**2 March 2016**

# Costain Group PLC

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

## Results for the year ended 31 December 2015

**Costain, the engineering solutions provider, announces another strong performance with increases in revenue and underlying operating profit, a record order book and a recommended 16% increase in the final dividend to 7.25 pence per share.**

| | 2015 | 2014 |
|---|---|---|
| **Revenue**[1] | **£1,316.5m** | **£1,122.5m** |
| **Operating Profit** | | |
| - Underlying[2] | **£33.2m** | **£28.7m** |
| **Profit before tax** | | |
| - Adjusted[2] | **£29.9m** | **£28.5m** |
| - Reported | **£26.0m** | **£22.6m** |
| **Basic earnings per share** | | |
| - Adjusted[2] | **25.1p** | **27.8p**[3] |
| - Reported | **21.8p** | **22.2p**[3] |
| **Net Cash balance** | **£108.2m** | **£148.5m** |
| **Dividend per share** | **11.0p** | **9.5p** |

1. Including share of joint ventures and associates
2. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration
3. 2014 earnings per share benefited from a lower tax charge and was based on a lower average number of shares than in 2015

### Highlights

- **Another strong trading performance**
  - Revenue[1] increased to £1.3 billion (2014: £1.1 billion)
  - Underlying[2] operating profit up 16% to £33.2 million (2014: £28.7 million)
- **Customer focused strategy generating record order book**
  - Record forward order book up 11% to £3.9 billion (2014: £3.5 billion)
  - Over 90% of order book comprises repeat orders and over 90% lower risk target cost, cost reimbursable forms of contract
- **Accelerating growth both organically and by acquisition**
  - Successful acquisition of Rhead Group for £36 million with integration complete
  - Banking and bonding facilities increased to £525 million and extended to 2020
  - Strong net cash position of £108.2 million (2014: £148.5 million)
- **Good visibility for the future**
  - Over £1.1 billion of revenue secured for 2016, (as at 31 December 2014: over £1.0 billion secured for 2015); £2.8 billion of revenue secured for 2017 and beyond
  - Recommended final dividend of 7.25 pence per share (2014: 6.25 pence), increasing the total dividend for the year by 16% to 11.0 pence per share (2014: 9.5 pence)

**David Allvey, Chairman, commented:**

***"We have again delivered a strong performance with growth in both revenue and profit. Our order book has reached a new record level of £3.9 billion, providing good forward visibility.***

***"Our success is the direct result of our 'Engineering Tomorrow' strategy, with focused organic growth and targeted acquisition. We further reinforced Costain's position as a tier-one supplier providing the broad range of innovative integrated services demanded by our major customers who are spending billions of pounds enhancing the UK's energy, water and transportation infrastructures.***

***"This unique market position is allowing Costain to accelerate its growth, and our confidence is reflected in the recommendation to increase the total dividend for the year by 16%."***

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There will be a presentation to analysts today at 09:30 at Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. To register your attendance please contact rosie.driscoll@instinctif.com.

The Costain 2015 results film is available at www.costain.com

**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 core business segments are in energy, water and transportation.

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, 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.

## CHAIRMAN'S STATEMENT

We have once again delivered a strong performance and saw further progress in the Group's corporate development.

### Delivering growth

Our unique and focused *'Engineering Tomorrow'* strategy has successfully positioned the business to provide the range of innovative integrated services demanded by our major customers who are spending billions of pounds upgrading and renewing the UK's energy, water and transportation infrastructures.

That strategy has enabled Costain to deliver further increases in revenue, underlying operating profit and a record forward order book which has increased to £3.9 billion.

In addition to our organic growth, we successfully completed the acquisition of Rhead Group, a programme management consultancy, further enhancing the range of services available to our customers.

### Dividend

The Group has a progressive dividend policy, targeting an ongoing dividend cover of around two times underlying earnings.

Our performance and confidence in the prospects for the Group has resulted in the Board recommending a final dividend of 7.25 pence per share (2014: 6.25 pence) which, if approved, will be paid on 20 May 2016 to shareholders on the register as at 15 April 2016. This represents an increase of 16% in the total dividend for the year to 11.0 pence per share (2014: 9.5 pence).

### Governance

As Chairman, my priority is to ensure the effectiveness of the Board, making sure that the Group has a robust strategy and the best management team in place to implement it. Successfully achieving these objectives facilitates the continuing development, growth and sustainability of the business.

We measure the Board's effectiveness by holding an externally facilitated evaluation of Board performance every three years and take appropriate action where required. The most recent external evaluation was in 2014, and so last year we undertook an internal follow-up review which confirmed that we were making good progress against the agreed actions.

### Board

In September 2015, Mr Ahmed Samy, a non-executive Director, and the nominee on the Board of Mohammed Abdulmohsin Al Kharafi & Sons Co. W.L.L. ('Kharafi'), stepped down from the Board when Kharafi's holding fell below the level at which they were entitled to a nominee directorship.

It was announced in November 2015, that after fourteen years as non-executive Director, the last seven as Chairman, I would retire from the Board during the course of 2016. Accordingly, James Morley, Senior Independent Director, is currently running a process to identify and appoint my successor.

It has been a great privilege for me to be Chairman of Costain at such an exciting time in its development and having the opportunity to meet and work with so many inspirational colleagues across the Group. I will step down from a business with an outstanding Board and Management team implementing a successful growth strategy and I look forward to hearing of its further progress.

### Corporate citizenship

Costain takes seriously its wider corporate responsibility and the role the business plays in society. That corporate perspective is also integral to the development of long-term relationships with our blue-chip customers who increasingly place a demonstrable commitment to corporate responsibility high on their selection criteria for preferred suppliers.

As an example of that commitment, both corporately and individually, last year Costain celebrated its 150th anniversary by successfully completing the 'Costain 150 Challenge' which set out to raise £1 million for the Costain

Charitable Foundation's four chosen charities: British Heart Foundation, Macmillan Cancer Support, Prince's Trust and Samaritans.  Thanks to the fund-raising efforts of so many people, and the pound for pound matching by Costain of the first £500,000 raised, we exceeded significantly our target, raising a total of £1,137,351.

**Outlook**

We have again delivered a strong performance with growth in both revenue and profit. Our order book has reached a new record level of £3.9 billion, providing good forward visibility.

Our success is the direct result of our 'Engineering Tomorrow' strategy, with focused organic growth and targeted acquisition.  We further reinforced Costain's position as a tier-one supplier providing the broad range of innovative integrated services demanded by our major customers who are spending billions of pounds enhancing the UK's energy, water and transportation infrastructures.

This unique market position is allowing Costain to accelerate its growth, and our confidence is reflected in the recommendation to increase the total dividend for the year by 16%.

**David Allvey**
**Chairman**

## CHIEF EXECUTIVE'S REVIEW

### Delivering on our stated objective of accelerating growth

Costain had another strong year during which we saw good progress in line with our stated objective of accelerating the growth of the Group, both organically and by targeted acquisition.

We further developed our market proposition through the introduction of new technologies, added to our skills and breadth of capability, successfully completed the acquisition of Rhead Group, and ensured that we consistently delivered on the commitments given to our customers.

### Unique *'Engineering Tomorrow'* strategy producing results

Our performance is a direct result of our focussed 'Engineering Tomorrow' strategy to position the Group as one of a limited number of tier-one suppliers able to provide the broad range of innovative integrated services demanded by our major customers who are spending billions of pounds upgrading and renewing the UK's energy, water and transportation infrastructures.

By developing trusted strategic relationships, which enable us to gain a better understanding of our customers' needs, we can identify, create and deliver innovative engineering and technology-led solutions.

Our customers value our investment in and commitment to long-term relationships built on mutual trust and can rely on Costain as a strategically collaborative delivery partner of choice.

### Delivering a 21$^{st}$-century infrastructure

We have previously referred to the explicit link between investment in a 21$^{st}$-century infrastructure and the creation of sustainable economic growth and global competitiveness.

Addressing the UK's urgent strategic national infrastructure needs, whether it is ensuring the security of future energy sources, providing a safe and reliable water supply or upgrading road and rail transport, has resulted in the implementation of multi-billion long-term investment programmes.

These programmes are defined by significant and long-term planned expenditure 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.

Central Government also increasingly recognises the urgency of meeting these national needs and in October 2015 formed the National Infrastructure Commission, which follows on from the 2014 National Infrastructure Plan which set out an overall investment of over £320 billion to 2020-21.

These investment programmes provide substantial business opportunities for Costain.

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.

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 providers through larger longer-term contracts. Therefore, to be successful in the future, and to address one of our key business risks, we must continue to grow the business both organically and by targeted acquisition, ensuring that we have the scale and capability to satisfy the full range of our customers' service needs to deliver their increasingly large-scale and complex requirements. With 17% revenue growth and the acquisition of Rhead Group in 2015, we are making good progress towards achieving our stated objectives.

**Enhancing our professional service**

Our major customers demand continuous innovation from their tier-one suppliers. Identifying, creating and delivering evermore innovative engineering and technology-led solutions requires significant investment in people, products and services.

At Costain we believe that the success of the Group is built on the strength and experience of our people. It is essential, therefore, that we continue to attract, retain and develop our 'best-in-class' team.

Costain today has over 4,100 people, up 16% on the prior year, of whom over 1,000 are in consulting, advisory and design service roles. During 2015 there were 218 graduates on our award-winning graduate development programme, a 69% increase over the past three years, and 107 apprentices, up from 80 in the prior year, on a structured development programme undergoing training across a broad range of disciplines.

Crucial to the efficient leverage of the investment we make in our people is our 'One Costain' philosophy, deployed across the Group, whereby we ensure that everyone at Costain works collaboratively, deploying innovations across the business and knowledge-sharing for the benefit of all. This approach delivers an outstanding service to customers and drives strong business performance.

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

Along with our engineering centre in Manchester, where over 350 of our people are based, we have research and development relationships currently with eleven leading universities and with whom we continue to progress a number of patent applications.

This investment in people and R&D last year resulted in a number of exciting innovations including:

- deploying robotic drilling machinery and automated equipment for the installation of critical operating systems in Crossrail tunnels as part of our C610 contract, accelerating delivery of the project and resulting in a major cost saving for the customer
- live-trialling 'self-healing' materials on the A465, a strategic road development for the Welsh Government, potentially extending significantly the life of an ageing and critical infrastructure asset
- combining advanced analytics and manufacturing principles with digital construction techniques to design and deliver off-site new modules and treatment processing, halving the cost of maintaining critical water infrastructure.

**Strong trading performance**

Revenue, including the Group's share of joint ventures and associates, for the year increased 17% to £1,316.5 million (2014: £1,122.5 million).

Group underlying operating profit increased 16% to £33.2 million (2014: £28.7 million).

Adjusted profit before tax was £29.9 million (2014: £28.5 million). Adjusted basic earnings per share was 25.1 pence (2014: 27.8 pence). The reduction in the earnings per share is due to the 2014 results benefitting from a lower tax charge, including a non-taxable gain generated in the year, and being based on a lower number of average shares than in 2015.

In the year, the Infrastructure division recorded material increases in revenue, operating profit and order book. In the same period, the results of the Natural Resources division were impacted significantly by further costs in relation to the legacy Greater Manchester Waste PFI contract awarded in 2007, as detailed below in the Operational Review.

Costain finished the year with a strong net cash position of £108.2 million (2014: £148.5 million). This follows significant investment in the Group's strategic development including the £36 million acquisition in August 2015 of Rhead Group, which has been fully integrated and which will be earnings enhancing in 2016. The average month-end net cash for the year was £103.7 million (2014: £95.6 million). The average balance has reduced since the acquisition investment in August, as would be expected.

**Record order book**

The Group's blue-chip customers continued to invest in upgrading and renewing the UK's energy, water and transportation infrastructures. Costain's strong market position, reputation for innovation and wide range of integrated services enabled us to secure over £1.7 billion of contracts and contract extensions during the year (2014: over £1.5 billion), including:

- Development of the M4 corridor around Newport for the Welsh Government
- Underground link between the Crossrail and Bakerloo line platforms at Paddington station
- Two sections of the A14 improvement scheme for Highways England
- Contract for the East works package of the Thames Tideway Tunnel in London
- Two new key Asset Support contracts for Highways England

The Group's order book further increased, finishing the year at a new record level of £3.9 billion (31 December 2014: £3.5 billion). This includes over £1.1 billion of revenues secured for 2016 (as at 31 December 2014: over £1.0 billion secured for 2015). The order book also provides good medium-term visibility with £2.8 billion of revenues secured for 2017 and beyond.

The strategic nature of Costain's long-term customer relationships has once again ensured that over 90% of the order book comprises repeat business. We deliberately work with major customers who utilise target cost, cost reimbursable contracts as the most appropriate contract form to deliver their complex and changing requirements. As a consequence, over 90% of the order book is in this lower-risk form of contract.

As well as a record order book, Costain has also maintained a strong preferred bidder position which, as at 31 December 2015, stood at over £500 million, and the Group is actively tendering for work across all its target markets.

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 a key performance measure and continues to be better than one in three. It is a strategic priority for the Group to maintain this level of tender success.

The Group's customers are increasingly procuring contracts on a larger and longer-term basis, reflected in the fact that over 75% of the Group's order book is for contracts or frameworks with a remaining value in excess of £100 million.

**Operational Review**

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

During the year, we took the opportunity to combine all the nuclear activities across the Group into one business unit within the Infrastructure division. This action will enable a more concentrated focus on the opportunities in the nuclear market, driven by investment in new energy solutions and the pressing need to deal with the UK's legacy nuclear infrastructure. Separately, we further realigned the divisions by moving the power activities across to the Natural Resources division. The divisional results for 2014 have therefore been restated to reflect the net impact of this activity realignment.

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

***Infrastructure***

The Infrastructure Division, which operates in the highways, rail and nuclear markets, experienced another year of strong growth as major customers continued to invest in upgrading and renewing the UK's key infrastructure assets, with spending underpinned by Government policies including the National Infrastructure Plan, and increasing regulatory requirements.

Revenue (including share of joint ventures and associations) increased to £996.1 million (2014 restated: £765.8 million) whilst adjusted profit from operations rose to £50.9 million (2014 restated: £34.4 million) as the division once again performed well on existing projects and secured significant new contracts and contract extensions. Profit margins in the year were again at the upper-end of our expectations benefitting from further contract out-performance incentives.

The order book for the division has grown to £2.8 billion (2014: £2.3 billion). We continued to be successful in navigating major programmes through the planning and consent processes using the Early Contractor Involvement Contract ('ECI') model. The level of tendering activity remains high with a significant opportunity pipeline.

In highways, Costain continued to strengthen its relationship with Highways England (formerly the Highways Agency), securing significant new contracts, contract extensions and delivering major programmes for this customer in the year. New awards included works on the Smart Motorway Programme and two out of the three lots to deliver the A14 upgrade. Costain has continued to deliver significant sections of the M1 Managed Motorway Programme and successfully installed a new bridge under the Immingham to Ulceby railway line as part of the A160 Immingham Port Access Improvement Scheme.

Costain has also been awarded, by Highways England, two new key Asset Support Contracts ('ASCs') which cover the long-term maintenance and development of highways on the country's Trunk Road Network. The ASCs are for Area 4 (Sussex and Kent) and Area 12 (Yorkshire and Humberside) and will both run from June 2016 for five years with the potential for a three-year extension.

In addition, in January 2016 the Group secured, a seven-year contract from East Sussex County Council to provide a comprehensive design, maintenance and improvement service covering over 2,000 miles of highways in the county.

The complex and innovative Hammersmith Flyover Strengthening contract was delivered ahead of schedule for Transport for London. Good progress is being made in delivering the M6 Heysham Link Road for Lancashire County Council, and also on the A465 Head of the Valleys project for the Welsh Government. The Welsh Government also awarded the Group the ECI contract for the M4 Corridor around Newport during the period.

In rail, Costain continued to deliver on significant projects for Crossrail, a long-term customer of the Group. Work continued at Paddington and Bond Street Stations and Paddington New Yard. During the year, Costain also achieved the significant milestone of laying the first section of track for the important C610 System-wide contract to provide the major fit out of railway systems and track across the network.

During the year, London Underground awarded Costain the contract for the new underground link from the Bakerloo Line to Paddington Station. The Group also successfully delivered all key milestones on the Bond Street Station upgrade contract for this customer.

Good progress continued to be made on London Bridge Station for Network Rail. This complex and large scale redevelopment project is now more than 50% complete and remains on schedule. Work on the Kent Multifunctional Framework continued as planned.

ABC, Costain's Joint Venture with Alstom and Babcock, continued to play a key role on Network Rail's West Coast Mainline Power Upgrade contract and is also working on the delivery phases of the electrification of the Edinburgh to Glasgow Improvement Programme, the London North West (South) area and the Great Western Route Modernisation programme.

Costain continues to deliver consulting services to HS2, with major procurement tenders expected later this year. Costain should be well-placed to secure a major part of this work, drawing on the Group's extensive relevant expertise and skills acquired during the delivery of HS1 and Crossrail.

In nuclear, progress continues on the Evaporator-D project at the Sellafield Nuclear Reprocessing Facility as the project moves into the commissioning phase. The Group also continued to develop several contracts of work with EdF to advance their plans to build Hinkley C New Nuclear Power Station in advance of their final investment decision.

***Natural Resources***

The Natural Resources division encompasses Costain's activities in the water, power and oil & gas markets.

Revenue (including share of joint ventures and associations) for the year was £317.6 million (2014 restated: £354.4 million), with adjusted loss from operations of £10.8 million (2014 restated: £4.4 million profit).

The result includes further costs and provisions in respect of the legacy Greater Manchester Waste Disposal Authority PFI contract awarded in 2007 and, excluding which, the division generated an operating profit.

As was reported in the Group's full-year results for the year ending 31 December 2014, all 46 facilities on the Greater Manchester Waste Disposal Authority PFI contract were either fully completed or in the warranty period under the terms of the contract during which further work and plant modifications were to be completed. During the course of that further work in 2015, a number of additional issues have been identified and are being addressed. The Group has incurred further costs and has taken additional provisions to reach Final Acceptance on the project, which is expected in the second half of 2016, and to complete the remaining works in a time appropriate to the operational running of the plants. 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. It has been the Group's policy since 2009 not to pursue fixed price contracts of this nature.

The division's performance was also impacted by the decline in oil prices which resulted in delays in customer spending on North Sea projects.

The division has a forward order book of £1.1 billion (2014: £1.2 billion) and the level of estimating and tendering is high.

In water, the Group has now successfully mobilised the delivery of the AMP-6 five year programmes for Thames Water, Severn Trent Water and Southern Water, resulting in an increase in revenue in the second half of the year. These programmes require a full range of integrated capabilities, reflecting the successful broadening of Costain's offer; the Group is also using innovation to deliver significant efficiency savings to the programme. The new Shieldhall tunnel project for Scottish Water has now mobilised and is operating on schedule and within budget.

During the year, Costain's joint venture was awarded the Thames Tideway East section project and is working on the early contractor involvement phase of this major infrastructure scheme to deliver a new and urgently needed giant sewer to protect the tidal River Thames from pollution and to provide London with a sewerage network fit for the 21$^{st}$-century.

During the year Costain also continued to close out AMP-5 frameworks for United Utilities, Southern Water and Severn Trent Water. A number of AMP-5 contracts will continue into the current year, including the waste water treatment plants at Liverpool and Woolston.

In power, the Group continued to deliver both advisory and programme management services to customers, including operations and maintenance contracts for SSE, Scottish Power and E.ON on their fossil fuel fleet of power stations. Commissioning work for National Grid on the 33km London Power tunnel contract continues as planned.

In August the Group completed the £36 million acquisition of Rhead Group, a professional services consultancy providing a range of solutions for the lifecycle of infrastructure, construction and asset management programmes for blue-chip customers including National Grid, Wales & West Utilities and BAE Systems. The business has been fully integrated and will be earnings enhancing in the current financial year.

In oil & gas, Costain continued to deliver to its customers a broad range of specialist capabilities in across its upstream, midstream and downstream activities. Despite challenging conditions across all market segments, Costain continued to secure new repeat order work for its front end design studies, programme management, complex project delivery and asset support, including new work with Total for a Condensate Mercury Removal System for its Edradour-Glenlivet facility.

During the year the Group successfully completed its B-TOP contract for Centrica at Barrow; and continued the delivery of the Dimlington project for Perenco and gas process design services for National Grid. The Group's reputation for its focus on innovation and value delivery was recognised in two major awards at the Institution of Chemical Engineers (IChemE) Global Awards 2015.

***Alcaidesa***

Until July 2015 our non-core land development activities in Alcaidesa, southern Spain, were undertaken in joint venture with Santander Bank and focussed on our leisure businesses of golf courses and a 624-berth marina, with a continued moratorium on development activity on the land bank of over 500 hectares.

In July 2015, we announced, by mutual agreement with our partner, that we had completed a reorganisation of the joint venture that resulted in the assets being split equally between the parties. Santander took ownership of the two largest pieces of development land held by the joint venture and assumed a portion of the outstanding debt. Costain now owns the Alcaidesa Group, which incorporates the operating assets of the golf courses, the associated parcel of land and the marina concession, adjacent to Gibraltar, and has retained its portion of the debt, amounting to €11.5 million.

Revenue for the year was £2.8 million (2014: £2.3 million) with a loss from operations of £0.9 million (2014: £1.3 million loss). Through the latter half of the year, the Spanish economy, whilst still challenging, demonstrated signs of further improvement and both of Costain's leisure assets have reported improving revenue streams.

**"Costain Cares"**

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 its best ever level of 0.08 (2014: 0.10), which also compares favourably with our peer group. We also received 32 RoSPA awards which included two Orders of Distinction, 2 Presidents Awards and 3 Gold Medals. Notwithstanding this industry leading safety performance, the Group has had a number of serious safety incidents in the year and is committed to continually improving the safety of everyone involved in the Company's activities.

Our Heysham to M6 Link project won the prestigious RoSPA Astor Trophy which is a major award presented to the Company demonstrating the best management of occupational health. This is particularly significant as Costain is the first construction company to win it.

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 achieved 94% in the Business in the Community corporate responsibility index (average CR Index score 91%), recognising our proactive commitment to the environmental and social aspects of our operations.

Costain was named the UK's 'Most Admired Heavy Construction Company' for the first time in the Management Today league table of 'Britain's Most Admired Companies', and achieved an improved overall ranking of 33rd out of 247 overall against 55th in 2014.

Our customers 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.

**Continuing to accelerate growth**

Costain's strategy is to focus on major customers spending billions of pounds addressing national needs in energy, water and transportation. The UK market is defined by significant and long-term planned expenditure programmes underpinned by committed regulated spend and essential capital investment.

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. Consequently, those customers are consolidating their supply chains and are seeking an increasingly integrated service offering from their tier-one service providers through larger, longer-term collaborative contracts.

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

Costain will continue to accelerate its pace of growth through a combination of organic growth and targeted acquisitions as it continues to meet its customers' needs as a tier-one supplier.

**Outlook**

We have once again delivered a strong performance and, with a record order book, have good visibility over and confidence in the future.

We are excited about the evolving trends in our marketplace and see significant opportunity ahead which we believe, with our outstanding team, we are well placed to take advantage of.

We look forward to reporting on further progress in 2016.

**ANDREW WYLLIE, CBE**
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.*

**Overview**

In 2015 the Group has had another year of strong financial performance with increases in revenue and profit, a new record order book and a good net cash position. This performance reflects the effective implementation of the Group's focused strategy which has now delivered 5 successive years of increase in underlying operating profit.

In addition, investment has been made in enhancing the Group's skills and capabilities through the acquisition made in the period. The Group continues to attract good support from its banking and surety bond providers and has renewed and enhanced its facilities during the year.

Group revenue, including share of joint ventures and associates, was £1,316.5 million for the year to 31 December 2015 (2014: £1,122.5 million). The Group generated a 16% increase in underlying operating profit to £33.2 million (2014: £28.7 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, for the year was £29.9 million (2014: £28.5 million). Basic earnings per share, before other items, amounted to 25.1 pence (2014: 27.8 pence). Reported basic earnings per share were 21.8 pence (2014: 22.2 pence). The reduction in the earnings per share is due to the 2014 results benefitting from a lower tax charge, including a non-taxable gain generated in the year, and was based on a lower number of average shares than in 2015.

The Group secured a number of new contracts and extensions and the Group's order book increased to £3.9 billion (31 December 2014: £3.5 billion).

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

**Acquisitions**

On 14 August 2015, the Group acquired the Rhead Group, a professional services consultancy with a focus on programme and commercial management. The Rhead Group operates with over 550 people and provides a range of solutions for the lifecycle of infrastructure, construction and asset management programmes, principally in the UK. The acquisition was made for a total consideration of £36 million on a debt free/cash free and normalised working capital basis. £3 million of the consideration has been deferred and is payable in two equal tranches in August 2016 and August 2017.

During the year the Group, by mutual agreement with its joint venture partner, reorganised the net assets held by the non-core Costain-Santander joint venture ("JV") in Spain. The reorganisation resulted in Costain acquiring the partner's 50% stake in the JV and the partner acquiring certain real estate assets owned by the JV and assuming €8.5 million of the JV's bank debt. The reorganisation also included the repayment by Costain of the remaining debt in the JV of €11.5 million.

**Interest**

Net finance expense amounted to £3.5 million (2014: £3.6 million). The interest payable on bank overdrafts, loans and other similar charges was £2.7 million (2014: £2.2 million) and the interest income from bank deposits and other loans and receivables amounted to £0.8 million (2014: £0.7 million). In addition, the net finance expense includes the interest cost on the net liabilities of the pension scheme of £1.3 million (2014: £1.4 million) and £0.3 million (2014: £0.7 million) unwind of discount on deferred consideration.

**Tax**

The Group's effective rate of tax was 14.6% of the profit before tax (2014: 7.1%). The lower than normal rate of tax arose owing to Research and Development tax relief and the reversal of timing differences including the use of tax losses not previously recognised as deferred tax assets.

**Dividend**

The Board has recommended a final dividend for the year of 7.25 pence per share (2014: 6.25 pence per share) to bring the total for the year to 11.0 pence per share (2014: 9.5 pence per share).
In accordance with the pension deficit recovery plan agreed with the Trustee of The Costain Pension Scheme ("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 £120.6 million (2014: £110.8 million). The profit for the year amounted to £22.2 million and other comprehensive expenses to £3.9 million. The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements.

In 2014, the Group successfully completed the raising of £70.3 million (net of expenses) of new capital, significantly enhancing the shareholders' equity position.

**Pensions**

As at 31 December 2015, the Group's pension scheme deficit in accordance with IAS 19, net of deferred tax, was £29.4 million (2014: £33.4 million). The scheme deficit position has reduced primarily as a result of an increase in the discount rate used to calculate the liabilities, the return on assets and company contributions, offset by an increase in the assumed inflation rate.

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 accordance with the agreement reached with the Trustee of the CPS regarding the triennial actuarial review as at 31 March 2013 and the associated deficit recovery plan, the annual cash contribution to the scheme deficit is £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 three years from the 31 March 2013. The next actuarial review date is 31 March 2016.

**Cash flow and borrowings**

The Group has a positive cash balance, which was £146.7 million as at 31 December 2015 (2014: £148.5 million) and borrowings of £38.5 million (2014: £Nil). This included cash held by joint operations of £42.7 million (2014: £24.1 million).

The decrease in the net cash position reflects a positive operating cash flow offset by working capital on the continued growth in lower-risk target cost, cost reimbursable contracts, the payment of acquisition related consideration, dividend payments and pension deficit contributions. The average month-end net cash balance during 2015 was £103.7 million (2014: £95.6 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. During the year the Group has increased its contract bonding and banking facilities to £525 million and extended the maturity date to 30 June 2020 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 activities 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.

**Anthony Bickerstaff**
Finance Director
02 March 2016

## Principal Risks and Uncertainties

The table below lists the principal risks and uncertainties facing the Group at the date of this report and the mitigations that we have in place to manage the impact of these risks upon the business. This list is not intended to be exhaustive. Some risks have not been included in this review on the basis that they are not considered to be material.

In the 2014 report, a risk relating to the competence of the Company's supply chain was included. As a result of the implementation of increased levels of control to manage the supply chain, this risk has reduced and is now better considered alongside operational delivery risks.

| Risk and impact | Risk appetite | Mitigation |
|---|---|---|
| **1) Health, Safety and Environment**<br>• 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<br>• Failure to deliver ongoing improvements to performance result in failure to secure new work | Costain recognises that we operate in a high-risk field but we have a zero tolerance approach to the safety and health of our workforce and other stakeholders, and in relation to the protection of the environment. | • The health and safety of our people and everyone who is impacted by Costain remains our highest priority.<br>• Detailed Health, Safety and Environment management processes.<br>• The Costain Behavioural Safety (CBS) programme, accredited by The Cambridge Centre for Behavioural Studies, is used to create an environment where, through exhibiting leadership, everyone understands the importance of taking responsibility for their own safety and those around them.<br>• Regular monitoring visits by experienced professionals and senior leaders from across the business, and on-site training take place to reduce the risk of human error.<br>• Any breaches in procedures are reported quickly and acted upon as appropriate.<br>• Performance metrics in the Group's Annual Incentive Plan also include a key non-financial indicator for Health and Safety. |
| **2) Political, economic and market conditions**<br>Whilst the long-term nature of Costain's contracts limits sudden fluctuations, changes in the cost of Costain doing business or reductions in the addressable market could arise as a result of:<br>• Changes in Government policy on spending including an increased burden on corporate entities<br>• The result of the EU referendum | Costain's business is based on taking informed decisions on the future market conditions but this can only happen where there is a high level of insight. | • Our focus is on major customers in the UK energy, water and transportation markets defined by significant and long-term expenditure programmes underpinned by committed regulated spend and essential capital investment, e.g. the UK Government's National Infrastructure Plan has identified investment of over £320 billion to 2020-21.<br>• Increasingly longer period of contracts providing significant |

| Risk and impact | Risk appetite | Mitigation |
|---|---|---|
| • The changing nature of China's influence on the UK market | | protection from immediate change to Government policy.<br>• Monitoring of policy development via industry Groups and close contact with customers in our target markets. |
| **3) Financial strength**<br>Costain must establish sufficient financial strength to operate its business. Without this the Group will:<br>• Be unable to demonstrate to customers the required level of financial resource resulting in failure to win long-term contracts<br>• Be unable to maintain a competitive scale in a consolidating market within the engineering sector<br>• Fail to maintain adequate working capital to operate the business | Costain prioritises its financial strength to ensure it can continue to win work.<br>• Foreign currency exposure risk to be hedged.<br>• Parent company guarantee is the preferred option, and any performance bonds to be a maximum of 10% and surety bonds are preferred.<br>• There is zero tolerance to fraud and bribery. | • A strong balance sheet including positive net cash position.<br>• Extensive unutilised banking and bonding facilities, increased and extended in 2015.<br>• The strategic use of joint venture partners to help achieve the required financial and operational strength in markets where this is not demonstrated by the Group in isolation. |
| **4) Winning new work**<br>Costain maintains a pipeline of orders that now extends to £3.9 billion. There is a need for Costain to continue to innovate in order to win further work and maintain a leading position in the sector which could be at risk from:<br>• Competition and failure to win work from core customers<br>• Costain not being able to demonstrate the ability to provide an end-to-end delivery function | Costain has no appetite for winning work that will impact the financial strength of the business:<br>• Only sectors and customers which form part of the Group strategy to be pursued.<br>• Target cost is the preferred contract form.<br>• All contracts to be at least cash neutral.<br>• Operations are to be in line with the Group Commercial expectations document. | • The order book at year end stands at £3.9 billion, an increase of 11% from 2014, providing long-term visibility of earnings.<br>• A focus on blue-chip customers whose major spending plans are underpinned by strategic national needs, regulation commitments or essential maintenance requirements by following the Group's unique 'Engineering Tomorrow' strategy.<br>• In 2015, the Group acquired the Rhead Group to further enhance its scale and ability to provide end-to-end delivery services.<br>• Continuing to develop and maintain strong relationships with customers across key markets on the back of our track record for delivery.<br>• Regularly monitoring pipeline opportunities and ensuring resources are centrally allocated to the most advantageous business development activities.<br>• Continuously striving to broaden the skills and breadth of our capability (organically and by acquisition) to meet the increasingly broad requirements of the market.<br>• Continuing to develop the |

| Risk and impact | Risk appetite | Mitigation |
| --- | --- | --- |
| | | Group's market proposition through the introduction of new technologies and the strong Costain brand. |
| **5) Operational delivery**<br>Costain delivers works through a number of large contracts containing defined output requirements. There is a risk that Costain is unable to deliver these services to the time, cost or quality required in the contract as a result of:<br>• A failure to accurately assess our works (including costs and time required) or contractual terms at tender<br>• Design faults that result in additional works to rectify<br>• An interruption to our supply chain that provides part of the services or materials to complete the works<br>• Refusal of claim by insurers following a loss | All operations to follow the Costain Way.<br><br>Only approved suppliers to be used.<br><br>All legislation and regulations to be complied with at all times. | • The Costain Way provides a comprehensive management system including policies, processes and procedures for all parts of the contract life-cycle; from tendering to contract close-out.<br>• The use of experienced and qualified staff to prepare bids and manage the contracted works.<br>• Defined delegated authority levels for approving all tenders where all significant contracts are subject to escalation from the Executive Investment Panel to the Main Board.<br>• Extensive review of the supply chain strength prior to engagement and a requirement to use performance bonds where they are appropriate. Regular contract leaders' meetings are used to discuss safety, progress, quality, financial performance, end forecast, risk, etc.<br>• Work on site is audited by in-house specialists and reports are prepared so that corrective action, where required, can be taken.<br>• A senior executive is responsible for overall quality issues, the updating of best practice and ensuring compliance in both existing operations and in line with the changing business.<br>• Enhanced controls regarding the administration of insurance claims and the management of contracted design was developed in 2015 including the evolution of processes to minimise exposure to the customer, whilst preserving subrogation with the Group's supply chain. |
| **6) People and skills**<br>The success of the Group is built on the strength and experience of our people. Failure to continue to attract, retain and develop our best-in-class team in an increasingly competitive market may limit the Group's ability to | The right skills and capabilities to carry out Group operations are essential. | • The Group's remuneration policy is designed to attract and retain high-calibre individuals and to remunerate fairly, whilst not encouraging inappropriate business risk to be taken.<br>• The Group has a high staff retention rate and engaged |

| Risk and impact | Risk appetite | Mitigation |
|---|---|---|
| grow the business as anticipated, or cause a short-term impact on performance. | | workforce.<br>• Pay and conditions of employment are regularly reviewed against the prevailing market and bench marked against competitors to ensure that the Group remains competitive at all levels.<br>• An internal recruitment team provides a dedicated service to the identification and enrolment of new staff who are provided with training as part of a comprehensive induction process.<br>• A well-developed succession planning process is regularly monitored.<br>• Talent reviews and ongoing personal development are proactively supported at all levels.<br>• Active liaison with employees is achieved through the Costain Ground Force employee committee and engagement surveys. |
| **7) Pension liabilities**<br>The Group has a deficit of £36.7m in its defined benefit pension scheme which was closed to new members from 1 June 2005 and to future accrual on 30 September 2009. Failure to manage the scheme so that the liabilities are within a range appropriate to its capital base could have an adverse impact on the Group's operational results. The risk has increased as a result of having to undertake the 2016 triennial review during a period of market uncertainty. | All current and future pension arrangements to be on a defined contribution basis. | • Regular reviews, including the use of independent professional advisers, are held to mitigate long-term risk associated with the legacy defined benefit scheme.<br>• Ongoing active management of the obligations of the scheme including the transfer of assets into the scheme and the implementation of Enhanced Transfer Value and Pension Increase Exchange exercises.<br>• A full actuarial valuation of the scheme as at 31 March 2013 enabled the agreement of a deficit recovery plan with the Trustee. |
| **8) Acquisitions**<br>The Group has a growth plan that is partly facilitated by the effective acquisition of companies that will enhance the achievement of its strategy. 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. This risk has increased as a result of the Rhead acquisition in 2015. | Acquisitions must focus on the creation of shareholder value through capability-broadening opportunities that can be cross-sold via our existing customer base. | • Full due diligence is carried out before any acquisition is made.<br>• Integration plans are put in place and managed by a dedicated and experienced team.<br>• Regular progress reports using pre-agreed performance indicators are made to the Board.<br>• Lessons are fed back into future integration exercises. |
| **9) Failure of IT systems**<br>Costain has a high reliance upon | All critical systems are to be regularly backed up and a disaster | • Business continuity systems ensure a suitably qualified team for |

| Risk and impact | Risk appetite | Mitigation |
|---|---|---|
| IT systems to operate efficiently, process transactions and report on results. The failure of a system 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. It may also have a negative effect on the ability to secure further contracts. | recovery contingency plan put in place. | support, including specialist outsourced suppliers, and safeguards knowledge.<br>• There is at least duplication in core hosting systems supporting data recovery efforts.<br>• A suitably qualified team for support, including specialist outsourced suppliers, ensures knowledge is maintained.<br>• Regular internal and external testing and assurance exercises are carried out.<br>• Established business continuity procedures, routinely tested and developed, ensure rapid recovery and data retrieval.<br>• Security training is provided for safe usage and storage of documentation for all staff.<br>• The system is accredited to the ISO 27001:2013 Information Security Management System providing independent assurance of best practice. |

**Going concern**
The Group's business activities, together with the factors likely to affect its future development, performance and position will be set out in the Strategic Report of the Annual Report and Accounts for the year ended 31 December 2015. Principal risks and uncertainties are described in the paragraphs above. In addition, Note 17 to the financial statements will include the Group's objectives, policies and processes for managing its exposures to interest rate risk, foreign currency risk, counterparty risk, credit risk and liquidity risk. Details of the Group's financial instruments and hedging activities will also be provided in Note 17.

The Directors believe, after due and careful enquiry, that the Group has adequate resources to continue operations for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

**Viability statement**
In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three-year period.

This assessment has been made taking into account the current position of the Group, the annual corporate planning process and the potential impact of the principal risks stated in the paragraphs above. The plans and projections prepared as part of the corporate planning process consider the Group's cash flows, profits, contracted work, dividends and other key financial indicators over the period.

The projections are then stress-tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business through reducing revenues and cash flows and the resultant impact on the Group's liquidity and banking arrangements. Given the long-term nature of a significant element of the Company's activities, a number of the principal risks potentially impact the Group's ability to win new work. This has therefore formed a key element of the assessment.

The period of three years has been chosen because this is a time period in which the Company has a reasonable visibility of secured work and pipeline of opportunities. It is also the period reviewed by the Board in the business planning process.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2018.

In making this statement, the Directors carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

# Costain Group PLC

## Results for the year ended 31 December 2015

### Consolidated income statement

| Year ended 31 December | Notes | 2015 Before other items £m | 2015 Other items £m | 2015 Total £m | 2014 Before other items £m | 2014 Other items £m | 2014 Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| Revenue | 2 | **1,316.5** | **-** | **1,316.5** | 1,122.5 | - | 1,122.5 |
| Less: Share of revenue of joint ventures and associates | 9 | **(52.9)** | **-** | **(52.9)** | (50.7) | - | (50.7) |
| **Group revenue** | | **1,263.6** | **-** | **1,263.6** | 1,071.8 | - | 1,071.8 |
| Cost of sales | | **(1,196.9)** | **-** | **(1,196.9)** | (1,011.6) | - | (1,011.6) |
| Gross profit | | **66.7** | **-** | **66.7** | 60.2 | - | 60.2 |
| Administrative expenses | | **(33.5)** | **-** | **(33.5)** | (31.5) | - | (31.5) |
| Amortisation of acquired intangible assets | | **-** | **(3.2)** | **(3.2)** | - | (3.0) | (3.0) |
| Employment related and other deferred consideration | | **-** | **(0.4)** | **(0.4)** | - | (2.2) | (2.2) |
| **Group operating profit** | | **33.2** | **(3.6)** | **29.6** | 28.7 | (5.2) | 23.5 |
| Profit on sales of interests in joint ventures and associates | | **-** | **-** | **-** | 4.0 | - | 4.0 |
| Share of results of joint ventures and associates | 9 | **(0.1)** | **-** | **(0.1)** | (1.3) | - | (1.3) |
| **Profit from operations** | 2 | **33.1** | **(3.6)** | **29.5** | 31.4 | (5.2) | 26.2 |
| Finance income | 4 | **0.8** | **-** | **0.8** | 0.7 | - | 0.7 |
| Finance expense | 4 | **(4.0)** | **(0.3)** | **(4.3)** | (3.6) | (0.7) | (4.3) |
| Net finance expense | | **(3.2)** | **(0.3)** | **(3.5)** | (2.9) | (0.7) | (3.6) |
| **Profit before tax** | | **29.9** | **(3.9)** | **26.0** | 28.5 | (5.9) | 22.6 |
| Taxation | 5 | **(4.4)** | **0.6** | **(3.8)** | (2.2) | 0.6 | (1.6) |
| **Profit for the year attributable to equity holders of the parent** | | **25.5** | **(3.3)** | **22.2** | 26.3 | (5.3) | 21.0 |
| **Earnings per share** | | | | | | | |
| Basic | 6 | **25.1p** | **(3.3)p** | **21.8p** | 27.8p | (5.6)p | 22.2p |
| Diluted | 6 | **24.4p** | **(3.2)p** | **21.2p** | 27.2p | (5.5)p | 21.7p |

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

| | **2015** | 2014 |
|---|---|---|
| | **£m** | £m |
| **Profit for the year** | **22.2** | 21.0 |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translation of foreign operations | **(1.3)** | (2.0) |
| Cash flow hedges | | |
| Group: | | |
| Effective portion of changes in fair value during year | **-** | - |
| Net changes in fair value transferred to the income statement | **-** | 0.1 |
| **Total items that may be reclassified subsequently to profit or loss** | **(1.3)** | (1.9) |
| **Items that will not be reclassified to profit or loss:** | | |
| Remeasurement of defined benefit obligations | **(3.3)** | (15.7) |
| Tax recognised on remeasurement of defined benefit obligations | **0.7** | 1.5 |
| **Total items that will not be reclassified to profit or loss** | **(2.6)** | (14.2) |
| **Other comprehensive expense for the year** | **(3.9)** | (16.1) |
| **Total comprehensive income for the year attributable to equity holders of the parent** | **18.3** | 4.9 |

**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 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 | 16.7 | - | - | - | 53.6 | - | 70.3 |
| Transfer | - | - | - | - | (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 |
| At 1 January 2015 | **50.6** | **5.5** | **2.8** | **-** | - | **51.9** | **110.8** |
| Profit for the year | **-** | **-** | **-** | **-** | - | **22.2** | **22.2** |
| Other comprehensive (expense)/income | **-** | **-** | **(1.3)** | **-** | - | **(2.6)** | **(3.9)** |
| Issue of ordinary shares under employee share option plans | **0.4** | **-** | **-** | **-** | - | **(0.4)** | **-** |
| Transfer | **-** | **-** | **0.3** | **-** | - | **(0.3)** | **-** |
| Shares purchased to satisfy employee share schemes | **-** | **-** | **-** | **-** | - | **(1.0)** | **(1.0)** |
| Equity-settled share-based payments | **-** | **-** | **-** | **-** | - | **1.9** | **1.9** |
| Dividends paid | **0.1** | **0.7** | **-** | **-** | - | **(10.2)** | **(9.4)** |
| **At 31 December 2015** | **51.1** | **6.2** | **1.8** | **-** | - | **61.5** | **120.6** |

**Consolidated statement of financial position**

As at 31 December

| | Notes | 2015 £m | 2014 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 8 | **52.3** | 31.0 |
| Property, plant and equipment | | **37.3** | 10.0 |
| Investments in equity accounted joint ventures | 9 | **0.4** | 25.5 |
| Investments in equity accounted associates | 9 | **0.5** | 0.3 |
| Loans to equity accounted associates | | **1.7** | 1.7 |
| Other | | **8.2** | 31.8 |
| Deferred tax | | **10.6** | 9.2 |
| **Total non-current assets** | | **111.0** | 109.5 |
| **Current assets** | | | |
| Inventories | | **2.9** | 1.3 |
| Trade and other receivables | | **271.8** | 197.1 |
| Cash and cash equivalents | 10 | **146.7** | 148.5 |
| **Total current assets** | | **421.4** | 346.9 |
| **Total assets** | | **532.4** | 456.4 |
| **Equity** | | | |
| Share capital | | **51.1** | 50.6 |
| Share premium | | **6.2** | 5.5 |
| Foreign currency translation reserve | | **1.8** | 2.8 |
| Hedging reserve | | **-** | - |
| Retained earnings | | **61.5** | 51.9 |
| **Total equity attributable to equity holders of the parent** | | **120.6** | 110.8 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 11 | **36.7** | 41.7 |
| Other payables | | **2.8** | 4.5 |
| Provisions for other liabilities and charges | | **0.1** | 0.1 |
| **Total non-current liabilities** | | **39.6** | 46.3 |
| **Current liabilities** | | | |
| Trade and other payables | | **329.0** | 296.3 |
| Taxation | | **2.7** | 1.5 |
| Bank overdrafts | 10 | **-** | - |
| Interest bearing loans and borrowings | | **38.5** | - |
| Provisions for other liabilities and charges | | **2.0** | 1.5 |
| **Total current liabilities** | | **372.2** | 299.3 |
| **Total liabilities** | | **411.8** | 345.6 |
| **Total equity and liabilities** | | **532.4** | 456.4 |

**Consolidated cash flow statement**

Year ended 31 December

| | Notes | **2015 £m** | 2014 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Profit for the year** | | **22.2** | 21.0 |
| **Adjustments for:** | | | |
| Share of results of joint ventures and associates | 9 | **0.1** | 1.3 |
| Finance income | 4 | **(0.8)** | (0.7) |
| Finance expense | 4 | **4.3** | 4.3 |
| Income tax | 5 | **3.8** | 1.6 |
| Profit on sales of interests in joint ventures and associates | 3 | **-** | (4.0) |
| Depreciation of property, plant and equipment | | **2.9** | 2.0 |
| Amortisation of intangible assets | | **3.9** | 3.4 |
| Employment related and other deferred consideration | | **0.4** | 2.2 |
| Shares purchased to satisfy employee share schemes | | **(1.0)** | (2.0) |
| Share-based payments expense | | **2.4** | 2.2 |
| **Cash from operations before changes in working capital and provisions** | | **38.2** | 31.3 |
| Decrease in inventories | | **0.1** | 0.3 |
| Increase in receivables | | **(37.7)** | (16.3) |
| Increase/(decrease) in payables | | **26.7** | 33.1 |
| Movement in provisions and employee benefits | | **(9.1)** | (4.8) |
| **Cash from operations** | | **18.2** | 43.6 |
| Interest received | | **0.8** | 0.7 |
| Interest paid | | **(2.7)** | (3.6) |
| Taxation paid | | **(0.6)** | (0.1) |
| **Net cash from operating activities** | | **15.7** | 40.6 |
| **Cash flows from/(used by) investing activities** | | | |
| Dividends received from joint ventures and associates | | **-** | 0.1 |
| Additions to property, plant and equipment | | **(2.0)** | (5.3) |
| Additions to intangible assets | | **(0.2)** | (0.8) |
| Proceeds of disposal of property, plant and equipment | | **0.1** | 0.6 |
| Additions to cost of investments | | **(1.0)** | (1.7) |
| Repayment of loans to joint ventures and associates | | **-** | 0.1 |
| Acquisition related deferred consideration | | **(5.4)** | (3.3) |
| Acquisition of interest in joint operation | | **-** | (2.4) |
| Acquisition of subsidiary (net of acquired cash and cash equivalents and overdrafts) | | **(30.0)** | - |
| **Net cash used by investing activities** | | **(38.5)** | (12.7) |
| **Cash flows from/(used by) financing activities** | | | |
| Issue of ordinary share capital | | **-** | 70.6 |
| Ordinary dividends paid | | **(9.4)** | (7.7) |
| Drawdown/(repayment) of revolving credit facility | | **38.5** | (25.0) |
| Repayment of loans | | **(8.1)** | - |
| **Net cash from financing activities** | | **21.0** | 37.9 |
| **Net (decrease)/increase in cash, cash equivalents and overdrafts** | | **(1.8)** | 65.8 |
| Cash, cash equivalents and overdrafts at beginning of the year | 10 | **148.5** | 82.7 |
| **Cash, cash equivalents and overdrafts at end of the year** | 10 | **146.7** | 148.5 |

## 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 2015 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 2016) does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014 but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies, and those for 2015 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 2015 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 the Alcaidesa assets 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 and, in certain limited cases, assessments of recoveries from insurers. 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.

The Group acquired its joint venture partner's 50% interest in Alcaidesa Holdings SA, which is now a wholly owned subsidiary, during the year. Under IFRS 3, the Group has estimated the fair value of the assets which have been retained by the company, being: the marina which it developed and operates under a long-term concession agreement, two golf courses which it developed and operates and an element of land for future development. The fair values of the marina and golf courses have been undertaken using a discounted cash flow model, the valuation of the land is based on market comparators. The land development market conditions in Spain remain challenging, with only a limited number of transactions for such assets on which to base the fair value.

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.

**2 Operating segments**

The Group has two core business segments: Natural Resources and Infrastructure plus the Alcaidesa 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.

Following the acquisition of Rhead Group Holdings Limited (Note 12), the Group integrated all its power activities into the Natural Resources segment and at the same time combined its nuclear activities into one unit within the Infrastructure segment. The segment results for the year report the results under this revised organisation and the results for the previous year have been restated for consistency.

As a consequence of the reorganisation of Alcaidesa Holding SA (Notes 9 and 12), the land development segment has been renamed Alcaidesa.

| **2015** | **Natural Resources** | **Infrastructure** | **Alcaidesa** | **Central costs** | **Total** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Segment revenue** | | | | | |
| External revenue | **298.8** | **962.9** | **1.9** | **-** | **1,263.6** |
| Share of revenue of joint ventures and associates | **18.8** | **33.2** | **0.9** | **-** | **52.9** |
| **Total segment revenue** | **317.6** | **996.1** | **2.8** | **-** | **1,316.5** |
| **Segment profit/(loss)** | | | | | |
| Operating profit/(loss) | **(11.1)** | **50.9** | **(0.5)** | **(6.1)** | **33.2** |
| Share of results of joint ventures and associates | **0.3** | **-** | **(0.4)** | **-** | **(0.1)** |
| **Profit/(loss) from operations before other items** | **(10.8)** | **50.9** | **(0.9)** | **(6.1)** | **33.1** |
| Other items: | | | | | |
| Amortisation of acquired intangible assets | **(2.2)** | **(1.0)** | **-** | **-** | **(3.2)** |
| Employment related and other deferred consideration | **(0.4)** | **-** | **-** | **-** | **(0.4)** |
| **Profit/(loss) from operations** | **(13.4)** | **49.9** | **(0.9)** | **(6.1)** | **29.5** |
| Net finance expense | | | | | **(3.5)** |
| **Profit before tax** | | | | | **26.0** |

| 2014 (restated) | Natural Resources | Infrastructure | Alcaidesa | Central costs | Total |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |

| Segment revenue | | | | | |
|---|---|---|---|---|---|
| External revenue | 320.9 | 750.9 | - | - | 1,071.8 |
| Share of revenue of joint ventures and associates | 33.5 | 14.9 | 2.3 | - | 50.7 |
| **Total segment revenue** | 354.4 | 765.8 | 2.3 | - | 1,122.5 |

| Segment profit/(loss) | | | | | |
|---|---|---|---|---|---|
| Operating profit/(loss) | 0.4 | 34.4 | - | (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** | 4.4 | 34.4 | (1.3) | (6.1) | 31.4 |
| Other items: | | | | | |
| Amortisation of acquired intangible assets | (1.9) | (1.1) | - | - | (3.0) |
| Employment related and other deferred consideration | (2.2) | - | - | - | (2.2) |
| **Profit/(loss) from operations** | 0.3 | 33.3 | (1.3) | (6.1) | 26.2 |
| Net finance expense | | | | | (3.6) |
| **Profit before tax** | | | | | 22.6 |

**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.

**4 Net finance expense**

| | **2015 £m** | 2014 £m |
|---|---|---|
| Interest income from bank deposits | **0.5** | 0.2 |
| Interest income on loans to related parties | **0.3** | 0.5 |
| Finance income | **0.8** | 0.7 |
| Interest payable on bank overdrafts, interest bearing loans, borrowings and other similar charges | **(2.7)** | (2.2) |
| Unwind of discount on deferred consideration | **(0.3)** | (0.7) |
| Interest cost on the net liabilities of the defined benefit pension scheme | **(1.3)** | (1.4) |
| Finance expense | **(4.3)** | (4.3) |
| Net finance expense | **(3.5)** | (3.6) |

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

**5 Taxation**

| | **2015 £m** | 2014 £m |
|---|---|---|

| | | |
|---|---|---|
| **On profit for the year** | | |
| United Kingdom corporation tax at 20.25% (2014: 21.5%) | **(2.4)** | - |
| Adjustment in respect of prior years | **-** | - |
| Current tax charge for the year | **(2.4)** | - |
| | | |
| Deferred tax charge for current year | **(1.7)** | (2.2) |
| Adjustment in respect of prior years | **0.3** | 0.6 |
| Deferred tax charge for the year | **(1.4)** | (1.6) |
| | | |
| **Tax expense in the consolidated income statement** | **(3.8)** | (1.6) |

| | **2015 £m** | 2014 £m |
|---|---|---|
| **Tax reconciliation** | | |
| Profit before tax | **26.0** | 22.6 |
| Taxation at 20.25% (2014: 21.5%) | **(5.3)** | (4.9) |
| Share of results of joint ventures and associates at 20.25% (2014: 21.5%) | **-** | (0.3) |
| Disallowed expenses and amounts qualifying for tax relief | **0.1** | 0.2 |
| Non-taxable gains | **-** | 0.9 |
| Utilisation of previously unrecognised temporary differences | **0.3** | 0.3 |
| Research and Development tax relief for the current year | **0.7** | 0.7 |
| Rate adjustment relating to deferred taxation and overseas profits and losses | **0.1** | 0.9 |
| Adjustments in respect of prior years, mainly Research and Development tax relief | **0.3** | 0.6 |
| | | |
| **Tax expense in the consolidated income statement** | **(3.8)** | (1.6) |

**6 Earnings per share**

The calculation of earnings per share is based on profit of £22.2 million (2014: £21.0 million) and the number of shares set out below.

| | **2015 Number (millions)** | 2014 Number (millions) |
|---|---|---|
| Weighted average number of ordinary shares in issue for basic earnings per share calculation | **101.7** | 94.6 |
| Dilutive potential ordinary shares arising from employee share schemes | **2.8** | 2.1 |
| Weighted average number of ordinary shares in issue for diluted earnings per share calculation | **104.5** | 96.7 |

**7 Dividends**

| | Dividend per share pence | **2015 £m** | 2014 £m |
|---|---|---|---|
| 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 |
| Final dividend for the year ended 31 December 2014 | 6.25 | **5.9** | - |
| Interim dividend for the year ended 31 December 2015 | 3.75 | **4.3** | - |
| Amount recognised as distributions to equity holders in the year | | **10.2** | 8.4 |
| | | | |
| Dividends settled in shares | | **(0.8)** | (0.7) |
| | | | |
| Dividends settled in cash | | **9.4** | 7.7 |

**8 Intangible assets**

| | **Goodwill** | **Customer** | **Other** | **Other** | **Total** |
|---|---|---|---|---|---|

| | £m | relationships £m | acquired intangibles £m | intangibles £m | £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 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 |
| At 1 January 2015 | **22.3** | **8.6** | **5.5** | **7.7** | **44.1** |
| Acquired through business combinations | **18.5** | **4.0** | **1.7** | **0.8** | **25.0** |
| Additions | **-** | **-** | **-** | **0.2** | **0.2** |
| Disposals | **-** | **-** | **-** | **(0.1)** | **(0.1)** |
| **At 31 December 2015** | **40.8** | **12.6** | **7.2** | **8.6** | **69.2** |
| **Amortisation** | | | | | |
| 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 |
| At 1 January 2015 | **-** | **4.1** | **3.3** | **5.7** | **13.1** |
| Provided in year | **-** | **1.5** | **1.7** | **0.7** | **3.9** |
| Disposals | **-** | **-** | **-** | **(0.1)** | **(0.1)** |
| **At 31 December 2015** | **-** | **5.6** | **5.0** | **6.3** | **16.9** |
| **Net book value** | | | | | |
| **At 31 December 2015** | **40.8** | **7.0** | **2.2** | **2.3** | **52.3** |
| At 31 December 2014 | 22.3 | 4.5 | 2.2 | 2.0 | 31.0 |
| At 1 January 2014 | 22.3 | 6.0 | 3.7 | 1.0 | 33.0 |

**9 Investments**

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

| | **2015** | | | | **2014** | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **0.9** | **48.9** | **3.1** | **52.9** | 2.3 | 41.7 | 6.7 | 50.7 |
| (Loss)/profit before tax | **(0.4)** | **0.1** | **0.2** | **(0.1)** | (0.8) | (0.2) | 0.2 | (0.8) |
| Income tax | **-** | **-** | **-** | **-** | (0.5) | - | - | (0.5) |
| (Loss)/profit for the year | **(0.4)** | **0.1** | **0.2** | **(0.1)** | (1.3) | (0.2) | 0.2 | (1.3) |
| Non-current assets | **-** | **0.1** | **-** | **0.1** | 16.1 | - | - | 16.1 |
| Current assets | **-** | **13.0** | **2.7** | **15.7** | 18.6 | 12.0 | 3.5 | 34.1 |
| Current liabilities | **-** | **(12.7)** | **(0.9)** | **(13.6)** | (1.8) | (11.7) | (1.8) | (15.3) |
| Non-current | **-** | **-** | **(1.3)** | **(1.3)** | (7.7) | - | (1.4) | (9.1) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| liabilities | | | | | | | | |
| Investments in joint ventures and associates | - | **0.4** | **0.5** | **0.9** | 25.2 | 0.3 | 0.3 | 25.8 |

Alcaidesa Holding SA was reorganised during the year with the assets being split equally between the partners. Under the transaction, which generated no profit or loss to the Group, the Group took ownership of its share of the assets by a purchase of the partner's interest in the restructured company, which then became a wholly owned subsidiary (Note 12).

**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 £42.7 million (2014: £24.1 million).

| | **2015 £m** | 2014 £m |
|---|---|---|
| Cash and cash equivalents | **146.7** | 148.5 |
| Bank overdrafts | **-** | - |
| **Cash, cash equivalents and overdrafts in the cash flow statement** | **146.7** | 148.5 |

**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 £9.4 million comprising £8.1 million included in operating costs plus £1.3 million included in net finance expense (2014: £9.2 million, comprising £7.8 million in operating costs plus £1.4 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 2015 by a qualified independent actuary.

| | **2015 £m** | 2014 £m | 2013 £m |
|---|---|---|---|
| Present value of defined benefit obligations | **(687.4)** | (701.0) | (629.7) |
| Fair value of scheme assets | **650.7** | 659.3 | 592.5 |
| **Recognised liability for defined benefit obligations** | **(36.7)** | (41.7) | (37.2) |

Movements in present value of defined benefit obligations

| | **2015 £m** | 2014 £m |
|---|---|---|
| At 1 January | **701.0** | 629.7 |
| Interest cost | **24.6** | 28.3 |
| Remeasurements | **(6.0)** | 71.2 |
| Benefits paid | **(32.2)** | (28.2) |
| **At 31 December** | **687.4** | 701.0 |

Movements in fair value of scheme assets

| | **2015 £m** | 2014 £m |
|---|---|---|
| At 1 January | **659.3** | 592.5 |
| Interest income | **23.3** | 26.9 |
| Remeasurements | **(9.3)** | 55.5 |
| Contributions by employer | **9.6** | 12.6 |
| Benefits paid | **(32.2)** | (28.2) |
| **At 31 December** | **650.7** | 659.3 |

Expense recognised in the income statement

| | **2015 £m** | 2014 £m |
|---|---|---|

| | 2015 | 2014 |
|---|---|---|
| Administrative expenses | **(0.4)** | (0.8) |
| Interest cost on the net liabilities of the defined benefit pension scheme | **(1.3)** | (1.4) |
| | **(1.7)** | (2.2) |

Fair value of scheme assets

| | 2015 £m | 2014 £m |
|---|---|---|
| Equities | **162.5** | 146.1 |
| Multi-credit | **75.5** | 66.8 |
| Government bonds | **266.1** | 307.5 |
| Infrastructure and property | **74.2** | 73.6 |
| Absolute return funds and cash | **72.4** | 65.3 |
| | **650.7** | 659.3 |

Principal actuarial assumption (expressed as weighted averages)

| | 2015 % | 2014 % |
|---|---|---|
| Discount rate | **3.80** | 3.60 |
| Future pension increases | **2.95** | 2.85 |
| Inflation assumption | **3.00** | 2.90 |

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2015 and 31 December 2014 is:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Male (years)** | **Female (years)** | Male (years) | Female (years) |
| Currently aged 65 | **22.2** | **24.7** | 22.1 | 24.6 |
| Non-retirees | **24.0** | **26.6** | 23.9 | 26.5 |

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 | 26.6 | 0.9 |
| Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by | 23.4 | 0.9 |
| Increase life expectancy by one year, increases pension liability and increases pension cost by | 20.5 | 0.8 |

The Group expects to make contributions of approximately £7.2 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 £7.7 million (2014: £7.0 million).

## 12 Acquisitions

On 14 August 2015, the Group purchased the share capital of Rhead Group Holdings Limited. The business, which is based primarily in the United Kingdom, provides professional services consultancy with a focus on programme and commercial management.
The initial consideration was £32.8 million. Further payments of £1.6 million are due on the first and second anniversaries. These are dependent on continued future service and, in accordance with IFRS 3, will be expensed to the income statement.

Costain's strategy is to focus on major customers spending billions of pounds addressing national needs in energy, water and transportation. These customers are consolidating their supply chains and seeking an increasingly integrated service offering from their service providers through larger, longer-term collaborative contracts. The Group believes the acquisition will broaden its capabilities and further enhance Costain's programme management and advisory capability across all the Group's operations as part of that integrated service offering.

The contributions to revenue and operating profit before amortisation of acquired intangibles and employment related consideration within the Group's results of this acquisition was revenue £15.3 million, operating profit £1.6 million, including integration costs.

The acquisition had the following effect on the Group's assets and liabilities:

| | £m |
|---|---|
| **Cash consideration** | **32.8** |
| | |
| Acquired intangible assets - Customer relationships | 4.0 |
| Acquired intangible assets - Other | 1.7 |
| Property, plant and equipment | 1.2 |
| Cash | 2.4 |
| Other current assets | 13.3 |
| Other current liabilities | (7.1) |
| Deferred tax | (1.2) |
| **Fair value of assets acquired and liabilities recognised** | **14.3** |
| | |
| **Goodwill arising on acquisitions** | **18.5** |

Based on the provisional assessment of the recognised values of assets and liabilities, the goodwill arising on the acquisitions is expected to be £18.5 million.

In July 2015, Alcaidesa Holding SA was reorganised with the assets being split equally between the partners. The Group acquired its split of the assets by a purchase of the outstanding 50% of the reorganised Alcaidesa Holding SA. The acquisition had the following effect on the Group's assets and liabilities. The basis of allocating fair values to the assets acquired is described in Note 1.

| | £m |
|---|---|
| **Carrying value of joint venture at disposal** | **23.5** |
| | |
| Intangible assets | 0.8 |
| Property, plant and equipment | 26.1 |
| Deferred tax | 3.6 |
| Cash | 0.4 |
| Other current assets | 2.4 |
| Other current liabilities | (9.8) |
| **Fair value of assets acquired and liabilities recognised** | **23.5** |

The transaction resulted in no profit or loss to the Group.

**13 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, with The Costain Pension Scheme and with two directors of a subsidiary in relation to an office lease acquired. The total value of these services in 2015 was £133.2 million (2014: £127.5 million) and transactions with The Costain Pension Scheme are included in Note 11.

**14 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.

**15 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 2015.

"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) and David McManus (Independent Non-Executive Director).

On behalf of the Board:

**DAVID ALLVEY**
**Chairman**

**ANDREW WYLLIE**
**Chief Executive**

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