Costain Group PLC

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

Results for the year ended 31 December 2016

Costain, the engineering group, deploying technology-based solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures, announces a strong performance with significant increases in both revenue and underlying operating profit and a recommended 15% increase in the final dividend.

	2016	**2015**
Revenue		
- Including share of JVs and associates	**£1,658.0m**	**£1,316.5m**
- Reported	**£1,573.7m**	**£1,263.6m**
Operating profit		
- Underlying[1]	**£41.1m**	**£33.2m**
- Reported	**£34.9m**	**£29.6m**
Profit before tax		
- Underlying[1]	**£37.5m**	**£29.9m**
- Reported	**£30.9m**	**£26.0m**
Basic earnings per share		
- Underlying[1]	**31.5p**	**25.1p**
- Reported	**25.7p**	**21.8p**
Net cash balance[2]	**£140.2m**	**£108.2m**
Dividend per share	**12.7p**	**11.0p**

1. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration
2. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings

Highlights

- **Another strong performance**
  - Revenue, including share of joint ventures & associates, increased to £1.7 billion (2015: £1.3 billion)
  - Underlying[1] operating profit up 24% to £41.1 million (2015: £33.2 million)
  - Net cash[2] position of £140.2 million (2015: £108.2 million) reflecting positive timing of receipts at the period end.

- **Customer focused strategy delivering high quality order book**
  - Forward order book maintained at record level of £3.9 billion (2015: £3.9 billion)
  - Over 90% lower risk target cost, cost reimbursable forms of contract and over 90% of order book comprises repeat orders

- **Accelerating growth both organically and by acquisition**
  - Successful acquisition, further enhancing technology capability, of SSL for £17.0 million, now fully integrated and performing well
  - Nature of service offering changing rapidly, with total headcount of over 4,100 of which over 1,200 now in technology, advisory and design service roles.

- **Positive outlook**
  - Over £1.2 billion of revenue secured for 2017, (as at 31 December 2015: over £1.1 billion secured for 2016) with £2.7 billion of revenue secured for 2018 and beyond
  - Recommended final dividend of 8.4 pence per share (2015: 7.25 pence), increasing the total dividend for the year by 15% to 12.7 pence per share (2015: 11.0 pence).

Dr Paul Golby CBE, Chairman, commented:

"I am pleased to report that Costain has delivered another strong result, with continued growth in both revenue and profit, and has maintained a record high quality forward order book.

"Our major customers are committed to spending billions of pounds to improve people's lives by enhancing the UK's energy, water and transportation infrastructures. In order to deliver solutions to their increasingly complex requirements, Costain will continue to provide the broadest range of innovative integrated services and technology-based solutions.

"The Group's continuing success is, therefore, the direct result of its 'Engineering Tomorrow' strategy and the deliberate acceleration of growth, both organically and by targeted acquisition.

"Costain is well-positioned to take advantage of the opportunities that lie immediately ahead and this, combined with the good visibility we have over the medium-term, reinforces our confidence for the future.

"That confidence is reflected in the recommendation to increase the total dividend for the year by 15% and I look forward to reporting on future progress."

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There will be a presentation to analysts today at 11:00 at Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. To register your attendance please contact christine.galloway@instinctif.com

The Costain 2016 results film is available at www.costain.com

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

Costain helps to improve people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures. We have been shaping the world in which we live for the past 150 years.

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's 4,100 people, who are committed to high performance and safe delivery, are working on a number of high profile contracts in the UK incorporating a broad range of innovative services across the whole life-cycle of our customers' assets and does so through the delivery of integrated consultancy, asset optimisation, technology and complex delivery services.

CHAIRMAN'S STATEMENT

This is my first statement since joining the Board and becoming Chairman on 5 May 2016. I am pleased to report that Costain has delivered another strong result, with continued growth in both revenue and profit, and has maintained a record forward order book.

I was delighted to have been asked to join Costain. It is a great British engineering success story with an outstanding brand and leading market positions.

I look forward to playing a part in delivering further success as the Group accelerates its growth.

Costain's opportunity

These are exciting times for Costain.

The cross-party political support for investment in infrastructure as a facilitator of sustainable economic growth, coupled with our customers' committed multi-billion pound investment programmes, creates a positive environment for the Group to continue to grow. This is evidenced through recent decisions to progress investment programmes at Hinkley, Heathrow and High Speed 2.

Meanwhile, the increasingly complex demands of the Group's blue chip customers present engineering challenges which require an even greater emphasis on technology-based solutions. Costain's unique and focused 'Engineering Tomorrow' strategy has successfully positioned the business as one of only a few companies able to provide those solutions.

Costain is continuing to grow its skills and capabilities and this is enabling the Group to win substantial new contracts and contract extensions thereby maintaining a high quality order book.

Dividend

The Group has a progressive dividend policy, targeting an ongoing dividend cover of around two times underlying earnings, translating strong performance directly in to shareholder value.

Our performance this year, and our confidence in the opportunities for future growth, has resulted in the Board recommending a final dividend of 8.4 pence per share (2015: 7.25 pence) which, if approved, will be paid on 19 May 2017 to shareholders on the register as at 7 April 2017. This represents an increase of 15% in the total dividend for the year to 12.7 pence per share (2015: 11.0 pence).

Pension

A triennial actuarial review of the Costain defined benefit scheme, reflecting updated market and liability assumptions, has been carried out as at 31 March 2016 and a plan agreed with the scheme Trustee regarding the associated deficit recovery. The amount of annual total contributions has been agreed at the same overall level as previously established, based on the Group's dividend matching policy.

Governance

I have joined a company with a Board committed to the highest standards of governance and a first-rate executive team implementing a robust strategy.

Our Annual Report will set out and explain the processes we have put in place to deliver long-term success whilst also ensuring that the Company complies with all applicable laws and regulations and meets the requirements of our shareholders and their representative bodies.

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, in the interim, we undertake annual internal follow-up reviews to ensure that we are delivering agreed actions.

Board and people

I joined the Board and succeeded David Allvey as Chairman at the conclusion of the Annual General Meeting on 5 May 2016. David had been Chairman for seven years, and on behalf of everyone at Costain, I would like to thank him for the substantial role he played, and we wish him and his family all the very best for the future.

The success of any company is down to the quality of its leadership and the depth of talented and skilled people throughout the organisation.

On behalf of the Board, I would also like to thank all of Costain's people for their commitment, dedication and hard work. The strong result we have achieved this year would not be possible without them.

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.

Outlook

Our major customers are committed to spending billions of pounds to improve people's lives by enhancing the UK's energy, water and transportation infrastructures. In order to deliver solutions to their increasingly complex requirements, Costain will continue to provide the broadest range of innovative integrated services and technology-based solutions.

The Group's continuing success is, therefore, the direct result of its 'Engineering Tomorrow' strategy and the deliberate acceleration of growth, both organically and by targeted acquisition.

Costain is well-positioned to take advantage of the opportunities that lie immediately ahead and this, combined with the good visibility we have over the medium-term, reinforces our confidence for the future.

That confidence is reflected in the recommendation to increase the total dividend for the year by 15% and I look forward to reporting on future progress.

Dr Paul Golby CBE
Chairman

CHIEF EXECUTIVE'S REVIEW

Our purpose at Costain is to improve people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures.

I am pleased to report on another good year, during which we delivered a strong overall result, continued to accelerate the growth of the business through investing in our skills and capabilities, maintained our market leading position and secured a record amount of work for the following year.

Strong trading performance

Revenue, including the Group's share of joint ventures and associates, for the year increased 26% to £1,658.0 million (2015: £1,316.5 million).

Group underlying operating profit increased 24% to £41.1 million (2015: £33.2 million).

Underlying profit before tax was £37.5 million (2015: £29.9 million), and underlying basic earnings per share increased to 31.5 pence (2015: 25.1 pence). Reported profit before tax was £30.9 million (2015: £26.0 million) and reported earnings per share were 25.7 pence (2015: 21.8 pence).

Although we have two core operating and reporting divisions within our business (Infrastructure and Natural Resources) we have continued to implement our 'One Costain' philosophy which enables us to constantly focus our resources on identifying and securing the most attractive business opportunities across the markets in which we operate.

The Infrastructure division delivered increases in revenue and operating profit and maintained a record order book. The Natural Resources division saw an increase in revenue with the overall result impacted by further costs in relation to the legacy Greater Manchester Waste contract awarded in 2007, as detailed in the Divisional review.

Costain finished the year with a strong net cash position of £140.2 million (2015: 108.2 million) reflecting positive timing of receipts at the period end. This is after significant further investment in the Group's strategic development including the £17 million acquisition in July 2016 of Simulations Systems Limited (SSL), which has been fully integrated and which will be earnings enhancing in 2017.

Accelerating growth: investing in 'Engineering Tomorrow'

Our performance is the result of our unique, focused and continually evolving '*Engineering Tomorrow*' strategy which has successfully positioned the business to provide the range of innovative integrated services demanded by our major customers who are spending billions of pounds on projects, underpinned by legislation, regulation or essential capital spend in the UK, upgrading and renewing the country's energy, water and transportation infrastructures.

Through increasing the capacity of road and rail infrastructure networks, improving the security of water and power supplies and enhancing the service provided to consumers, Costain is playing a key role in enhancing the lives of millions of people across the country.

Additionally, the Group's blue-chip customers' increasingly complex requirements to ensure future-proofed capacity, high quality service, security of supply and efficiency in delivery present numerous opportunities which demand an ever greater emphasis on innovative engineering and technology-based solutions. We have previously referred to the revolution taking place in the deployment of technology and this is gathering momentum as our customers increasingly recognise it as a major facilitator in the delivery of infrastructure. Costain is, and intends to remain, at the forefront of that revolution.

Following the referendum vote in June, there has been no adverse impact on Costain.We have noted the increased emphasis from the Government on the vital role infrastructure plays in promoting economic growth and an allied commitment to investment in key sectors, including technology, to ensure that the country continues to compete on the global stage. This presents Costain with additional opportunity.

Consequently, we are reinforcing our strategic focus on our major customers who are already committed to spending billions of pounds addressing critical UK infrastructure needs and we will continue to accelerate the growth of the business, investing both organically and by acquisition, in people and skills and in innovation and capabilities.

In July, we successfully acquired SSL to enhance further the range of technology-led solutions we can provide to our customers. SSL, established in 1979 and with 165 people, provides integrated hardware and software-based solutions across a broad spectrum of traffic monitoring and management solutions with the potential for wider application across our customer groups. The business has now been fully integrated into the Group and is performing well.

Combining an award winning team and leading-edge innovation

The success of Costain is built on the strength and experience of our team and it is essential that we continue to attract, retain and develop the best talent. Costain today has over 4,100 people and, reflecting the development and changing nature of the business, over 1,200 of those are now in technology, advisory or design service roles.

At Costain there are over 750 chartered professionals across a wide range of disciplines. Additionally, there are over 200 graduates on our award-winning graduate development programme and 120 apprentices on a structured development programme undergoing training across the business.

Across the Group, there has been over 50,000 hours of training and development in the year. A number of the members of the senior leadership team have participated in executive education programmes during the year at leading business schools including Harvard and INSEAD.

In order to ensure we continue to generate thought leadership on key issues, we are currently sponsoring 13 PhD students undertaking leading-edge research at renowned universities including Cambridge, Imperial College, Edinburgh and Manchester.

Along with our engineering centre in Manchester, where over 300 of our people are based, we currently have research and development relationships with 15 leading universities and with whom we continue to progress a number of patent applications.

This investment in people and R&D continued to deliver a number of exciting innovations including:

- Advanced Vehicle Technology: Automatic vehicle recognition technology for the management of vehicles, removing the need for traditional toll booths and automatic crossing charging and therefore reducing traffic congestion;

- Analytics and predictive services: our technology is being used to manage critical infrastructure when experiencing extreme events;

- The deployment of workforce and workflow technology to the delivery of complicated maintenance contracts. Through the use of this technology we are improving the local customer experience, improving event management and improving efficiency of operations through automatic workforce management;

- Capturing asset operational data and maintenance records, through the use of algorithms, to optimise maintenance and operations achieving significant reductions in both capex and opex costs.

Record order book providing visibility of earnings

As a consequence of its strong customer relationships, and its engineering and technology-led solutions, Costain secured a significant number of new orders and contract extensions including:

- Development of the M4 corridor around Newport for the Welsh Government;
- Peterborough and Huntingdon compressor station upgrade for National Grid;
- Contract for the East works package of the Thames Tideway Tunnel in London;
- High Speed 2 South Enabling Works contract;
- Appointment to the Decommissioning Delivery Partnership framework by Sellafield Ltd;
- Three asset maintenance support contracts for Highways England;
- Transport for London’s Surface Transport Major Projects Framework.

As a result, the Group’s order book at the year-end was maintained at the record level of £3.9 billion (31 December 2015: £3.9 billion).

The Group has increased its revenues secured for 2017 to over £1.2 billion (as at 31 December 2015: over £1.1 billion secured for 2016). The order book also provides good medium-term visibility with £2.7 billion of revenues secured for 2018 and beyond. In addition to the order book, the Group has maintained its preferred bidder position at over £500 million, and is actively seeking to secure further new work across all of its target markets.

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.

Given the changing nature of the business and the evolving profile of the order book, we will also increasingly use consultancy-related indicators, such as utilisation.

Operational review

Under our 'One Costain' operating model the Group has two core operating and reporting divisions within the business: Infrastructure and Natural Resources.

Infrastructure

The Costain Infrastructure division, which operates in the highways, rail and nuclear markets, has had a strong year with an increase in revenue and operating profit. Revenue (including share of joint ventures and associations) increased to £1,276.1 million (2015: £996.1 million) and operating profit (before other items) rose to £56.6 million (2015: £50.9 million) Reported (after other items) operating profit was £54.6 million (2015: £49.9 million). The underlying operating profit margin delivered in the division is within the targeted blended range of 4% to 5%.

The forward order book for the division has increased to £2.9 billion (2015: £2.8 billion) and the level of tendering activity is high as we continue to prioritise the Group's bidding activity in the areas that currently provide the greatest opportunity.

Highways

In Highways, major milestones have been achieved on the M1 Junction 28 to 35 Managed Motorways contract for Highways England, the M6 to Heysham Link Road for Lancashire County Council and the A465 Heads of the Valleys Dualling for the Welsh Government.

We continue to provide 24/7 operational capability to key customers who require immediate response to incidents and severe weather events, keeping our strategic road network open and available for safe use by all. Following successful awards by Highways England, the Areas 4 and 12 Asset Support Contracts (ASCs) have been successfully mobilised and, in December, we were awarded the Area 14 Maintenance and Response contract.

Our Highways operational capability was recognised further with the award of our first local authority operations and maintenance contract for East Sussex County Council and which has also been successfully mobilised.

The acquisition of SSL in July has already enabled us to secure important contract wins as a consequence of the additional capabilities the business brought to Costain, particularly across technology services. These new capabilities are now being deployed on the recently awarded TMT2 framework for Highways England and the refurbishment of the critical M4 Brynglas Tunnels for the Welsh Government.

Rail

This year has seen a significant growth in activity as we work with Network Rail and others to modernise ageing infrastructure. During the year we successfully, and on time, opened the first phase of the major London Bridge station redevelopment. This was a major landmark, achieved whilst having to keep one of London's busiest transport hubs open for business.

We also responded swiftly to the closure of the Folkestone to Dover line as a consequence of the damage to the sea wall in the December 2015 storms. This contract has been completed well ahead of schedule and budget and the railway line was back into full operation in September 2016.

Capacity constraints on the national rail network are being alleviated by our rail electrification joint venture, ABC Electrification Limited which continues of deliver significant sections of the National Electrification Programme in the Midlands, Scotland and on the Great Western Line.

Crossrail will improve journey times across London and will ease congestion while offering significantly enhanced connectivity. On this iconic programme of work we continue to deliver the landmark Paddington and Bond Street stations and have made significant progress on the System Wide contract to provide the operational railway on the central section of Europe's largest infrastructure programme. On associated works for London Underground, both the Bond Street station upgrade and the Bakerloo Line link at Paddington have made excellent progress in the year.

In order to increase rail capacity and reduce travel times into London from the Midlands and the North, the Government is developing a high-speed rail network known as HS2. This programme has made good progress in the year with Costain being awarded, in joint venture, the southern section enabling works contract.

Nuclear

As part of the programme to manage the decommissioning of the UK's legacy nuclear power stations, Costain made significant progress towards completion of the Evaporator D contract for Sellafield Limited and we have mobilised a team for Sellafield's design and delivery partner framework.

With regard to the upgrade programme of the country's existing nuclear power station fleet, Costain successfully secured in December the project controls programme management advisory project for EDF which, importantly, demonstrates the broadening of the Group's capabilities across integrated services and consultancy. We are also undertaking advance works for EDF at Hinkley Point.

Natural Resources

The Natural Resources division, which operates in the water, power and oil & gas markets, has seen some good progress in underlying performance. Revenue in the division has increased as a consequence of the expected cyclical growth in spend in the AMP 6 programmes in the water sector, the full benefit from the integration of the acquisition of the Rhead Group in August 2015 and despite the impact of the continued difficult oil and gas market conditions.

Revenue (including share of joint ventures and associations) increased to £377.3 million (2015: £317.6 million) with an operating loss (before other items), including the impact of the increased costs and provisions on the legacy waste PFI contract detailed below, of £8.6 million (2015: £11.1 million loss). Reported (after other items) loss from operations was £12.6 million (2015: £13.4 million loss). Excluding the impact of the legacy waste contract the division generated an underlying operating profit of £6.5 million in 2016.

The loss in the period includes further costs and provisions arising in the year totalling £15.1 million in relation to the completion of the legacy Greater Manchester Waste Disposal Authority PFI contract awarded in 2007. As reported previously, all 46 facilities on the scheme are operating and processing waste. These facilities are all either fully completed or in the warranty period under the terms of the contract during which further work and plant modifications are to be completed. In the period, the Group has incurred further costs and has taken additional provisions to reach Final Acceptance on the contract, which is now targeted this year; and to complete the remaining works when access is available in accordance with the operational running of the plants under an agreed schedule to 2019. Costain has received significant payments from, and remains in discussions on further payments 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 has a forward order book of £1.0 billion (2015: £1.1 billion).

Water

The Group is now in year two of the AMP6 five year programmes for Thames Water, Severn Trent and Southern Water with a focus on improving and maintaining water quality standards, supply resilience and meeting anticipated demographic shifts. These programmes are utilising the full range of integrated capabilities available in the Group to deliver improved customer service, innovative solutions and achieve significant total expenditure efficiency savings.

In Glasgow, Costain is improving water quality and resilience of supply through the delivery of the Shieldhall Tunnel for Scottish Water, reducing flooding issues in the city's wastewater network. This is one of the largest infrastructure investments in Scotland and the main tunnel drive and associated works are progressing well.

Costain's joint venture for the east section of the Thames Tideway project has now successfully mobilised and is progressing well. This major project will form an integral part of the modernisation of London's Victorian sewerage system and significantly improve water quality in the River Thames, providing capacity to cope with the demands of the city well in to the 22nd century.

Power

Ensuring that the UK has a secure and reliable energy mix is another area of national need in which Costain is playing a key role.

The River Humber pipeline is a strategically important asset, connecting the gas import facility at Easington on the Yorkshire coast and which provides 70 – 100 million cubic metres of natural gas per day, to the national network. Costain is delivering the project services contract to deliver the replacement of the Humber Estuary Crossing for National Grid.

Following completion of a successful Front End Engineering Design (FEED) project, Costain was awarded the contract by National Grid to upgrade its Peterborough and Huntingdon compressor stations. The programme of work is part of National Grid's Emissions Reduction Project to ensure that both compressor stations comply with the Industrial Emissions Directive and Pollution Prevention and Control regulations. The project will also increase system resilience and reduce overall risk on the National Transmission System by replacing aging assets with modern, efficient equipment.

Oil & Gas

The Group continues to secure new repeat order work for its front end design studies, programme management, complex project delivery and asset support including the new Hydrochloric Acid Dosing Plant Construction Contract with Total, building on the Condensate Mercury Removal System for its Edradour-Glenlivet facility.

Costain's programme management services to Ithaca on the Stella field development continue to programme, as well as the ongoing support services to Total and Phillips 66 at their Immingham refineries.

There was a noticeable increase in new business opportunities towards the end of 2016 as customers restructure their operations and investment projects to accommodate prevailing market conditions, providing us with some improvement in visibility of potential workload in 2017.

Alcaidesa

In July 2015, we announced, by mutual agreement with our partner Santander Bank, that we had completed a reorganisation of the Spanish non-core joint venture that resulted in the assets being split equally between the parties. Costain now owns the Alcaidesa group, which incorporates the operating assets of the golf courses, the associated parcel of land and the 624-berth marina concession, adjacent to Gibraltar, and has retained its portion of the debt, amounting to €11.5 million.

Revenue in the year was £4.6 million (2015: £2.8 million) and the loss from operations was £0.7 million (2015: £0.9 million loss). The result reflects some early improvement in market conditions in Spain for this non-core activity.

Costain Cares

The management of Safety, Health and Environment is a core value at Costain. The Group's Accident Frequency Rate (AFR) in the year was 0.09, which although slightly behind the best-ever performance of 0.08 achieved in 2015, still compares well with our industry peer group.

We received a total of 21 RoSPA awards in 2016 including two Orders of Distinction, two President's Awards and the International Dilmum Environmental Trophy.

Notwithstanding this industry leading safety performance, the Group still had a number of serious safety incidents in the year, including a fatality on the M1 J16-19 Managed Motorway contract, which reinforced the need for continuous learnings, vigilance and improvement in our safety performance.

We remain committed to further improvement in our safety performance and are implementing a strategy to reduce by a further 50% the number of incidents in the business by the end of 2018.

Our customers place great emphasis on the good citizen credentials of their strategic 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 do this would mean a failure to pre-qualify for future work.

The Costain Charitable Foundation is the focus of the range of charitable and community work we undertake, both individually and as a Group. Following the success in 2015 of the 'Costain 150 Challenge', which raised over £1.1 million for good causes, we set a challenge for 2016 of 10,000 hours of volunteering by Costain people and I am delighted to report that we achieved a total of over 12,000 hours.

Outlook

These are exciting times with billions of pounds being spent upgrading and renewing the country's energy, water and transportation infrastructures.

There is a revolution in the deployment of technology-led innovative solutions to meet the increasingly complex requirements of our national infrastructure needs and we are continuing rapidly to transform our business to be at the heart of the opportunity this presents.

We started 2017 with a maintained record order book giving good visibility over the medium term and we look forward to the future with confidence.

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 2016, the Group had another year of strong financial performance with increases in revenue and profit and finished the year with a record order book and an excellent net cash position. This performance reflects the effective implementation of the Group's focused strategy which has continued to deliver good financial results over a number of years.

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 enhanced and extended its facilities during the year.

Revenue, including share of joint ventures and associates, was £1,658.0 million for the year to 31 December 2016 (2015: £1,316.5 million). The Group generated a 24% increase in underlying operating profit to £41.1 million (2015: £33.2 million). The increased profit reflects the Group's continued focus on long-term repeat orders with blue-chip customers.

Reported revenue, excluding share of joint ventures and associates, was £1,573.7 million for the year to 31 December 2016 (2015: £1,263.6 million).

Profit before tax, before other items, for the year was £37.5 million (2015: £29.9 million). Basic earnings per share, before other items, amounted to 31.5 pence (2015: 25.1 pence).

Reported profit before tax for the year was £30.9 million (2015: £26.0 million). Reported basic earnings per share were 25.7 pence (2015: 21.8 pence).

The Group secured a number of new contracts and extensions and the Group's order book was maintained at £3.9 billion (31 December 2015: £3.9 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.

Other items

In order to aid understanding of the underlying performance of the Group, throughout the Annual Report underlying operating profit and underlying profit before tax have been used. These measures exclude 'other items' which are acquisition related charges including amortisation of intangible assets and deferred consideration treated as an employment expense. These 'other items' are shown in a separate column in the consolidated income statement.

Acquisitions

On 5 July 2016, the Group acquired SSL a provider of technology-based solutions, primarily for the highways sector, but with the potential for wider applications across the Group. SSL was acquired for a total cash consideration of £17.0 million on a debt free/cash free basis with normalised working capital. £1.5 million of consideration has been deferred and is payable in July 2019.

In 2015, the Group acquired Rhead Group, a professional services consultancy with a focus on programme and commercial management. The acquisition was made for a total consideration of £36 million on a debt free/cash free basis with normalised working capital. £3 million of the consideration was deferred and was payable in two equal tranches with the first paid in August 2016 and the second is payable in August 2017.

Also in 2015, 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.

Interest

Net finance expense amounted to £4.2 million (2015: £3.5 million). The interest payable on bank overdrafts, loans and other similar charges was £3.3 million (2015: £2.7 million) and the interest income from bank deposits and other loans and receivables amounted to £0.6 million (2015: £0.8 million). In addition, the net finance expense includes the interest cost on the net liabilities of the pension scheme of £1.1 million (2015: £1.3 million) and £0.4 million (2015: £0.3 million) unwind of discount on deferred consideration.

Tax

The Group's effective rate of tax was 14.6% of the profit before tax (2015: 14.6%). 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 8.4 pence per share (2015: 7.25 pence per share) to bring the total for the year to 12.7 pence per share (2015: 11.0 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 decreased in the year to £99.6 million (2015: £120.6 million). The profit for the year amounted to £26.4 million and other comprehensive expenses to £39.8 million. The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements, the decrease in the year is primarily due to the re-measurement of the Group's legacy pension scheme defined benefit obligations to reflect current market based assumptions.

Pensions

As at 31 December 2016, the Group's pension scheme deficit in accordance with IAS 19, was £73.5 million (2015: £36.7 million). The scheme deficit position has increased primarily as a result of a decrease in the discount rate used to calculate the liabilities, which is based on corporate bond yields, and an increase in the assumed inflation rate partially offset by the return on assets and Company contributions.

The table below sets out the key details of the pension scheme deficit calculation:

	2016	**2015**
	£m	**£m**
Present value of defined benefit obligations	(827.5)	(687.4)
Fair value of scheme assets	754.0	650.7
Recognised liability for defined benefit obligations	(73.5)	(36.7)

Principal actuarial assumptions (expressed as weighted averages)	**%**	**%**
Discount rate	2.70	3.80
Future pension increases	3.10	2.95
Inflation assumption	3.20	3.00

In accordance with the pension regulations a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2016. In February 2017, an updated deficit recovery plan has been agreed with the scheme Trustee resulting in cash contributions of £10.0 million for the 12 months to 31 March 2017 and then £9.6 million per annum (increasing annually with inflation) until the deficit is cleared, which would be in 2031 on the basis of the assumptions made in the valuation and agreed recovery plan.

In addition, as previously implemented, the Group will continue to make an additional contribution so that the total deficit contributions match the total dividend amount paid by the Company each year. Consequently, the total amount of contribution is anticipated to be at the same overall level to that under the previous plan. Any additional payments in this regard would have the effect of reducing the recovery period in the agreed plan.

Cash flow and borrowings

The Group has a positive cash balance, which was £210.2 million as at 31 December 2016 (2015: £146.7 million) and borrowings of £70.0 million (2015: £38.5 million). This included cash held by joint operations of £68.1 million (2015: £42.7 million).

The increase in the net cash position reflects positive operating cash flow and working capital, in particular benefiting from the timing of receipts at the year-end. These positive movements have been partially offset by the payment of acquisition related consideration, dividend payments and pension deficit contributions made during the year. The average month-end net cash balance during 2016 was £69.1 million (2015: £103.7 million).

Contract bonding and banking facilities

The Group's long-term contracting business is dependent on it being able to supply performance and other bonds as necessary. This means maintaining adequate facilities from banks and surety bond providers to meet the current and projected usage requirements. During the year, the Group has increased its contract bonding and banking facilities to £555 million and extended the maturity date to 30 June 2021 with its relationship banks and surety companies. These facilities are made up of £400 million of contract bonding, a £125 million revolving credit facility and a £30 million term loan.

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. The Group holds a currency hedge against the assets held in its Spanish subsidiary.

Transaction exposure: the Group has 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

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 section on the basis that they are not considered to be material.

RISK AND IMPACT	RISK APPETITE	MITIGATION
1. Safety, Health and Environment • Failure to prevent a major safety incident/accident or environmental event which could adversely affect the Group's reputation and its operational and financial performance • 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. • A comprehensive strategy for the improvement of our Safety, Health and Environment performance enhanced in 2016 to deliver further progress to our goals. • Detailed Safety, Health and Environment management processes. • 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. • 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. • Performance metrics in the Group's Annual Incentive Plan also include a key non-financial indicator for Safety and Health.
2. Political, economic and market conditions Whilst the long-term nature of Costain's contracts limits sudden fluctuations in revenue, changes in the cost of Costain doing business or reductions in the addressable market could arise as a result of: • Changes in Government policy on spending including an increased burden on corporate entities • The implications of the EU referendum result • The changing nature of international politics and their influence on the UK market	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. • The period of contracts providing significant protection from immediate change to Government policy. • Monitoring of policy development via industry groups and close contact with customers in our target markets. • High levels of engagement with our customers and other key stakeholders in Government and third parties.
3. Financial strength Costain must establish sufficient financial strength to operate its business. Without this the Group will: • Be unable to demonstrate to customers the required level of financial resource resulting in failure to win long-term contracts. • Be unable to maintain a competitive scale in a consolidating market within the engineering sector. • Fail to maintain adequate working capital to operate the business.	Costain prioritises its financial strength to ensure it can continue to win work: • Foreign currency exposure risk to be hedged. • Parent Company guarantee is the preferred option, and any performance bonds to be a maximum of 10% and surety bonds are preferred. • There is zero tolerance to fraud and bribery.	• A strong balance sheet including positive net cash position. • Extensive unutilised banking and bonding facilities • The strategic use of joint venture partners to help achieve the required financial and operational strength only in markets where this is not demonstrated by the Group in isolation.

4. Winning new work 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: • Competition and failure to win work from core customers • Costain not being able to demonstrate the ability to provide an end-to-end delivery function as demanded by our customers	Costain has no appetite for winning work that will impact the financial strength of the business: • Only sectors and customers which form part of the Group strategy to be pursued. • Target cost is the preferred contract form. • All contracts to be at least cash neutral. • Operations are to be in line with the Group Commercial Expectations document. • Opportunities should be pursued alone unless there is a compelling reason otherwise.	• The order book at year end stands at £3.9 billion, providing long-term visibility of earnings. • 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. • The accelerated implementation of programme management and technology services via strategic acquisitions. • Continuing to develop and maintain strong relationships with customers across key markets on the back of our track record for delivery. • Regularly monitoring pipeline opportunities and ensuring resources are centrally allocated to the most advantageous business development activities. • Continuously striving to broaden the skills and breadth of our capability (organically and by acquisition) to meet the increasingly broad requirements of the market. • Continuing to develop the Group's market proposition through the introduction of new technologies and the strong Costain brand.
5. Operational delivery Costain delivers works through a number of often 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: • A failure to accurately assess our works (including costs and time required) or contractual terms at tender. • Design faults that result in additional works to rectify. • An interruption to our supply chain that provides part of the services or materials to complete the works. • Refusal of claim by insurers following a loss • Compensation events or increase in scope not being fully reimbursed by our customers.	All operations to follow the Costain Way. Only approved suppliers to be used. 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. Operational controls are also reviewed. • The use of experienced and qualified staff to prepare bids and manage the contracted works • Defined delegated authority levels for approving all tenders where all significant contracts are subject to escalation from the Executive Investment Committee to the Board. • 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. • Work on site is audited by in-house specialists and reports are prepared so that corrective action, where required, can be taken. • A senior executive is responsible for overall quality issues, the updating of best practice and ensuring compliance in both existing operations and in line with the changing business. • 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. • Compensation events are closely monitored by our project teams, and are included in the monthly reporting process through to senior management. Robust processes are in place to ensure compliance with contractual requirements regarding such compensation events, including timely notification, documented discussions with the customer, and maintenance of appropriate supporting records.

6. People and skills 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 grow the business as anticipated, or cause a short-term impact on performance	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 • The Group has a high staff retention rate and engaged workforce. • 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. • 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 • A well-developed succession planning process is regularly monitored. • Talent reviews and ongoing personal development are proactively supported at all levels. • Active liaison with employees is achieved through the Costain Ground Force employee committee and engagement surveys. •
7. Pension liabilities The Group has a deficit of £73.5 million in its defined benefit pension scheme which was closed to new members from 01 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	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. • 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. • An actuarial valuation of the scheme as at 31 March 2016 has been carried out and an associated deficit recovery plan has been agreed with the Trustee.
8. Acquisitions 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	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. • Integration plans are put in place and managed by a dedicated and experienced team. • Regular progress reports using pre-agreed performance indicators are made to the Board. • Lessons are fed back into future integration exercises.
9. Failure of IT systems Costain has a high reliance upon 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. This risk has increased due to increasing levels of cyber security threats within society	All critical systems are to be regularly backed up and a disaster recovery contingency plan put in place.	• Transition underway to cloud-based systems for enhanced security and monitoring. • There is at least duplication in core hosting systems supporting data recovery efforts. • A suitably qualified team for support, including specialist outsourced suppliers, ensures knowledge is maintained. • Regular internal and external testing and assurance exercises are carried out. • Established business continuity systems and procedures, routinely tested and developed, ensure rapid recovery and data retrieval. • Security training is provided for safe usage and storage of documentation for all staff. • 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 2016. 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 principal risks have been taken into consideration in preparing the projections, with particular emphasis on:

- A major health, safety or environmental incident;
- Reduction in new work won;
- Operational delivery issues;
- Deterioration in pension liabilities;
- Making an acquisition that does not achieve the planned profit;
- A major IT systems failure.

The projections have then been incorporated into a sensitivity analysis which reflects plausible, but severe, combinations of the above variables, and the impact of these 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 2019.

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 2016

Consolidated income statement

Year ended 31 December	Notes	**2016** Before other items	Other items	Total	2015 Before other items	Other items	Total
		£m	**£m**	**£m**	£m	£m	£m
Continuing operations							
Revenue		**1,658.0**	**-**	**1,658.0**	1,316.5	-	1,316.5
Less: Share of revenue of joint ventures and associates	8	**(84.3)**	**-**	**(84.3)**	(52.9)	-	(52.9)
Group revenue		**1,573.7**	**-**	**1,573.7**	1,263.6	-	1,263.6
Cost of sales		**(1,497.7)**	**-**	**(1,497.7)**	(1,196.9)	-	(1,196.9)
Gross profit		**76.0**	**-**	**76.0**	66.7	-	66.7
Administrative expenses before other items		**(34.9)**	**-**	**(34.9)**	(33.5)	-	(33.5)
Amortisation of acquired intangible assets		**-**	**(4.6)**	**(4.6)**	-	(3.2)	(3.2)
Employment related and other deferred consideration		**-**	**(1.6)**	**(1.6)**	-	(0.4)	(0.4)
Group operating profit		**41.1**	**(6.2)**	**34.9**	33.2	(3.6)	29.6
Share of results of joint ventures and associates	8	**0.2**	**-**	**0.2**	(0.1)	-	(0.1)
Profit from operations	2	**41.3**	**(6.2)**	**35.1**	33.1	(3.6)	29.5
Finance income	3	**0.6**	**-**	**0.6**	0.8	-	0.8
Finance expense	3	**(4.4)**	**(0.4)**	**(4.8)**	(4.0)	(0.3)	(4.3)
Net finance expense		**(3.8)**	**(0.4)**	**(4.2)**	(3.2)	(0.3)	(3.5)
Profit before tax		**37.5**	**(6.6)**	**30.9**	29.9	(3.9)	26.0
Taxation	4	**(5.1)**	**0.6**	**(4.5)**	(4.4)	0.6	(3.8)
Profit for the year attributable to equity holders of the parent		**32.4**	**(6.0)**	**26.4**	25.5	(3.3)	22.2
Earnings per share							
Basic	5	**31.5p**	**(5.8)p**	**25.7p**	25.1p	(3.3)p	21.8p
Diluted	5	**30.7p**	**(5.7)p**	**25.0p**	24.4p	(3.2)p	21.2p

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

	2016 £m	2015 £m
Profit for the year	**26.4**	22.2
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**4.2**	(1.3)
Net investment hedge – net loss	**(3.7)**	-
Cash flow hedges		
Group:		
Effective portion of changes in fair value during year	**1.9**	-
Net changes in fair value transferred to the income statement	**-**	-
Total items that may be reclassified subsequently to profit or loss	**2.4**	(1.9)
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**(49.8)**	(3.3)
Tax recognised on remeasurement of defined benefit obligations	**7.6**	0.7
Total items that will not be reclassified to profit or loss	**(42.2)**	(2.6)
Other comprehensive expense for the year	**(39.8)**	(3.9)
Total comprehensive (expense)/income for the year attributable to equity holders of the parent	**(13.4)**	18.3

Consolidated statement of changes in equity

	Share capital	**Share premium**	**Translation reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
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
At 1 January 2016	**51.1**	**6.2**	**1.8**	**-**	**61.5**	**120.6**
Profit for the year	**-**	**-**	**-**	**-**	**26.4**	**26.4**
Other comprehensive income/(expense)	**-**	**-**	**0.5**	**1.9**	**(42.2)**	**(39.8)**
Issue of ordinary shares under employee share option plans	**0.9**	**1.9**	**-**	**-**	**(0.3)**	**2.5**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**(1.4)**	**(1.4)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**2.3**	**2.3**
Dividends paid	**0.1**	**0.7**	**-**	**-**	**(11.8)**	**(11.0)**
At 31 December 2016	**52.1**	**8.8**	**2.3**	**1.9**	**34.5**	**99.6**

Consolidated statement of financial position

As at 31 December

	Notes	2016 £m	2015 £m
Assets			
Non-current assets			
Intangible assets	7	**65.9**	52.3
Property, plant and equipment		**42.2**	37.3
Investments in equity accounted joint ventures	8	**0.3**	0.4
Investments in equity accounted associates	8	**0.6**	0.5
Loans to equity accounted associates		**1.7**	1.7
Other		**7.7**	8.2
Deferred tax		**14.9**	10.6
Total non-current assets		**133.3**	111.0
Current assets			
Inventories		**3.6**	2.9
Trade and other receivables		**299.1**	271.8
Cash and cash equivalents	9	**210.2**	146.7
Total current assets		**512.9**	421.4
Total assets		**646.2**	532.4
Equity			
Share capital		**52.1**	51.1
Share premium		**8.8**	6.2
Foreign currency translation reserve		**2.3**	1.8
Hedging reserve		**1.9**	-
Retained earnings		**34.5**	61.5
Total equity attributable to equity holders of the parent		**99.6**	120.6
Liabilities			
Non-current liabilities			
Retirement benefit obligations	10	**73.5**	36.7
Other payables		**1.0**	2.8
Interest bearing loans and borrowings		**30.1**	-
Provisions for other liabilities and charges		**0.4**	0.1
Total non-current liabilities		**105.0**	39.6
Current liabilities			
Trade and other payables		**397.2**	329.0
Taxation		**3.4**	2.7
Interest bearing loans and borrowings		**39.9**	38.5
Provisions for other liabilities and charges		**1.1**	2.0
Total current liabilities		**441.6**	372.2
Total liabilities		**546.6**	411.8
Total equity and liabilities		**646.2**	532.4

Consolidated cash flow statement

Year ended 31 December

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**26.4**	22.2
Adjustments for:			
Share of results of joint ventures and associates	8	**(0.2)**	0.1
Finance income	3	**(0.6)**	(0.8)
Finance expense	3	**4.8**	4.3
Taxation	4	**4.5**	3.8
Depreciation of property, plant and equipment		**6.4**	2.9
Amortisation of intangible assets		**5.2**	3.9
Employment related and other deferred consideration		**1.6**	0.4
Shares purchased to satisfy employee share schemes		**(1.4)**	(1.0)
Share-based payments expense		**2.9**	2.4
Cash from operations before changes in working capital and provisions		**49.6**	38.2
Decrease in inventories		**(0.7)**	0.1
Increase in receivables		**(24.0)**	(37.7)
Increase in payables		**61.1**	26.7
Movement in provisions and employee benefits		**(14.7)**	(9.1)
Cash from operations		**71.3**	18.2
Interest received		**0.4**	0.8
Interest paid		**(2.4)**	(2.7)
Taxation paid		**(2.2)**	(0.6)
Net cash from operating activities		**67.1**	15.7
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		**0.2**	-
Additions to property, plant and equipment		**(7.0)**	(2.0)
Additions to intangible assets		**(0.1)**	(0.2)
Proceeds of disposal of property, plant and equipment		**0.1**	0.1
Additions to cost of investments		**-**	(1.0)
Acquisition related deferred consideration		**(2.0)**	(5.4)
Acquisition of subsidiaries (net of acquired cash and cash equivalents)		**(16.3)**	(30.0)
Net cash used by investing activities		**(25.1)**	(38.5)
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		**2.5**	-
Ordinary dividends paid		**(11.0)**	(9.4)
Drawdown of loans		**90.1**	38.5
Repayment of loans		**(60.0)**	(8.1)
Net cash from financing activities		**21.6**	21.0
Net increase/(decrease) in cash, cash equivalents and overdrafts		**63.6**	(1.8)
Cash, cash equivalents and overdrafts at beginning of the year	9	**146.7**	148.5
Effect of foreign exchange rate changes		**(0.1)**	-
Cash, cash equivalents and overdrafts at end of the year	9	**210.2**	146.7

Notes to the financial statements

1 Basis of preparation

Costain Group PLC ("the Company") is a public limited company incorporated in the UK. The consolidated financial statements of the Company for the year ended 31 December 2016 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 by the EU ('Adopted IFRS') and their related interpretations.

The financial information set out herein (which was authorised for issue by the Directors on 1 March 2017) does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies, and those for 2016 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 2016 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 judgement and estimation arise from the accounting for long-term contracts under IAS 11 'Construction Contracts', 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.

Long-term contracts

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. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims to the extent that the amounts the Group expects to recover can be reliably estimated and the receipt is probable.

Management bases its judgements 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, progress on discussions over compensation events, variations and claims with clients 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

Management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year could require material adjustment. Given the persuasive impact of judgements and estimates on revenue, cost of sales and related balance sheet amounts, it is difficult to quantify the impact of taking alternative assessments on each of the judgements above.

Carrying value of goodwill and intangible assets

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires judgements, 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 are set out in Note 7.

Defined benefit pension schemes

Defined benefit pension schemes require significant judgements in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the Directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in Note 10.

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.

2016	**Natural Resources**	**Infrastructure**	**Alcaidesa**	**Central costs**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Segment revenue					
External revenue	**361.9**	**1,207.2**	**4.6**	**-**	**1,573.7**
Share of revenue of joint ventures and associates	**15.4**	**68.9**	**-**	**-**	**84.3**
Total segment revenue	**377.3**	**1,276.1**	**4.6**	**-**	**1,658.0**
Segment profit/(loss)					
Operating profit/(loss)	**(8.6)**	**56.6**	**(0.7)**	**(6.2)**	**41.1**
Share of results of joint ventures and associates	**0.2**	**-**	**-**	**-**	**0.2**
Profit/(loss) from operations before other items	**(8.4)**	**56.6**	**(0.7)**	**(6.2)**	**41.3**
Other items:					
Amortisation of acquired intangible assets	**(2.8)**	**(1.8)**	**-**	**-**	**(4.6)**
Employment related and other deferred consideration	**(1.4)**	**(0.2)**	**-**	**-**	**(1.6)**
Profit/(loss) from operations	**(12.6)**	**54.6**	**(0.7)**	**(6.2)**	**35.1**
Net finance expense					**(4.2)**
Profit before tax					**30.9**

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

3 Net finance expense

	2016	2015

	£m	£m
Interest income from bank deposits	**0.3**	0.5
Interest income on loans to related parties	**0.3**	0.3
Finance income	**0.6**	0.8
Interest payable on bank overdrafts, interest bearing loans, borrowings and other similar charges	**(3.3)**	(2.7)
Unwind of discount on deferred consideration	**(0.4)**	(0.3)
Interest cost on the net liabilities of the defined benefit pension scheme	**(1.1)**	(1.3)
Finance expense	**(4.8)**	(4.3)
Net finance expense	**(4.2)**	(3.5)

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

4 Taxation

	2016 £m	2015 £m
On profit for the year		
UK corporation tax at 20% (2015: 20.25%)	**(2.8)**	(2.4)
Current tax charge for the year	**(2.8)**	(2.4)
Deferred tax charge for current year	**(1.7)**	(1.7)
Adjustment in respect of prior years	**-**	0.3
Deferred tax charge for the year	**(1.7)**	(1.4)
Tax expense in the consolidated income statement	**(4.5)**	(3.8)

	2016 £m	2015 £m
Tax reconciliation		
Profit before tax	**30.9**	26.0
Taxation at 20% (2015: 20.25%)	**(6.2)**	(5.3)
Share of results of joint ventures and associates at 20% (2015: 20.25%)	**0.1**	-
Disallowed expenses and amounts qualifying for tax relief	**(0.3)**	0.1
Utilisation of previously unrecognised temporary differences	**0.1**	0.3
Research and Development tax relief for current year	**0.5**	0.7
Rate adjustment relating to deferred taxation and overseas profits and losses	**1.3**	0.1
Adjustments in respect of prior years, mainly Research and Development tax relief claims	**-**	0.3
Tax expense in the consolidated income statement	**(4.5)**	(3.8)

5 Earnings per share

The calculation of earnings per share is based on profit of £26.4 million (2015: £22.2 million) and the number of shares set out below.

	2016 Number (millions)	2015 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**102.8**	101.7
Dilutive potential ordinary shares arising from employee share schemes	**2.6**	2.8
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**105.4**	104.5

6 Dividends

	Dividend per share pence	**2016 £m**	2015 £m
Final dividend for the year ended 31 December 2014	6.25	**-**	6.3
Interim dividend for the year ended 31 December 2015	3.75	**-**	3.9
Final dividend for the year ended 31 December 2015	7.25	**7.4**	-
Interim dividend for the year ended 31 December 2016	4.30	**4.4**	-
Amount recognised as distributions to equity holders in the year		**11.8**	10.2
Dividends settled in shares		**(0.8)**	(0.8)
Dividends settled in cash		**11.0**	9.4

7 Intangible assets

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
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
At 1 January 2016	**40.8**	**12.6**	**7.2**	**8.6**	**69.2**
Currency realignment	**-**	**-**	**-**	**0.1**	**0.1**
Acquired through business combinations	**13.3**	**2.8**	**2.5**	**-**	**18.6**
Additions	**-**	**-**	**-**	**0.1**	**0.1**
Disposals	**-**	**-**	**-**	**(0.7)**	**(0.7)**
At 31 December 2016	**54.1**	**15.4**	**9.7**	**8.1**	**87.3**
Amortisation					
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
At 1 January 2016	**-**	**5.6**	**5.0**	**6.3**	**16.9**
Provided in year	**-**	**2.3**	**2.3**	**0.6**	**5.2**
Disposals	**-**	**-**	**-**	**(0.7)**	**(0.7)**
At 31 December 2016	**-**	**7.9**	**7.3**	**6.2**	**21.4**
Net book value					
At 31 December 2016	**54.1**	**7.5**	**2.4**	**1.9**	**65.9**
At 31 December 2015	40.8	7.0	2.2	2.3	52.3
At 1 January 2015	22.3	4.5	2.2	2.0	31.0

8 Investments

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

	2016			2015		
	Joint ventures £m	**Associates £m**	**Total £m**	Joint ventures £m	Associates £m	Total £m
Revenue	**83.4**	**0.9**	**84.3**	49.8	3.1	52.9
Profit/(loss) before tax	**-**	**0.3**	**0.3**	(0.3)	0.2	(0.1)
Income tax	**-**	**(0.1)**	**(0.1)**	-	-	-
Profit/(loss) for the year	**-**	**0.2**	**0.2**	(0.3)	0.2	(0.1)
Non-current assets	**-**	**-**	**-**	0.1	-	0.1
Current assets	**15.7**	**2.5**	**18.2**	13.0	2.7	15.7
Current liabilities	**(15.4)**	**(0.6)**	**(16.0)**	(12.7)	(0.9)	(13.6)
Non-current liabilities	**-**	**(1.3)**	**(1.3)**	-	(1.3)	(1.3)
Investments in joint ventures and associates	**0.3**	**0.6**	**0.9**	0.4	0.5	0.9

Alcaidesa Holding SA was reorganised during the prior 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 11).

9 Cash and cash equivalents

Cash and cash equivalents include the Group's share of cash held by joint operations of £68.1 million (2015: £42.7 million).

10 Pensions

A defined benefit pension scheme is operated in the UK and a number of defined contribution pension schemes are in place in the UK and overseas. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension charge in the income statement was £12.1 million comprising £11.0 million included in operating costs plus £1.1 million included in net finance expense (2015: £11.2 million, comprising £9.9 million in operating costs plus £1.3 million in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 01 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 2016 by a qualified independent actuary. At 31 December 2016, there were 2,820 retirees and 3,234 deferred members. The weighted average duration of the obligations is 17.3 years.

	2016 £m	2015 £m	2014 £m
Present value of defined benefit obligations	**(827.5)**	(687.4)	(701.0)
Fair value of scheme assets	**754.0**	650.7	659.3
Recognised liability for defined benefit obligations	**(73.5)**	(36.7)	(41.7)

Movements in present value of defined benefit obligations

	2016	2015

	2016 £m	2015 £m
At 1 January	**687.4**	701.0
Interest cost	**25.5**	24.6
Remeasurements – demographic assumptions	**-**	7.9
Remeasurements – financial assumptions	**153.0**	(13.9)
Remeasurements – experience adjustments	**(6.8)**	-
Benefits paid	**(31.6)**	(32.2)
At 31 December	**827.5**	687.4

Movements in fair value of scheme assets

	2016 £m	2015 £m
At 1 January	**650.7**	659.3
Interest income	**24.4**	23.3
Remeasurements – return on assets	**96.4**	(9.3)
Contributions by employer	**14.1**	9.6
Benefits paid	**(31.6)**	(32.2)
At 31 December	**754.0**	650.7

Expense recognised in the income statement

	2016 £m	2015 £m
Administrative expenses paid by the pension scheme	**(0.2)**	(0.4)
Administrative expenses paid directly by the Group	**(2.3)**	(1.8)
Interest cost on the net liabilities of the defined benefit pension scheme	**(1.1)**	(1.3)
	(3.6)	(3.5)

Fair value of scheme assets

	2016 £m	2015 £m
UK equities	**116.2**	89.3
Overseas equities	**95.9**	73.2
Multi-credit fund	**87.1**	75.5
Index linked gilts	**311.0**	266.1
PFI Investments	**51.6**	51.6
Property	**22.3**	22.6
Absolute return fund	**68.4**	71.7
Cash	**1.5**	0.7
	754.0	650.7

Principal actuarial assumption (expressed as weighted averages)

	2016 %	2015 %
Discount rate	**2.70**	3.80
Future pension increases	**3.10**	2.95
Inflation assumption	**3.20**	3.00

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2016 and 31 December 2015 is:

	2016		2015	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Currently aged 65	**22.2**	**24.7**	22.2	24.7
Non-retirees currently aged 45 today	**24.1**	**26.7**	24.0	26.6

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

	Pension liability £m	**Pension cost £m**
Increase discount rate by 0.25%, decreases pension liability and reduces pension cost by	34.7	1.2
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	30.7	1.2
Increase life expectancy by one year, increases pension liability and increases pension cost by	28.1	2.8

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2016. In February 2017, the valuation and an updated deficit recovery plan were agreed with the scheme Trustee resulting in cash contributions of £10.0 million for the 12 months to 31 March 2017 and then £9.6 million per annum (increasing annually with inflation) until the deficit is cleared, which would be in 2031 on the basis of the assumptions made in the valuation and agreed recovery plan.

In addition, as previously implemented, the Group will continue to make an additional contribution so that the total deficit contributions match the total dividend amount paid by the Company each year. Consequently, the total amount of contribution is anticipated to be at a similar level to that under the previous plan. Any additional payments in this regard would have the effect of reducing the recovery period in the agreed plan. The Group will also pay the expenses of administration in the next financial year.

Any surplus of deficit contributions to the Costain Pension Scheme would be recoverable by way of a refund, as the Group has the unconditional right to any surplus once all the obligations of the Scheme have been settled. Accordingly, the Group does not expect to have to make provision for these additional contributions arising from this post balance sheet agreement in future accounts.

Defined contribution schemes

Several defined contribution pensions are operated. The total expense relating to these plans was £8.5 million (2015: £7.7 million).

11 Acquisitions

On 5 July 2016, the Group purchased the share capital of Simulation Systems Limited (now Costain Integrated Technology Solutions Limited) . The business is based in the UK and provides innovative technology based solutions, primarily in the highways sector.

The initial consideration was £17.6 million. A further payment of £1.5 million was deferred over three years. This is 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 further enhance its technology capability as part of its focus on delivering a broad range of innovative integrated services.

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 £11.5 million, operating profit £0.5 million, including integration costs.

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

	£m
Cash consideration	**17.6**
Acquired intangible assets - Customer relationships	2.8
Acquired intangible assets - Other	2.5
Property, plant and equipment	0.1
Cash	1.6
Other current assets	2.6
Other current liabilities	(3.9)
Deferred tax	(1.1)
Fair value of assets acquired and liabilities recognised	**4.6**
Goodwill arising on acquisitions	**13.0**

Based on the provisional assessment of the recognised values of assets and liabilities, the goodwill arising on the acquisitions is expected to be £13.0 million.

The acquisition of Rhead Group Holdings Limited, acquired in July 2015, was adjusted by £0.3 million with a corresponding increase in the goodwill. There was no change to the acquisition fair values of Alcaidesa Holding SA, the joint venture that became a wholly owned subsidiary in 2015, following a reorganisation in which the assets were split between the two partners.

12 Related party transactions

The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and joint operations, in relation to the sales of construction services and materials and the provision of staff, with The Costain Pension Scheme and with two directors of a subsidiary and another employee in relation to office leases acquired. The total value of these services in 2016 was £195.1 million (2015: £133.2 million) and transactions with The Costain Pension Scheme are included in Note 10.

13 Forward-looking statements

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

14 Responsibility statements

The responsibility statement set out below has been prepared in connection with (and will be set out in) the Annual Report and Accounts for the year ended 31 December 2016.

"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 Paul Golby (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:

PAUL GOLBY
Chairman

ANDREW WYLLIE
Chief Executive

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