance of £148.5 million (2013: £57.7 million)

- **Unique customer focused strategy generating record order book**
  - Record forward order book up 17% to £3.5 billion (2013: £3.0 billion)
  - Over 90% of order book comprises repeat orders and over 90% lower risk target cost, cost reimbursable forms of contract
- **Positive outlook and confidence in the future**
  - Over £1.0 billion of revenue secured for 2015, (as at 31 December 2013: over £750 million secured for 2014)
  - Recommended final dividend of 6.25 pence per share taking the total dividend for the year to 9.5 pence per share on enlarged capital base (2013: 11.5 pence)

David Allvey, Chairman, commented:

"We have delivered another strong performance, with increases in revenue and underlying operating profit and an enhanced net cash position.

"Costain has an established reputation for innovative multi-disciplined services that enables the Group to win large, long-term contracts addressing the UK's national needs in energy, water and transportation.

"This strong market position and the additional capital secured during the year is enabling the Group to accelerate its growth, as demonstrated by a record order book of £3.5 billion."

Enquiries:

Costain **Tel: 01628 842 444**
Andrew Wyllie CBE, Chief Executive
Tony Bickerstaff, Finance Director
Catherine Warbrick, Investor Relations Director
Graham Read, Communications Director

Instinctif Partners **Tel: 020 7457 2020**
Mark Garraway
Helen Tarbet

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

Costain is an engineering solutions provider, delivering integrated consulting, project delivery and operations and maintenance services, with a portfolio spanning 150 years of innovation and technical excellence.

The Group's "Engineering Tomorrow" strategy involves focusing on blue chip customers in Energy, Water and Transportation 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, including the St Pancras Station redevelopment and the Channel Tunnel Rail Link. The Group's 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; the Thames Water eight$_2$0 Alliance asset management programme; and the design and delivery of the water cooling systems for the proposed new nuclear power station at Hinkley for EDF.

There will be a presentation to analysts today at Instinctif Partners, 65 Gresham Street, EC2V 7NQ. To register your attendance please contact james.gray@instinctif.com

The Costain 2014 results film is available at www.costain.com

CHAIRMAN'S STATEMENT

I am delighted to report that Costain had another year of strong performance and made further progress in its corporate development.

Delivering growth

The rigorous implementation of our *"Engineering Tomorrow"* strategy has delivered increases in revenue, underlying operating profit and a record forward order book which now stands at £3.5 billion.

Across the business we have continued to create and deliver innovative solutions to help address critical national needs in energy, water and transportation.

We successfully completed a capital raise of £70.3 million (net of expenses) to enable the business to take greater advantage of opportunities in its chosen markets and thereby accelerate the Group's medium and long-term growth prospects.

Dividend

At the time of the capital raise, the Group confirmed that it intended to continue with a progressive dividend policy, targeting an ongoing dividend cover of around two times underlying earnings.

Our performance and confidence in the long-term prospects for the Group has resulted in the Board recommending a final dividend of 6.25 pence per share on the capital base enlarged by the capital raise completed in March (2013: 7.75 pence per share). On a pro forma basis, allowing for the issue of new shares in connection with the capital raise, this represents an increase of approximately 25% in the total amount of dividend paid to shareholders compared with the total dividend for 2013.

Governance

As Chairman, my priority is to ensure the effectiveness of the Board and, once again, we made good progress in delivering against our objectives. During the year, an externally facilitated evaluation of Board performance was conducted and actions agreed to further improve the effectiveness of the Board.

In 2014, we welcomed two new independent Directors to the Board. Alison Wood joined Costain as a non-executive Director in February, succeeding Mike Alexander as Chair of the Remuneration Committee when he retired from the Board in March. We were also pleased to announce the appointment of David McManus as a non-executive Director in May.

Corporate citizenship

We have an outstanding team at Costain, one that takes its role in society and its corporate responsibility very seriously.

In 2015, Costain is celebrating its 150th anniversary and, to help mark this special occasion, we are undertaking the Costain 150 Challenge, which will change many people's lives by raising £1 million for the Costain Charitable Foundation's four chosen charities: British Heart Foundation, Macmillan Cancer Support, Prince's Trust and Samaritans. A number of fundraising events are taking place across the business.

Outlook

We have delivered another strong performance, with increases in revenue and underlying operating profit and an enhanced net cash position.

Costain has an established reputation for innovative multi-disciplined services that enables the Group to win large, long-term contracts addressing the UK's national needs in energy, water and transportation.

This strong market position and the additional capital secured during the year is enabling the Group to accelerate its growth, as demonstrated by a record order book of £3.5 billion.

David Allvey
Chairman

CHIEF EXECUTIVE'S REVIEW

This has been another good year for Costain, the engineering solutions provider.

Through our unique and focused *"Engineering Tomorrow"* strategy we have successfully positioned the business to provide the range of innovative integrated services demanded by our customers to meet critical national needs in energy, water and transportation.

During the year, we added to our skills and breadth of capability, developed our market proposition through the introduction of new technologies and ensured that we consistently delivered on the commitments given to our customers.

Our capability was further enhanced in March when we successfully completed a capital raise of £70.3 million (net of expenses).

The proceeds are being utilised for a number of purposes including: ensuring the requisite financial capacity to support anticipated further increases in contract size and duration; investing in innovation and technology; financing bid costs; and, providing flexibility to make selected in-fill acquisitions to complement Costain's existing capabilities as opportunities arise.

Market trends and developments

There is growing consensus across the political spectrum of the explicit link between investment in a 21st century infrastructure and the creation of sustainable economic growth and global competitiveness.

The UK Government's 2014 National Infrastructure Plan has set out an overall investment of over £320 billion to 2020-21 in an identified pipeline of projects in the UK, including a further £15 billion announced in December 2014 on road infrastructure.

The UK market is further defined by significant and long-term planned expenditure programmes underpinned by committed regulated spend and essential capital investment. With the majority of this total investment expected to continue to come from the private sector, the opportunities in our markets are substantial.

At the same time, and as we anticipated, the changing nature and increasing complexity of the requirements of the major customers in these markets continues to change fundamentally the way in which they procure services and work with their supplier partners.

These trends have created a rapidly changing and dynamic market environment in which further consolidation has taken place and is expected to continue.

Unique *"Engineering Tomorrow"* strategy

We have been successfully implementing our unique and evolving *"Engineering Tomorrow"* strategy for a number of years. Our target customers are large organisations that need solutions to their complex business requirements.

We are a trusted delivery partner that collaborates strategically at all levels with our customers. We use our detailed customer understanding to create and deliver innovative engineering and technology-led solutions.

We win by developing insightful and trusted relationships with our customers enabling a better understanding of their needs allowing us to identify, create and deliver the best solution. Our strategy is profitable because our customers value our long-term commitment to the relationships and trust us to address their challenges in a collaborative and innovative way.

We sustain our competitive advantage by delivering on our promises and staying ahead using our customer insight to constantly improve our proposition.

Our major customers, who are spending and will continue to spend billions of pounds in meeting national infrastructure needs, 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 providers through larger longer-term contracts. To be successful in the future we must continue to grow the business, both organically and by targeted acquisition, to ensure that we have the scale and capability to satisfy the full range of their service needs for increasingly complex and large scale projects.

Innovation driving value

Engineering, technology and innovation are in the DNA at Costain.

We recognise that no customer will buy the same product, with the same attributes at the same price point year after year. It is essential therefore that we continuously improve the products and services that we provide and enhance value for our customers.

Our ability to develop and offer innovative solutions – often ones which our customers have not previously considered – is a fundamental differentiator. It drives our ability to secure very high levels of repeat business with major customers who regard Costain as a long-term partner in the development, delivery and optimal operation of their assets.

Our contracts now involve a significant amount of collaboration amongst the supply chain, our partners and external stakeholders, such as researchers and universities, utilising the latest in information sharing software and technology.

We have research and development relationships established with eight leading universities and have continued to progress a number of patent applications. We also moved 400 people into our new engineering centre in Manchester.

Innovations, in collaboration with partners, which have added value to our customers' businesses this year, include:

- Use of the Costain '*WeCARE'* system for predictable pre-planned and cost-effective Technology Asset Maintenance using data analytics
- Creation of 3-D models utilising 3-D printing technologies to articulate complex engineering solutions
- Application of manufacturing assembly best practice to achieve significantly accelerated project delivery and cost savings

Good operating results and strong cash position

Revenue, including the Group's share of joint ventures and associates, for the year increased to £1,122.5 million (2013: £960.0 million), circa 30% of which was derived from support service related activities.

Group underlying operating profit increased to £28.7 million (2013: £27.4 million).

Adjusted profit before tax was £28.5 million (2013: £31.0 million); the reduction is due to the significant profit generated in 2013 on the sale of the Group's minority shareholdings in three joint ventures. Adjusted basic earnings per share was 27.8 pence (2013: 41.0 pence), the lower level also reflecting the enlarged capital base following the capital raise completed in March 2014.

The Infrastructure division had an excellent year with increases in revenue, operating profit and order book. The Natural Resources division delivered an operating profit excluding the impact of a provision associated with the legacy Greater Manchester Waste PFI contract awarded in 2007, as detailed below in the Operational Review.

The Group's net cash position at 31 December 2014 was £148.5 million (2013: £57.7 million). The increase in the net cash position reflects the successful £70.3 million (net of expenses) capital raise in March, and benefitted from the timing of positive contract cash flows at the period end. As previously highlighted, the Group's net cash position has changed as we continue to increase our work load with major customers who utilise lower-risk target cost, cost reimbursable contracts. The average month-end net cash was £95.6 million (2013: £50.7 million) and we anticipate small increases from this level going forward.

Record order book

The ability to provide and integrate a wide range of multi-disciplined skills and services, along with our strong market position and reputation for innovation, has enabled us to secure over £1.5 billion worth of large and complex projects and contract extensions during the course of the year which include:

- the delivery of Network Rail's National Electrification Programme;
- appointment to the Highways Agency's Collaborative Delivery Framework;
- a position on three transmission frameworks for National Grid;
- a framework contract with BAE Systems for their submarine site redevelopment programme
- appointment by Southern Water for their AMP 6 investment programme;
- the delivery of EPC services for the upgrade of the Dimlington gas terminal for Perenco

Consequently, the Group's order book has further increased, finishing the year at a new record level of £3.5 billion (31 December 2013: £3.0 billion).

As well as including over £1.0 billion of revenues secured for 2015 (as at 31 December 2013: over £750 million secured for 2014), the order book also provides good long-term visibility with £2.5 billion of revenues secured for 2016 and beyond.

The increasingly strategic nature of Costain's long-term customer relationships has ensured that over 90% of the order book comprises repeat business and, given the complexity of the customer's requirements, over 90% is in a target cost, cost reimbursable, collaborative forms of contract providing good long-term earnings visibility. The Group also has a strong preferred bidder position increased to over £500 million.

Such a level of secured work gives us good reason to look to the future with confidence, especially as the level of active tendering across all our target markets remains high.

The Group's tender success rate is now better than one in three of all opportunities pursued, a win-rate that has improved significantly as a consequence of the implementation of our strategy to focus on the needs of major customers. These customers are increasingly procuring contracts on a larger and longer-term basis, reflected in the fact that over 70% of the Group's order book is for contracts or frameworks with a remaining value in excess of £100m. The average life of a contract in the Group has increased considerably in the last few years and is now over four years in duration.

"Costain Cares"

Our customers continue to place great emphasis on the "good citizen" credentials of their supply chain partners. Given the profile of their businesses and the nature of the activities we undertake, *how* we deliver our services is as important to them as *what* we do. 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.

The management of health and safety is a core value at Costain. We place a priority on the management of Safety, Health and Environment, and the Group's Accident Frequency Rate (AFR) improved to 0.10 (2013: 0.12), which compares favourably with our peer group. We also received 17 Gold Awards from RoSPA, 7 Gold Medals and a prestigious Orders of Distinction. Notwithstanding the improved performance, and in view of the prosecution and fine for health and safety breaches following the death in 2011 of a subcontract worker at a site in Newbury, we recognise that there is still more we must do to achieve our objective of zero accidents.

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

In the year, we retained our Platinum status in the Business in the Community index, recognising our proactive commitment to the environmental and social aspects of our operations.

Costain further improved its position in the annual assessment by Management Today magazine of Britain’s Most Admired Companies, ranking 52nd overall, up from 55th the previous year.

Teamwork

We adopt a “One Costain” philosophy across the Group, and that is evident in the way in which our team of over 3,500 people work together to deliver an outstanding service to customers and deliver strong business performance.

We have continued to develop and enhance skills across the business and there are currently 179 graduates and 80 apprentices on our structured development programmes.

During the year, David Taylor was appointed to the Executive Board as Group Commercial Director, replacing Patrick Bruce who is retiring from the Group in March 2015 after over 40 years of service.

OPERATIONAL REVIEW

We have two core operating and reporting divisions within our business; Infrastructure and Natural Resources.

Our customer-aligned divisional structure has enabled us to continue to focus our resources on identifying and securing the most attractive new business opportunities across the sectors in which we operate.

Infrastructure

The Infrastructure Division, which operates in the Highway, Rail and Power sectors, experienced another year of strong growth as major customers continued to invest in upgrading and renewing the UK's infrastructure assets, encouraged by Government initiatives such as the National Infrastructure Plan.

Revenue (including share of joint ventures and associations) increased to £785.2 million (2013: £560.6 million) whilst adjusted profit from operations rose to £38.3 million (2013: £31.4 million) as the division performed well on existing projects and secured significant new contracts across all its target sectors. Profit margins in the year were at the upper-end of our expectations and included the benefit of the award of gain-share and bonuses on a number of projects.

The order book for the division has grown to £2.3 billion (2013: £1.9 billion) as we have secured significant new orders and contract extensions from customers. We have also delivered several major Early Contractor Involvement (‘ECI’) schemes through the planning and statutory process, prior to commencing delivery phase. The level of tendering activity remains high with a significant opportunity pipeline.

In Highways, Costain continued to build on its status as a leading supplier to the Highways Agency. The Group secured a place on their five-year, £5 billion Collaborative Delivery Framework and was awarded three Smart Motorway schemes as part of the Managed Motorway Programme on which Costain is a long-term partner. The Group also continued to deliver significant maintenance works within the Asset Support Framework and three Managing Agent Contracts. Our broad, multi-disciplinary capability is also enabling close involvement at earlier stages of major projects through ECI schemes, which then lead to contract extensions for the delivery phase, for example on the A556 Knutsford project.

Costain has also continued to be a major supplier to the Welsh Government, with the All Wales Technology contract progressing well and the A465 ECI contract now moving to the construction phase following the Group's successful delivery of the front end engineering and design stage of the project. The Group's work on strengthening the strategically important Hammersmith flyover for Transport for London is also progressing on time and on budget.

In Rail, a Costain joint venture was awarded the largest share of Network Rail's £2bn National Electrification Programme and the Edinburgh to Glasgow Improvement Project. The Group's position as one of the most significant service providers for Crossrail, Europe's largest infrastructure project, was reinforced with the award of the North East Spur contract, whilst Costain's other works for Crossrail at Paddington Station, Bond Street Station and Paddington New Yard continue to progress well.

Her Majesty the Queen opened Reading Station after the critical redevelopment project was handed over ahead of schedule and budget. At London Bridge, one of the busiest transport hubs in the UK, Costain has continued to deliver on key milestones, including the bringing into use of six new platforms.

In Power, the Group is making significant progress delivering National Grid's London Power Tunnels project, which involves the construction of the longest tunnel under London in history. In addition, the Group has also secured repeat work with National Grid following appointment to their high voltage underground and overhead transmission line frameworks.

The Costain team has delivered several key overhead line projects for UK Power Networks and also continues to perform operations and maintenance activities for SSE, E.ON and Scottish Power. The Group is also engaged at the ECI stage with EdF in the development of the Hinkley C new nuclear power plant, designing and developing the cooling system marine tunnel.

Natural Resources

The Natural Resources division encompasses Costain's activities in the Oil & Gas, Nuclear and Water sectors.

Revenue (including share of joint ventures and associations) for the year was £335.0 million (2013: £397.6 million), with adjusted profit from operations, including £4.0 million profit on transfer of interest in associates to The Costain Pension Scheme, of £0.5 million (2013: £12.8 million, including £9.1 million profit on sale of interest in joint ventures). The reduction in revenue reflects our policy of prioritising and allocating tendering resources towards the most attractive opportunities for growth across the Group at any point in time.

The adjusted operating result for the year includes additional costs for the completion of the legacy waste PFI contract awarded in 2007 for the Greater Manchester Waste Disposal Authority as described below. Excluding these costs, the division generated an operating profit and is trading in line with expectations including an increasing level of tendering costs for new work. The division has increased its forward order book to £1.2 billion (2013: £1.1 billion) and is expected to benefit from customer spend in its target markets, which are underpinned by regulatory and legislative requirements.

In Water, the Group continued to deliver successfully AMP-5 frameworks for United Utilities, Southern Water, Severn Trent Water, Welsh Water and Northumbrian Water. Looking to the future, Costain has been awarded places on the five year AMP-6 programmes, which commence in April 2015, for Thames Water, Severn Trent Water and Southern Water. The Group is continuing to deliver the large waste water treatment plants at Liverpool and Woolston, and completed the award winning Brighton & Hove scheme. In addition, work commenced on the Shieldhall contract with Scottish Water.

Costain continued to broaden its specialist capabilities in the Oil & Gas market where it believes it will continue to secure new work although there will be some impact from the recent falls in the oil price. In 2014, the Group secured a contract with Centrica Energy for EPC services as part of the Barrow Gas Terminals Project, and also with Perenco for its Freon replacement project at Dimlington.

We continue to deliver support services for the Oil and Pipelines Agency, including operations, maintenance and upgrade services across its network of jet fuel pipelines and storage facilities, with a further one-year extension being awarded in the year. Costain Upstream, which delivers asset development and asset improvement consulting services from its base in Aberdeen, has performed well, and continued to secure new work including an extension to the Premier Oil framework.

In Nuclear, the Group is now a major contract partner with BAE having been appointed to its £300 million, eight year programme to re-develop the submarine site in Barrow-in-Furness. The delivery of Evaporator-D construction at the Sellafield Nuclear Reprocessing Facility in West Cumbria continues as expected. The Fuel Element Debris dissolution facility at Bradwell was successfully handed over for active commissioning.

During December, handover was achieved on the final waste facility on the legacy Greater Manchester Waste Disposal Authority PFI contract awarded in 2007. All 46 facilities on the contract are now either fully completed or in the warranty period under the terms of the contract during which further work and plant modifications will be completed. In achieving handover of the final facility, we received in December contractual retention and milestone payments of £14 million. As previously reported, Costain is in discussions with relevant contract counterparties and the Group's insurers regarding the issues that have arisen on this contract. The Board expects a successful outcome to these discussions. In 2014, a provision has been taken for additional costs to complete the project. It has been the Group's policy since 2009 not to pursue fixed price contracts of this nature.

We completed the Parkway development in Newbury, a mixed retail and residential project, and reached agreement on the final account for the work with our client. Following legal proceedings, a fine of £0.5 million for health and safety breaches relating to the death of a contract worker at the site in 2011 was incurred.

Land Development

The Group's 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 for residential and hotel development. It also holds two leisure businesses, a golf club and 624-berth yacht marina, adjacent to Gibraltar. Both leisure activities have reported improving revenue streams, particularly in the marina where the boat repair yard is in demand and is assisting in raising marina occupancy.

Whilst the Spanish economy continues to show signs of improvement, there remains considerable uncertainty as to when significant recovery will be achieved. Revenue was £2.3 million (2013: £1.8 million) and the loss after tax was £1.3 million (2013: £2.1 million). As anticipated, no significant land sales were completed in the year

Outlook

We have delivered a strong performance, and successfully completed a capital raising to enable the Group to accelerate its growth. We are excited by the many opportunities that lie ahead and, with an outstanding team and record order book, we look forward to reporting on further progress in 2015.

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.

Group revenue, including share of joint ventures and associates, was £1,122.5 million for the year to 31 December 2014 (2013: £960.0 million). The Group generated a 5% increase in underlying[1] operating profit to £28.7 million (2013: £27.4 million). The increased profit reflects the Group's continued focus on long-term repeat orders with blue chip customers.

Profit before tax, before other items[2], for the year was £28.5 million (2013: £31.0 million). Basic earnings per share, before other items[2], amounted to 27.8 pence (2013: 41.0 pence). Reported basic earnings per share were 22.2 pence (2013[3]: 17.6 pence).

Profit before tax, before other items, includes profits on the transfer or disposal of the Group's PFI equity portfolio and in 2014, the Group transferred its remaining two PFI investments into The Costain Pension Scheme ("CPS") at a value agreed with the Trustee of the scheme of £7.4 million, which resulted in a profit on the transfer of £4.0 million. In 2013, the Group sold its minority shareholdings in three joint venture companies as part of the disposal of this portfolio, for an aggregate consideration of £12.0 million. The Group realised a profit of £9.1 million as a result of this sale.

The Group secured a number of new contracts and extensions and the Group's order book increased to £3.5 billion (31 December 2013: £3.0 billion).

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.

Capital Raising

On 18 March 2014, the Group successfully completed the raising of £70.3 million (net of expenses) of new capital. The proceeds are being, and 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 customers;
- to finance bid costs associated with a greater number of large scale projects for which the Group 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.

[1]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.
[2] Results stated before Other items (as stated in 1 above) and in 2013 a non-cash impairment of £9.8m on carrying value of assets in non-core Land Development activity in Spain.
[3] Restated for bonus element of the capital raise completed in March 2014.

Interest

Net finance expense amounted to £3.6 million (2013: £4.0 million). The interest payable on bank overdrafts, loans and other similar charges was £2.2 million (2013: £2.6 million) and the interest income from bank deposits and other loans and receivables amounted to £0.7 million (2013: £0.7 million). In addition, the net finance expense includes the interest cost on the net liabilities of the pension scheme of £1.4 million (2013: £2.1 million) and £0.7 million (2013: £Nil) unwind of discount on deferred consideration.

Tax

The Group's effective rate of tax was 7.1% of the profit before tax (2013: 3.1%). 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 reduction in the rate of corporation tax to 20%.

Dividend

The Board has recommended a final dividend for the year of 6.25 pence per share (2013: 7.75 pence per share) to bring the total for the year to 9.5 pence per share (2013: 11.5 pence per share). The reduction in dividend per share is due to the increase in the number of shares as a result of the new capital raised during the year.

In accordance with the pension deficit recovery plan agreed with the Trustee of the CPS, the Group will make an additional cash contribution to the pension scheme to match the total deficit contribution to the total amount of dividends paid to shareholders.

Shareholders' Equity

Shareholders' equity increased in the year to £110.8 million (2013: £43.3 million). The profit for the year amounted to £21.0 million and other comprehensive expenses to £16.1 million. The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements. The most significant change to shareholders' equity resulted from the capital raise completed during the year.

Pensions

As at 31 December 2014, the Group's pension scheme deficit in accordance with IAS 19, net of deferred tax, was £33.4 million (2013: £29.4 million). The scheme deficit position has increased primarily as a result of a reduction in the discount rate used to calculate the liabilities offset by a decrease in the assumed inflation rate, the return on assets and company contributions.

As part of the ongoing actions to manage the Group's pension obligations, in 2014, the Group transferred its interest in two PFI investments into the CPS at a value agreed with the Trustee of the scheme of £7.4 million.

In the year, agreement was reached with the Trustee of the CPS regarding the triennial actuarial review as at 31 March 2013 and the associated deficit recovery plan. As anticipated, the annual cash contribution to the scheme deficit has been agreed at £7.0 million per annum (increasing annually with inflation) plus an additional contribution to bring the total contributions to match the total dividend amount paid by the Company over the next three years.

Cash Flow and Borrowings

The Group has a positive cash balance, which was £148.5 million as at 31 December 2014 (2013: £84.3 million) and no borrowings (2013: £26.6 million), this included cash held by joint operations of £24.1 million (2013: £25.6 million).

As set out in the consolidated cash flow statement, the Group had a positive operating cash flow, together with outflows for payment of dividends and pension deficit contributions. The cash balance was enhanced by the £70.3 million capital raising completed during the year. The average month-end net cash balance during 2014 was £95.6 million (2013: £50.7 million).

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. The Group has contract bonding and banking facilities of £495 million with a maturity date of 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, mainly non-core Land Development in Spain, 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, to finance its operations. 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.

Tony Bickerstaff
Finance Director

PRINCIPAL RISKS AND UNCERTAINTIES

This section highlights the principal risks and uncertainties facing the Group together with the key mitigating activities in place to manage those risks.

The Board formally reviews the material risks and ensures 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**
Health, Safety and Environment • Failure to prevent a major safety incident/accident or environmental event which could adversely affect the Group's reputation and its operational and financial performance	The Health and Safety of our people and everyone who is impacted by Costain remains our highest priority. Accordingly, Costain has detailed Health and Safety policies in place to minimise such risks. 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. A Health and Safety committee also meets monthly to develop a consistent approach and consider best practice. Performance metrics in the Group's Annual Incentive Plan also include a key non-financial indicator for Health & Safety.
Political, economic and market conditions • Change in Government and policy on spending • Residual effects of the global economic downturn resulting in contracts being cancelled or postponed	The strategy of the Group is to focus on major customers in the UK energy, water and transportation markets. These 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's National Infrastructure Plan has identified investment of over £320 billion to 2020-21 in an identified pipeline of projects in the UK, including a further £15 billion announced in December 2014 on road infrastructure. The plan has identified that the funding for investment will be 65.6% from the private sector, 13.8% representing a mix of public and private sources and 20.6% from the public sector.

Risk and Impact	Mitigation
Financial strength • Unable to demonstrate to customers the required level of financial resource resulting in failure to win long-term contracts • Inability to maintain competitive scale in a consolidating market • Failure to maintain adequate working capital to operate the business	The Group has a strong balance sheet with a positive net cash position and no significant debt. In March 2014, the Group successfully completed a capital raise of £70.3 million (net of expenses) to enable the business to take greater advantage of the opportunities in its chosen markets and therefore accelerate the Group's medium and long-term growth prospects. The capital raise significantly increased the net asset base of the Company. The Group has in place extensive unutilised banking and bonding facilities.
Winning new work • Competition and failure to win work	The Group's unique "*Engineering Tomorrow*" strategy focuses on blue-chip customers whose major spending plans are underpinned by strategic national needs, regulation commitments or essential maintenance requirements. The Group has successfully developed strong relationships with these customers across a range of markets in energy, water and transportation that need solutions to their complex business requirements. The Group regularly monitors the pipeline of opportunities available. The Group's ongoing drive, both organically and by acquisition, to broaden its skills and breadth of capability, develop its market proposition through the introduction of new technologies and its strong brand and excellent reputation for delivery, will also provide it with a competitive edge.
Operational delivery • Failure to deliver the services to the time, cost or quality required in the contract • Failure to assess accurately risks, costs, time, or contractual terms • Design faults • Procurement delay or failure • Failure to obtain/renew insurance or refusal of claim by insurers	Costain has in place policies, processes and procedures for the tendering, preparation, planning and delivery of contracts. These are brought together in "the Costain Way" setting out the requirements for all employees. 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 contract leaders' meetings take place to discuss safety, progress, quality, cost, financial performance, end forecast and risk, etc. 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

Risk and Impact	Mitigation
	Group's procedures in line with the changing business.
Supply chain/joint venture risks • Failure of subcontractors, suppliers, joint venture partners resulting in failure to deliver contracts on time and to budget	The Group seeks to ensure that it is not over-reliant on any one subcontractor, supplier or joint venture partner. In addition, the Group maintains a list of preferred subcontractors and suppliers which is reviewed regularly. The Group 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 Group has in use an external audit system to ensure compliance by its preferred and strategic suppliers.
People and skills • Failure to attract, retain and develop a best-in-class team in an increasingly competitive market may limit the Group's ability to grow the business as anticipated	To support its goal to develop a best-in-class team, the Group's remuneration policy is designed to attract and retain high-calibre individuals in an increasingly competitive market and to remunerate fairly, whilst not encouraging inappropriate business risk to be taken. Pay and conditions of employment are also regularly reviewed against the prevailing market and bench marked against competitors to ensure that the Group remains competitive at all levels. The Group 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 Group also seeks to actively engage with employees through engagement surveys.
Pension liabilities • Failure to manage the Group's pension scheme so that the liabilities are within a range appropriate to its capital base which could have an adverse impact on the Group's operational results	The Group manages a legacy defined benefit scheme and continually reviews the actions it can take to mitigate long-term risk and consults professional advisers, as necessary. The scheme was closed to new members from 1 June 2005 and to future accrual on 30 September 2009. A number of other actions have been taken to manage the obligations in the scheme, including the transfer of assets into the scheme and the implementation of Enhanced Transfer Value and Pension Increase Exchange exercises. A full actuarial valuation of the scheme as at 31 March 2013 was concluded during 2014 and the Group agreed a deficit recovery plan with the Trustee.

Risk and Impact	Mitigation
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 and progress monitored against pre-agreed performance indicators.
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 Group 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. The Group is accredited to ISO /IEC 27001:2005 Information Security Management System

Results for the year ended 31 December 2014

Consolidated income statement

Year ended 31 December	Notes	2014 Before other items £m	2014 Other items £m	2014 Total £m	2013 Before other items £m	2013 Other items £m	2013 Total £m
Continuing operations							
Revenue	2	**1,122.5**	**-**	**1,122.5**	960.0	-	960.0
Less: Share of revenue of joint ventures and associates	9	**(50.7)**	**-**	**(50.7)**	(74.8)	-	(74.8)
Group revenue		**1,071.8**	**-**	**1,071.8**	885.2	-	885.2
Cost of sales		**(1,011.6)**	**-**	**(1,011.6)**	(826.7)	-	(826.7)
Gross profit		**60.2**	**-**	**60.2**	58.5	-	58.5
Administrative expenses		**(31.5)**	**-**	**(31.5)**	(31.1)	-	(31.1)
Exceptional transaction costs	2	**-**	**-**	**-**	-	(3.7)	(3.7)
Amortisation of acquired intangible assets		**-**	**(3.0)**	**(3.0)**	-	(1.8)	(1.8)
Employment related and other deferred consideration		**-**	**(2.2)**	**(2.2)**	-	(2.8)	(2.8)
Group operating profit		**28.7**	**(5.2)**	**23.5**	27.4	(8.3)	19.1
Profit on sales of interests in joint ventures and associates		**4.0**	**-**	**4.0**	9.1	-	9.1
Share of results of joint ventures and associates	9	**(1.3)**	**-**	**(1.3)**	(1.5)	(9.8)	(11.3)
Profit from operations	2	**31.4**	**(5.2)**	**26.2**	35.0	(18.1)	16.9
Finance income	4	**0.7**	**-**	**0.7**	0.7	-	0.7
Finance expense	4	**(3.6)**	**(0.7)**	**(4.3)**	(4.7)	-	(4.7)
Net finance expense		**(2.9)**	**(0.7)**	**(3.6)**	(4.0)	-	(4.0)
Profit before tax		**28.5**	**(5.9)**	**22.6**	31.0	(18.1)	12.9
Income tax	5	**(2.2)**	**0.6**	**(1.6)**	(1.8)	1.4	(0.4)
Profit for the year attributable to equity holders of the parent		**26.3**	**(5.3)**	**21.0**	29.2	(16.7)	12.5
Earnings per share							
Basic*	6	27.8p	(5.6)p	22.2p	41.0p	(23.4)p	17.6p
Diluted*	6	27.2p	(5.5)p	21.7p	39.4p	(22.5)p	16.9p

The impact of business disposals in either year was not material and, therefore, all results are classified as arising from continuing operations.
* 2013 has been restated for the bonus element in the 2014 capital raise.

Consolidated statement of comprehensive income and expense

Year ended 31 December

	2014 £m	2013 £m
Profit for the year	**21.0**	12.5
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(2.0)**	(0.2)
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	**0.1**	0.2
Joint ventures and associates:		
Effective portion of changes in fair value (net of tax) during year	**-**	(0.2)
Net changes in fair value (net of tax) transferred to the income statement	**-**	1.2
Total items that may be reclassified subsequently to profit or loss	**(1.9)**	0.9
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**(15.7)**	8.6
Tax recognised on remeasurement of defined benefit obligations	**1.5**	(5.3)
Total items that will not be reclassified to profit or loss	**(14.2)**	3.3
Other comprehensive (expense)/income for the year	**(16.1)**	4.2
Total comprehensive income for the year attributable to equity holders of the parent	**4.9**	16.7

Consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
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 (expense)/income	-	-	(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
At 1 January 2014	**33.4**	**4.7**	**4.8**	**(0.1)**	**-**	**0.5**	**43.3**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**21.0**	**21.0**
Other comprehensive (expense)/income	**-**	**-**	**(2.0)**	**0.1**	**-**	**(14.2)**	**(16.1)**
Issue of ordinary shares under employee share option plans	**0.4**	**0.2**	**-**	**-**	**-**	**(0.3)**	**0.3**
Issue of ordinary shares under capital raise (note 6)	**16.7**	**-**	**-**	**-**	**53.6**	**-**	**70.3**
Transfer (note 6)	**-**	**-**	**-**	**-**	**(53.6)**	**53.6**	**-**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**-**	**(2.0)**	**(2.0)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**1.7**	**1.7**
Dividends paid	**0.1**	**0.6**	**-**	**-**	**-**	**(8.4)**	**(7.7)**
At 31 December 2014	**50.6**	**5.5**	**2.8**	**-**	**-**	**51.9**	**110.8**

Consolidated statement of financial position

As at 31 December

	Notes	2014 £m	2013 £m
Assets			
Non-current assets			
Intangible assets	8	**31.0**	33.0
Property, plant and equipment		**10.0**	7.9
Investments in equity accounted joint ventures	9	**25.5**	27.1
Investments in equity accounted associates	9	**0.3**	0.2
Loans to equity accounted associates		**1.7**	4.8
Other		**31.8**	22.0
Deferred tax		**9.2**	9.8
Total non-current assets		**109.5**	104.8
Current assets			
Inventories		**1.3**	1.6
Trade and other receivables		**197.1**	190.6
Cash and cash equivalents	10	**148.5**	84.3
Total current assets		**346.9**	276.5
Total assets		**456.4**	381.3
Equity			
Share capital		**50.6**	33.4
Share premium		**5.5**	4.7
Foreign currency translation reserve		**2.8**	4.8
Hedging reserve		**-**	(0.1)
Retained earnings		**51.9**	0.5
Total equity attributable to equity holders of the parent		**110.8**	43.3
Liabilities			
Non-current liabilities			
Retirement benefit obligations	11	**41.7**	37.2
Other payables		**4.5**	4.3
Provisions for other liabilities and charges		**0.1**	0.4
Total non-current liabilities		**46.3**	41.9
Current liabilities			
Trade and other payables		**296.3**	266.1
Income tax liabilities		**1.5**	1.6
Bank overdrafts	10	**-**	1.6
Interest bearing loans and borrowings		**-**	25.0

Provisions for other liabilities and charges	**1.5**	1.8
Total current liabilities	**299.3**	296.1
Total liabilities	**345.6**	338.0
Total equity and liabilities	**456.4**	381.3

Consolidated cash flow statement

Year ended 31 December

	Notes	2014 £m	2013 £m
Cash flows from operating activities			
Profit for the year		**21.0**	12.5
Adjustments for:			
Share of results of joint ventures and associates	9	**1.3**	11.3
Finance income	4	**(0.7)**	(0.7)
Finance expense	4	**4.3**	4.7
Income tax	5	**1.6**	0.4
Profit on sales of interests in joint ventures and associates	3	**(4.0)**	(9.1)
Depreciation of property, plant and equipment		**2.0**	2.4
Amortisation of intangible assets		**3.4**	2.3
Employment related and other deferred consideration		**2.2**	2.8
Shares purchased to satisfy employee share schemes		**(2.0)**	(1.5)
Share-based payments expense		**2.2**	2.7
Cash from operations before changes in working capital and provisions		**31.3**	27.8
Decrease in inventories		**0.3**	0.1
Increase in receivables		**(16.3)**	(12.2)
Increase/(decrease) in payables		**33.1**	(40.7)
Movement in provisions and employee benefits		**(4.8)**	(7.9)
Cash from/(used by) operations		**43.6**	(32.9)
Interest received		**0.7**	0.6
Interest paid		**(3.6)**	(2.9)
Income tax paid		**(0.1)**	(0.3)
Net cash from/(used by) operating activities		**40.6**	(35.5)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		**0.1**	1.3
Additions to property, plant and equipment		**(5.3)**	(1.3)
Additions to intangible assets		**(0.8)**	(1.2)
Proceeds of disposal of property, plant and equipment		**0.6**	0.2
Additions to loans to joint ventures and associates		**-**	(2.2)
Additions to cost of investments		**(1.7)**	(2.7)
Repayment of loans to joint ventures and associates		**0.1**	-
Proceeds of sales of interests in associates		**-**	11.7
Acquisition related deferred consideration		**(3.3)**	(3.0)
Acquisition of interest in joint operation		**(2.4)**	-
Acquisition of subsidiary (net of acquired cash and cash equivalents and overdrafts)		**-**	(9.4)
Net cash used by investing activities		**(12.7)**	(6.6)
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		**70.6**	0.8

Ordinary dividends paid		**(7.7)**	(6.7)
(Repayment)/drawdown of revolving credit facility		**(25.0)**	25.0
Net cash from financing activities		**37.9**	19.1
Net increase/(decrease) in cash, cash equivalents and overdrafts		**65.8**	(23.0)
Cash, cash equivalents and overdrafts at beginning of the year	10	**82.7**	105.7
Cash, cash equivalents and overdrafts at end of the year	10	**148.5**	82.7

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 2014 comprise the Group and the Group's interests in associates, joint ventures and joint operations 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 2 March 2015) does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013 but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 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 2014 and the comparative period.

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 arrangements, 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 has developed and operates two golf courses. At 31 December 2014, a review of the net realisable value of its land holdings and golf course assets has been undertaken using external professional valuers. A review of the carrying value of the marina has been undertaken using a discounted cash flow model. As a consequence of those reviews, no write downs in the value of Alcaidesa's assets were required in these financial statements.

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 has two core business segments: 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.

2014	Natural Resources £m	Infrastructure £m	Land Development £m	Central costs £m	Total £m
Segment revenue					
External revenue	301.5	770.3	-	-	1,071.8
Share of revenue of joint ventures and associates	33.5	14.9	2.3	-	50.7
Total segment revenue	335.0	785.2	2.3	-	1,122.5
Segment profit/(loss)					
Operating profit/(loss)	(3.5)	38.3	-	(6.1)	28.7
Profit on sale of interest in associates	4.0	-	-	-	4.0
Share of results of joint ventures and associates	-	-	(1.3)	-	(1.3)
Profit/(loss) from operations before other items	0.5	38.3	(1.3)	(6.1)	31.4
Other items:					
Amortisation of acquired intangible assets	(1.5)	(1.5)	-	-	(3.0)
Employment related and other deferred consideration	(2.2)	-	-	-	(2.2)
Profit/(loss) from operations	(3.2)	36.8	(1.3)	(6.1)	26.2
Net finance expense					(3.6)
Profit before tax					22.6

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 joint venture	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 were shown as exceptional transaction costs within Other items.

3 Profit on sales of interests in joint ventures and associates

In December 2014, the Group transferred two PFI investments, Lewisham Schools for the Future Holdings 3 Limited and Lewisham Schools for the Future Holdings 4 Limited, to The Costain Pension Scheme for £7.4 million. The transfer amount was included as a contribution received by the Scheme.

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. The three companies were Severn Trent Costain Holdings Limited, Severn Trent Costain Services Limited and Severn Trent Costain Limited. As a result of the sale, the Group realised a profit of £9.1 million. £1.2 million of fair value adjustments on the PFI financial assets relating to cash flow hedges were recycled through the income statement as part of this profit.

4 Net finance expense

	2014 £m	2013 £m
Interest income from bank deposits	**0.2**	0.1
Interest income on loans to related parties	**0.5**	0.6
Finance income	**0.7**	0.7
Interest payable on bank overdrafts, interest bearing loans, borrowings and other similar charges	**(2.2)**	(2.6)
Unwind of discount on deferred consideration	**(0.7)**	-
Interest cost on the net liabilities of the defined benefit pension scheme	**(1.4)**	(2.1)
Finance expense	**(4.3)**	(4.7)
Net finance expense	**(3.6)**	(4.0)

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

	2014 £m	2013 £m
On profit for the year		
United Kingdom corporation tax at 21.5% (2013: 23.25%) – Adjustment in respect of prior years	**-**	0.1
Current tax credit for the year	**-**	0.1
Deferred tax charge for current year	**(2.2)**	(1.4)
Adjustment in respect of prior years	**0.6**	0.9
Deferred tax charge for the year	**(1.6)**	(0.5)
Income tax expense in the consolidated income statement	**(1.6)**	(0.4)

	2014 £m	2013 £m
Tax reconciliation		
Profit before tax	**22.6**	12.9
Income tax at 21.5% (2013: 23.25%)	**(4.9)**	(3.0)
Share of results of joint ventures and associates at 21.5% (2013: 23.25%)	**(0.3)**	(2.6)
Disallowed provisions and expenses charged to reserves	**0.2**	(0.1)
Non-taxable gains	**0.9**	2.2
Utilisation of previously unrecognised temporary differences	**0.3**	0.7
Research and Development tax relief for current year	**0.7**	-
Rate adjustment relating to deferred taxation and overseas profits and losses	**0.9**	1.4
Adjustments in respect of prior years, mainly Research and Development tax relief claims	**0.6**	1.0
Income tax expense in the consolidated income statement	**(1.6)**	(0.4)

6 Earnings per share

The calculation of earnings per share is based on profit of £21.0 million (2013: £12.5 million) and the number of shares set out below.

	2014 Number (millions)	2013 Number (millions) restated*
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**94.6**	71.2
Dilutive potential ordinary shares arising from employee share schemes	**2.1**	2.9
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**96.7**	74.1

* The number of shares has been adjusted for the bonus element within the 2014 capital raise.

On 27 February 2014, the Group announced a capital raise of £70.3 million (net of expenses) by way of an issue of 33,382,068 ordinary shares of 50 pence each at 225 pence per share. 11,111,112 shares were to be issued through a firm placing and 22,270,956 through a placing and open offer. The capital raise was completed successfully on 18 March 2014.

The capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

7 Dividends

	Dividend per share pence	**2014 £m**	2013 £m
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
Final dividend for the year ended 31 December 2013	7.75	**5.2**	-
Interim dividend for the year ended 31 December 2014	3.25	**3.2**	-
Amount recognised as distributions to equity holders in the year		**8.4**	7.2
Dividends settled in shares		**(0.7)**	(0.5)
Dividends settled in cash		**7.7**	6.7

8 Intangible assets

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Software & development £m	Total £m
Cost					
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
At 1 January 2014	**22.3**	**8.6**	**5.5**	**6.5**	**42.9**
Reclassifications from property, plant and equipment	**-**	**-**	**-**	**0.6**	**0.6**
Additions	**-**	**-**	**-**	**0.8**	**0.8**
Disposals	**-**	**-**	**-**	**(0.2)**	**(0.2)**
At 31 December 2014	**22.3**	**8.6**	**5.5**	**7.7**	**44.1**
Amortisation					
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
At 1 January 2014	**-**	**2.6**	**1.8**	**5.5**	**9.9**
Provided in year	**-**	**1.5**	**1.5**	**0.4**	**3.4**
Disposals	**-**	**-**	**-**	**(0.2)**	**(0.2)**
At 31 December 2014	**-**	**4.1**	**3.3**	**5.7**	**13.1**
Net book value					
At 31 December 2014	**22.3**	**4.5**	**2.2**	**2.0**	**31.0**
At 31 December 2013	22.3	6.0	3.7	1.0	33.0
At 1 January 2013	15.2	1.9	1.3	0.3	18.7

9 Investments

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

	2014				**2013**			
	Alcaidesa Holding SA £m	**Other joint ventures £m**	**Associates £m**	**Total £m**	Alcaidesa Holding SA £m	Other joint ventures £m	Associates £m	Total £m
Revenue	**2.3**	**41.7**	**6.7**	**50.7**	1.8	43.1	29.9	74.8
(Loss)/profit before tax	**(0.8)**	**(0.2)**	**0.2**	**(0.8)**	(11.9)	0.4	0.3	(11.2)
Income tax	**(0.5)**	**-**	**-**	**(0.5)**	-	-	(0.1)	(0.1)
(Loss)/profit for the year	**(1.3)**	**(0.2)**	**0.2**	**(1.3)**	(11.9)	0.4	0.2	(11.3)
Non-current assets	**16.1**	**-**	**-**	**16.1**	18.4	-	0.8	19.2
Current assets	**18.6**	**12.0**	**3.5**	**34.1**	19.6	18.3	41.2	79.1
Current liabilities	**(1.8)**	**(11.7)**	**(1.8)**	**(15.3)**	(2.6)	(17.8)	(15.9)	(36.3)
Non-current liabilities	**(7.7)**	**-**	**(1.4)**	**(9.1)**	(8.8)	-	(25.9)	(34.7)
Investments in joint ventures and associates	**25.2**	**0.3**	**0.3**	**25.8**	26.6	0.5	0.2	27.3

10 Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by joint operations of £24.1 million (2013: £25.6 million).

	2014 £m	2013 £m
Cash and cash equivalents	**148.5**	84.3
Bank overdrafts	**-**	(1.6)
Cash, cash equivalents and overdrafts in the cash flow statement	**148.5**	82.7

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 £7.8 million included in operating costs plus £1.4 million included in net finance expense (2013: £9.2 million, comprising £7.1 million in operating costs plus £2.1 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 was carried out as at 31 March 2013 and this was updated to 31 December 2014 by a qualified independent actuary.

	2014 £m	2013 £m	2012 £m
Present value of defined benefit obligations	**(701.0)**	(629.7)	(610.7)
Fair value of scheme assets	**659.3**	592.5	558.8
Recognised liability for defined benefit obligations	**(41.7)**	(37.2)	(51.9)

Movements in present value of defined benefit obligations

	2014 £m	2013 £m
At 1 January	**629.7**	610.7
Interest cost	**28.3**	26.2
Remeasurements	**71.2**	21.6
Benefits paid	**(28.2)**	(28.8)
At 31 December	**701.0**	629.7

Movements in fair value of scheme assets

	2014 £m	2013 £m
At 1 January	**592.5**	558.8
Interest income	**26.9**	24.1
Remeasurements	**55.5**	30.2
Contributions by employer	**12.6**	8.2
Benefits paid	**(28.2)**	(28.8)
At 31 December	**659.3**	592.5

Contributions by the employer in 2014 included the transfer of two PFI investments, Lewisham Schools for the Future Holdings 3 Limited and Lewisham Schools for the Future Holdings 4 Limited, at an agreed amount of £7.4 million.

Expense recognised in the income statement

	2014 £m	2013 £m
Administrative expenses	**(0.8)**	(1.1)
Interest cost on the net liabilities of the defined benefit pension scheme	**(1.4)**	(2.1)
	(2.2)	(3.2)

Fair value of scheme assets

	2014 £m	2013 £m
Equities	**146.1**	175.6
Multi-credit	**66.8**	65.7
Government bonds	**307.5**	212.4
Infrastructure and property	**73.6**	64.8
Absolute return funds and cash	**65.3**	74.0

	659.3	592.5

Principal actuarial assumption (expressed as weighted averages)

	2014 **%**	2013 %
Discount rate	**3.60**	4.60
Future pension increases	**2.85**	3.20
Inflation assumption	**2.90**	3.30

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2014 and 31 December 2013 is:

	2014		2013	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Currently aged 65	**22.1**	**24.6**	22.0	24.5
Non-retirees	**23.9**	**26.5**	23.8	26.4

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	27.5	1.0
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	24.0	0.9
Increase life expectancy by one year, increases pension liability and increases pension cost by	21.2	0.8

The Group expects to make contributions of approximately £7.0 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 £7.0 million (2013: £6.0 million).

12 Related party transactions
The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and joint 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 2014 was £127.5 million (2013: £112.7 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 2014.

"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 profits/losses of the Company (and 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 Company (and of the Group taken as a whole), together with a description of the principal risks and uncertainties that they face."

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

On behalf of the Board:

DAVID ALLVEY
Chairman

ANDREW WYLLIE
Chief Executive

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