ACCELERATING GROWTH

COSTAIN GROUP PLC
ANNUAL REPORT 2015

DISCOVER MORE

To find out more about how Costain collaborates with customers on a wide range of projects, please visit our website.

costain.com/investors/annual-report-2015-highlights/

Costain, the engineering solutions provider, delivers for customers integrated consulting, project delivery and operations and maintenance services, with a portfolio spanning 150 years of innovation and technical excellence.

The Company is committed to delivering sustainable value for shareholders and all stakeholders by enhancing lives through meeting national needs.

+4,100
Experts delivering solutions

£1,316.5m
Revenue[1]

£3.9bn
Record order book

+90%
Repeat business

£33.2m
Underlying operating profit[2]

11.0p
Dividend per share

1 Including share of joint ventures and associates.

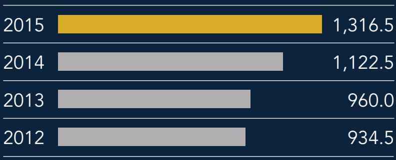
2 Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration.

HIGHLIGHTS
ANOTHER STRONG TRADING PERFORMANCE

FINANCIAL HIGHLIGHTS

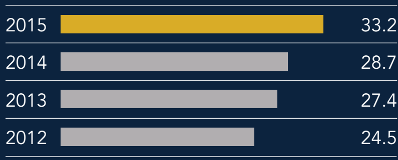
Revenue[1]

£1,316.5m



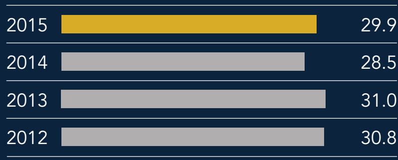
Underlying operating profit[2]

£33.2m



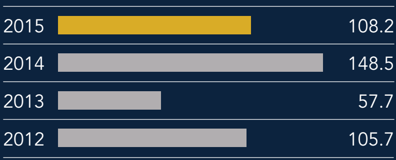
Adjusted profit before tax[2]

£29.9m



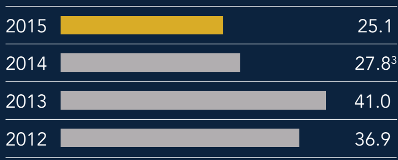
Net cash balance

£108.2m



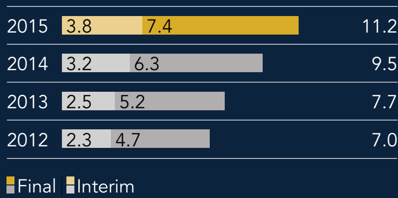
Adjusted basic earnings per share[2]

25.1p



Total value of dividend pay-out

£11.2m



	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 benefitted from a lower tax charge and was based on a lower average number of shares than in 2015.

These are the definitions used throughout the Strategic report.

CONTRACT AWARDS

Asset Support Contracts

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 worth some £750 million over five years and have been awarded in joint venture partnership with Costain sharing a third of the value.

Thames Tideway Tunnel

Awarded the £605 million contract for the East works package of the Thames Tideway Tunnel in London in joint venture with VINCI Construction Grands Projets and Bachy Soletanche Ltd.

Smart motorway

Appointed by Highways England to deliver three smart motorway schemes in a Costain-led joint venture with Galliford Try worth in excess of £300 million. The smart motorway programme is part of Highways England's Collaborative Delivery Framework, to which Costain was appointed in November 2014.

A14 works

Appointed by Highways England to deliver two of the three sections of the A14 Cambridge to Huntingdon Improvement Scheme, in joint venture with Skanska.

Paddington underground link

Awarded by London Underground Limited to create an underground link between Paddington Station's Crossrail and Bakerloo line platforms.

NEWS

32 RoSPA awards

32 Royal Society for the Prevention of Accidents (RoSPA) awards which included two Orders of Distinction, two President's Awards and three Gold Medals.

£36m acquisition

The Group completed the £36 million acquisition of Rhead Group, a professional services consultancy providing a range of solutions for the life-cycle of infrastructure, construction and asset management programmes for blue-chip customers including National Grid, Wales & West Utilities and BAE Systems.

Most admired

Costain was named the UK's 'Most Admired Heavy Construction Company'.

Two wins at IChemE

Two major awards at the Institution of Chemical Engineers (IChemE) Global Awards.

£1,137,351 raised

The Costain 150 Challenge raised over £1.1 million for the Costain Charitable Foundation's four charities.

REVOLUTIONISING HOW WE DEAL WITH NUCLEAR WASTE

I am very proud of our team of engineers from Costain and Tetronics, who are working so creatively to develop a new approach to one of the key issues in the nuclear sector: reducing the volume of nuclear waste dramatically, whilst at the same time enhancing safety and environmental performance.

Dr Bryony Livesey
Head of Technology
and Consultancy

PROJECT

Plasma Vitrification

THE CHALLENGE

Intermediate Level Waste (ILW) arises from general operations and maintenance at nuclear sites, and can include solid metal items such as fuel cladding, reactor components and sludges from the treatment of radioactive liquid effluents. As the UK's old nuclear sites are decommissioned and cleaned up, the amount of ILW that will need to be disposed of will increase massively. The current method of disposal is to place the ILW into stainless steel drums, fill with cement and place it in special above-ground stores, prior to permanent storage underground.

THE SOLUTION

Trials were recently conducted on a plasma vitrification solution following Costain's recent collaboration with Tetronics International to adapt and enhance Tetronics' existing plasma vitrification furnace, which vitrifies such wastes. This system reduces the volume of ILW from the nuclear industry by up to 90%. Using a furnace that operates at around 1000°C to 1400°C, it takes between six and 12 hours to reduce waste to a glass-like substance. Organic and carbonaceous material in the ILW is vaporised by the extreme heat produced by the plasma torches. This waste gas is cleaned via a filtration process and released.

THE VALUE WE CREATED

With the UK's nuclear decommissioning programme set to gather pace in the near future, the plasma vitrification project has enormous potential, both in the UK and globally. Plasma vitrification has the ability to greatly reduce the volume of ILW and ease the burden on the UK's waste storage facilities, leading to considerable savings, both in building future storage facilities and in other areas of ILW treatment. Billions of pounds could be saved by the nuclear industry over the coming decades, with the added possibility of income through sale of the technology abroad.

"WE HAVE AGAIN DELIVERED A STRONG PERFORMANCE WITH GROWTH IN BOTH REVENUE AND PROFIT."

David Allvey
Chairman

£3.9bn
Record forward order book

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.

Corporate Governance report
See page 57

Board

In September 2015, Ahmed Samy, a Non-Executive Director, and the nominee on the Board of Mohammed Abdulmohsin Al Kharafi & ons 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 14 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, The 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
01 March 2016

"BY DEVELOPING TRUSTED STRATEGIC RELATIONSHIPS, WE CAN IDENTIFY, CREATE AND DELIVER INNOVATIVE ENGINEERING AND TECHNOLOGY-LED SOLUTIONS."

Andrew Wyllie CBE
Chief Executive

£33.2m
Underlying operating profit[1]

2015	33.2
2014	28.7
2013	27.4
2012	24.5

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 focused *'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.

1 Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration.

Delivering a 21st-century infrastructure

We have previously referred to the explicit link between investment in a 21st-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.

+4,100
Employees

16%
Increase on last year

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 11 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.

"WE BELIEVE THAT THE SUCCESS OF THE GROUP IS BUILT ON THE STRENGTH AND EXPERIENCE OF OUR PEOPLE."

Andrew Wyllie CBE
Chief Executive

£1,316.5m
Revenue

17%
Increase on last year

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 in the Divisional 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.

'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, two President's Awards and three 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.

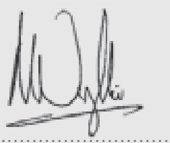
Costain will continue to accelerate its pace of growth through a combination of organic growth and targeted acquisitions as it continues to meet its customers' needs as a tier-one supplier.

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
01 March 2016

A TRUSTED PARTNER OF CHOICE

Our work on this major Water Treatment Works epitomises the excellent team ethos and good working relationship we have with Severn Trent Water. Around 30 people were involved in the work, reflecting our logistical capabilities and trusted delivery. That's why we continue to be the partner of choice in AMP6.

Rebecca Fleming
Commercial Manager

CUSTOMER

Severn Trent Water

PROJECT

Water Treatment Works

THE CHALLENGE

Working at a major water treatment works, one of the biggest in Severn Trent Water's extensive portfolio, the team had to connect new pipes to two of the original 120-year-old, 43-inch diameter cast iron gravity mains leaving the works. The pipes were commissioned in 1894 and made of cast iron with lead joints. Lying seven metres underground, their condition was unknown. The team had to ensure that no damage was done to them or the surrounding infrastructure, while ensuring the water supply always remained on and good to drink, as well as working to the highest standards of hygiene. The team had a 54-hour window in which to complete the work.

THE SOLUTION

Months of meticulous planning, preparation and enabling works went into the operation. A shift approach was adopted and involved detailed collaboration between Costain, Severn Trent Water and the supply chain. After careful excavation, the team used hydro-demolition to remove concrete from around the pipes, which revealed that they were in fact in good condition. This gave the design team the information they needed to finalise the pipe design and decide on construction methodology and contingency planning. The work was completed in 52 hours, two hours ahead of schedule.

THE VALUE WE CREATED

This was a complex operation that involved the coordination of a multitude of trades and skill sets. Collaboration between Severn Trent Water, Costain, MWH, Draper Civil Engineering, Freeflow Pipe Systems, Ainscough and Cemex, meant the work went without a hitch. The team worked around the clock to ensure the connections were successfully completed first time, safely and on programme, ensuring that no one went without water in one of the UK's biggest conurbations.

A UNIQUE BUSINESS

We partner with **major blue-chip customers** with very complex requirements. Together, we are **meeting essential national needs** that in turn will create **long-term value** for our investors and all our other stakeholders.

FOCUSING ON ESSENTIAL NATIONAL NEEDS

We target customers and markets where there is **committed regulated spend** and **essential capital investment**, addressing essential national needs in energy, water and transportation.

Energy
Working in power, nuclear and oil & gas, Costain plays a significant role by safely delivering the energy infrastructure that will satisfy the UK's future needs.

Water
Costain is a leading provider of engineering solutions to UK water utility companies across the asset life-cycle.

Transportation
Working across highway and rail markets, Costain is a leading provider of end-to-end asset life-cycle services delivering technology-led solutions for our customers.

Market overview
See page 20

OFFERING SIX SERVICES

We offer a **broad range** of innovative **integrated services** across the whole life-cycle of our customers' assets. This means we help customers from inception right through to completion of a project and management of their assets.

Advisory and concept development
The development of solutions and options for our customers' most pressing problems.

Specialist design
Complex and niche engineering solutions.

Programme management
The operational and commercial management of programmes of complex inter-related projects.

Complex project delivery
The engineering and management of the delivery of large complex infrastructure projects.

Technology integration
Providing a service through technology to manage, connect and transform infrastructure assets.

Asset optimisation and support
Long-term contracts to operate and maintain physical infrastructure assets.

MEETING CUSTOMERS' NEEDS

We operate as **One Costain**, taking a holistic approach to client challenges and pooling our knowledge and expertise to achieve the optimal solution.

+4,100
Employees across the UK

+1,000
Consulting, advisory, design roles

915
Employees affiliated to one or more professional institutions

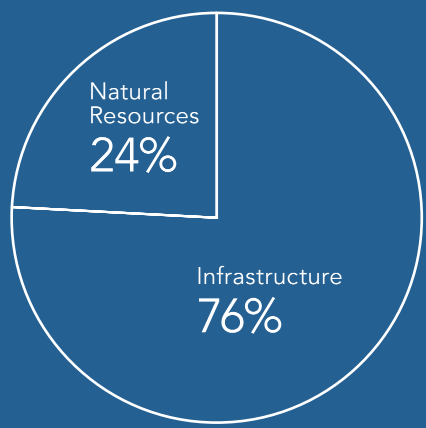
Our customers sit at the centre of our business decisions. Being a **trusted partner to our customers** is what we strive for. Because we know that in doing so we will win in our markets.

+90%
Repeat business

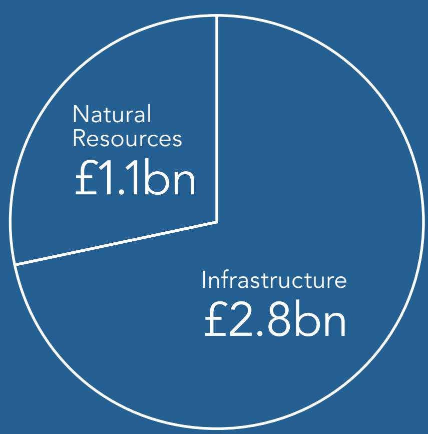
ORGANISED ACROSS TWO DIVISIONS

We run Costain as one business, but for reporting purposes, our organisation is split into two operating and reporting divisions; **Infrastructure** and **Natural Resources**.

Group revenue

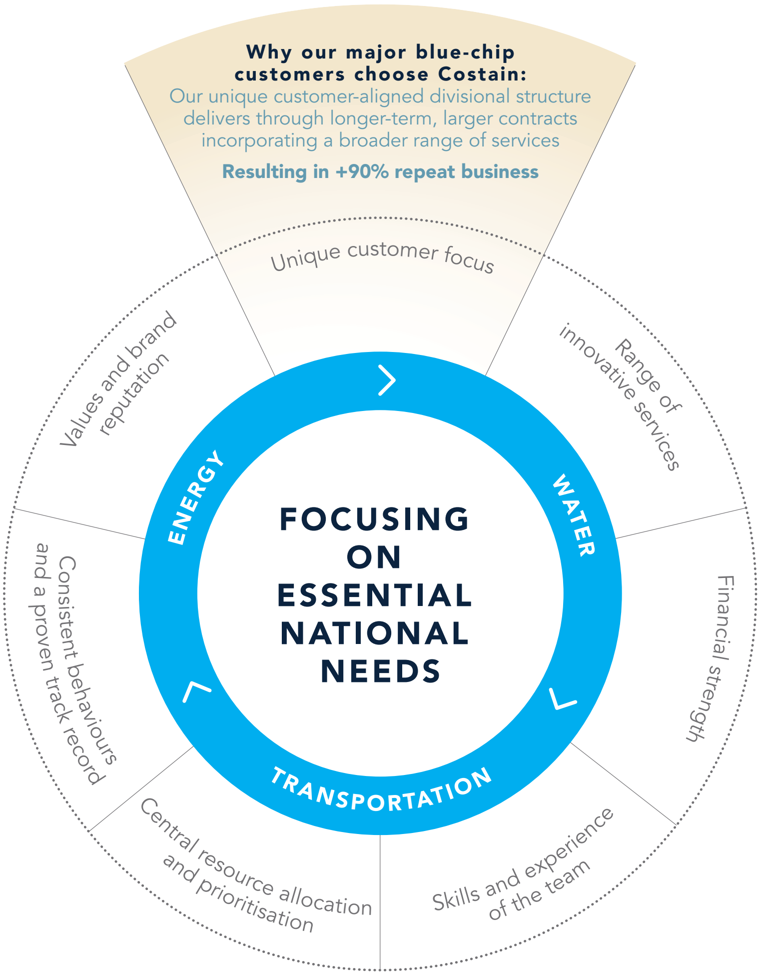


Order book – Total £3.9bn



OUR BUSINESS MODEL

We focus on offering **full life-cycle services** to help our customers meet essential national needs in **energy**, **water** and **transportation** across the UK.



Unique customer focus

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 that ultimately deliver shared value.

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.

40+

Blue-chip customers

UK market

Addressing the UK's urgent strategic national infrastructure needs, has resulted in the implementation of multi-billion long-term investment programmes.

These investment programmes provide substantial business opportunities for Costain.

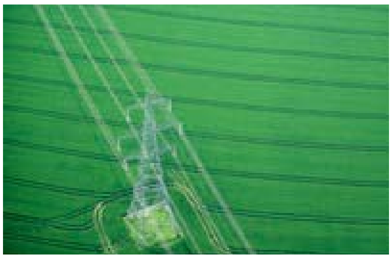
£320bn+

Overall investment set out in the National Infrastructure Plan 2014 to 2020-21

WHAT WE OFFER	THE SHARED VALUE WE CREATE	
Range of innovative services We offer end-to-end services enabling us to meet the most complex engineering challenges in the most efficient way. The ability of our experts not only to develop new ideas but also to **identify existing technology solutions and adapt them for new uses**, is one of our key strengths.	**+90%** **Repeat orders**	We are able to **pass on synergies** by offering a 'one-stop-shop' for customers. This helps them to reduce their total spend and allows us to **retain or win business across the whole project life-cycle**, growing our revenue streams and profi ability.
Financial strength By targeting **large, long-term contracts** that are target cost, cost-reimbursable, we have stable and sustainable revenue streams.	**+90%** **Target cost contracts**	Visibility over future revenue streams enables us to concentrate on our purpose to **build a vital infrastructure.** Secure funding and financial returns **ensure that we are a sustainable, viable option for customers, suppliers** and other partners.
Skills and experience of the team We employ highly skilled individuals and we **continually invest in our people** to ensure that we continue to be at the forefront of industry.	**£3.9m** **Investment in learning and development**	From apprentices to experienced professionals, we provide a stimulating environment for employees to develop their talents, at the same time **developing essential skills for the UK economy**.
Central resource allocation and prioritisation We ensure **effective and efficient** allocation of resources to meet national needs.	**£3.9bn** **Order book**	Enables investment to be focused where the best returns exist creating **value for shareholders.** Our One Costain approach allows us to develop transferable skills making sure that we have the **best teams to deliver for our customers**.
Consistent behaviours and a proven track record We provide a **reliable, safe, service delivery,** vital attributes our customers rely on.	**82%** **Customer satisfaction**	The **Health and Safety of our people** and everyone who is impacted by Costain remains our highest priority. Our responsible and reliable approach to delivery ensures that we **retain our preferred supplier status**.
Values and brand reputation Underpinning everything we do are the **Costain brand values** by which all of our employees adhere.	**33rd** **Most admired company in the UK**	**How we deliver our services** is of increasing importance to customers and all our stakeholders. The brand is about maintaining a reputation based on excellence and **commitment to the community**.

MARKET OVERVIEW

The markets in which the Costain Group is active have, in total, an anticipated spend of just under **£90 billion per annum**, of which over £18 billion is addressable. Customers in these markets continue to spend at **consistent levels**. Below is a summary of the activity in those markets.



POWER

The UK's Power sector has a growing challenge in optimising the balance between supply and demand.

Total*	**£12.9bn**
Addressable**	£2.1bn

Investment is needed to modernise the nation's network with new low carbon, affordable and secure supplies.

Ageing assets will need to be upgraded and replaced as well as introducing a greater level of interconnectivity within the EU. The National Infrastructure Plan highlights £46 billion of planned capital investment in the electricity and gas networks by 2020–21 including offshore transmission and interconnectors.

OIL & GAS

The challenges created by last year's reduction in the crude oil price have changed the way that upstream operators do business.

Total*	**£20.0bn**
Addressable**	£1.5bn

Whilst this creates a more competitive environment, it also creates opportunity for organisations such as Costain in the upstream arena.

The midstream business profile looks good with the UK heading towards increasing its reliance upon gas. Costain is a market leader in gas processing, storage and distribution in the UK. We are consolidating our downstream activities to have more geographical focus on client clusters starting with the North East, and we are targeting larger and longer-term opportunities.

WATER

The water companies have commenced the sixth asset management plan (AMP6) which will see the investment of £44 billion in improving services, improving resilience and protecting the environment.

Total*	**£12.0bn**
Addressable**	£2.9bn

This will be achieved through 522 performance commitments to ensure a high-quality service to customers with outcome incentives to drive efficient delivery.

The sector continues to face complex challenges from extreme weather, population growth and tougher environmental quality standards for wastewater discharges, whilst maintaining improvements in customer service. Opportunities to assist with these challenges exist through delivering outcomes and the provision of further advisory services.

* Total – Total spend in the market.
** Addressable – Current market spend addressable to Costain with existing customers and current skills and capabilities.

RAIL

Rail remains a major enabler for national economic growth with passenger journeys set to increase a further 30% over the next decade on a safer, more reliable and cost-effective railway.

Total*	**£26.9bn**
Addressable**	£6.7bn

The recent reviews into Network Rail's future structure and funding have indicated that the £38 billion investment on the national rail networks over the next four years will continue.

This will cover electrification, station enhancements and route upgrades as well as improvements in capacity, connectivity and communication through the Digital Railway.

There are also further significant commitments to London Rail, Crossrail and London Underground. High Speed 2 continues to gather pace as a key source of market demand, with enabling works and main works packages being procured. There is also gathering momentum in support of Crossrail 2. We have developed our specialist railway skills to provide a full spectrum portfolio for customers.

NUCLEAR

Significant opportunities exist within new nuclear build, decommissioning, generation and nuclear defence programmes of work.

Total*	**£9.0bn**
Addressable**	£1.4bn

Costain currently has a position in these markets which will enable strong sector growth.

EDF and its partners have reached agreement and work is planned to commence at Hinkley Point C in 2016, which will be the first new nuclear power station in the UK for nearly 30 years. Preliminary work has also commenced at the new nuclear build sites Wylfa and Moorside. The Nuclear Decommissioning Authority continues its substantial work across the Sellafield and the Magnox Fleet and the existing EDF generating plants have commenced their plant-life extension programmes. Finally, expenditure in the nuclear defence market is increasing as decommissioning and servicing of the existing flotilla and modification of existing facilities is underway in preparation of the new Successor class of submarine.

HIGHWAYS

Following the general election in May 2015, investment in the UK road network remains a key priority.

Total*	**£8.4bn**
Addressable**	£3.5bn

The Government has confirmed its continued commitment to the Roads Investment Strategy (RIS1) with £15.2 billion of investment over a five-year period to 2020.

Additionally, to ensure the seamless delivery of long-term improvements beyond 2020, work has commenced on strategic studies to address some of the biggest challenges facing the road network across the country.

Furthermore, TfL has launched its Roads Modernisation Plan which will represent the biggest investment in London's roads in a generation, including hundreds of transformational projects within the existing road network.

REDUCING COSTS WHILST INCREASING EFFICIENCY

"

For 18 months, I was part of a highly motivated and innovative team that really wanted to create as much value as possible for the customer. I was fortunate enough to be part of the team for the entire project life-cycle, from design to construction, and receiving such positive client feedback throughout was really encouraging for me as a graduate.

Niku Nobakhti
Graduate Process Engineer,
Dimlington Gas Terminal

CUSTOMER

Perenco

PROJECT

Dimlington Gas Terminal

THE CHALLENGE

Perenco's Dimlington Gas Processing Terminal in Yorkshire originally used refrigeration units to chill gas during processing to ensure the sales gas product met the required specification for the UK's national gas transmission system. The units used a refrigerant which is now being phased out due to the Montreal Protocol on Substances that Deplete the Ozone Layer.

THE SOLUTION

The modifications to Dimlington terminal were a major environmental project, eliminating the use of HCFCs in line with legislation. Costain helped Perenco select an alternative, innovative application of technologies to deliver a low cost, high reliability solution. Costain's design also reduced the carbon footprint of the project, avoided having to reduce the terminal processing capacity and significantly shortened the project programme, allowing all parties to meet the legislative deadline.

THE VALUE WE CREATED

As well as ensuring compliance with the legislation, Costain's solution increased the site's efficiency and eliminated the need for costly plant shutdowns, estimated at £3 million/day in lost revenue at full throughput. Costain's solution reduced the initial capital costs by over 60% and helped to retain plant flexibility for economic processing of future gas field finds. An Environment Agency compliance milestone was achieved in December 2014, and the project won Industry Project of the Year at the Institution of Chemical Engineers (IChemE) Global Awards 2015.

PERFORMANCE AGAINST STRATEGY

Our strategic focus is to **enhance our growth and market position** by providing innovative and sustainable solutions to increasingly complex and large-scale national needs. Our ***'Engineering Tomorrow'*** strategy will ensure we remain competitive and continue to deliver shareholder value.

PRIORITY	TARGET	PERFORMANCE
1) Operating safely, efficiently and responsibly The Health and Safety of our people and everyone who is involved with Costain remains our highest priority. We demand that safety must be adhered to at all times to ensure that we operate in an environment which is free from harm. We concentrate on solutions that deliver best value for customers. This requires an unrelenting focus on our customers' costs and our own operating procedures. We believe that responsible business is integral to delivering greater value to our customers and all our stakeholders. Our commitment to delivering services responsibly and sustainably is vitally important to the Group. We are focused on building a long-term sustainable business that creates economic, environmental and social value.	Continually improve safety performance with a zero tolerance approach	**Accident Frequency Rate (AFR)** AFR has improved to its best level of 0.08, a 20% decrease from 2014. KPI
	Reduce our measured emissions	**CO_2 equivalent emissions** 13.3% reduction in emissions intensity driven primarily by reductions in gas oil consumption. This was the result of mandating efficient plant and several supply chain events. KPI
	In line with business plan growth	**Underlying operating profit** Up 16% to £33.2 million. KPI
	Maintain a net cash balance at an appropriate level to suit the business requirements	**Net cash balance** Strong net cash position of £108.2 million. KPI
2) Continue to enhance customer insight The ability to understand the challenges facing our customers is crucial if we are to strengthen and evolve our relationships with them. Continuing to enhance our customer insight is one of our top priorities and it is by building strategic, long-term, collaborative partnerships that we are best positioned to deliver innovative solutions to these customers. Additional value is delivered to both customers and end users by operating efficiently with a strong focus on speed and agility and an uncompromising attitude to safety. We recognise that talented, integrated and accountable project teams are fundamental to maximising the opportunities presented by unique customer insights.	In line with business plan	**Repeat business** Over 90% of order book comprises of repeat orders. KPI
	Enhance customer engagement to gain a greater insight into our performance	**Customer satisfaction** We continue to receive consistently high customer satisfaction scores.

Accident Frequency Rate

0.08

2015	0.08
2014	0.10
2013	0.12
2012	0.09

OUR FOCUS IN 2016

- Continuous improvement in the Group AFR towards our goal of zero harm.

PRINCIPAL RISKS AND UNCERTAINTIES

- Health, Safety and Environmental
- Operational delivery
- Financial strength
- Pension liabilities
- Failure of IT systems

2014	tCO_2e
Total emissions	24,692
Scope 1	20,600
Scope 2	4,092
Emissions intensity	21.99

2015	tCO_2e
Total emissions	28,052
Scope 1	22,446
Scope 2	5,606
Emissions intensity	19.06

OUR FOCUS IN 2016

- 5% reduction in non-operational carbon per £1 million against 2013 baseline.

Underlying operating profi

£33.2m

	£m
2015	33.2
2014	28.7
2013	27.4
2012	24.5

OUR FOCUS IN 2016

- Continue to increase the Group's underlying operating profit in line with the business plan.

Net cash balance

£108.2m

	£m
2015	108.2
2014	148.5
2013	57.7
2012	105.7

OUR FOCUS IN 2016

- Maintain a focus on cash management.

Principal risks and uncertainties
See pages 46-50

Repeat business

+90%

	%
2015	+90
2014	+90
2013	+90
2012	+90

OUR FOCUS IN 2016

- Continue to build strategic relationships with our customers, gaining deeper insights into their business challenges.

PRINCIPAL RISKS AND UNCERTAINTIES

- Political, economic and market conditions
- Winning new work
- Operational delivery

Customer satisfaction

82%

	%
2015	82
2014	83
2013	84
2012	84

OUR FOCUS IN 2016

- Use the latest technology to increase the frequency and depth of our customer engagement and feedback.

Principal risks and uncertainties
See pages 46-50

PRIORITY	TARGET	PERFORMANCE
3) Grow by broadening and integrating our services We continue to deliver engineering services across the full asset life-cycle, from advisory and design to operations and maintenance, to broaden and enhance our service offering. We have developed our value proposition across six core service lines in an increasingly integrated offering to customers: advisory and concept development, specialist design, programme management, complex project delivery, technology integration, asset optimisation and support.	Continue to build a strong order book in line with the business plan	**Order book** KPI Record forward order book up 11% to £3.9 billion.
	In line with business plan growth both organically and through targeted acquisition	**Revenue** KPI Revenue increased to £1,316.5 million. In 2015, the Costain Group acquired Rhead Group.
4) Develop best-in-class team Attracting, retaining and developing the best people for Costain is key to our success. We continue to grow and enhance our capability in line with our customers' needs for the relevant skills for today and tomorrow. By investing in a diverse, knowledgeable and highly capable workforce, with transferable skills, we can be sure that we have a pipeline of talent throughout the business.	Provide initiatives and working conditions in order to retain key staff	**Staff turnover** We have seen a slight decrease in our staff turnover and it remains below industry average.
	Value diversity and inclusion in the workforce	**Diversity and inclusion** KPI We have increased the number of women in senior management roles within the business.
	Grow skills and capabilities in line with the business plan	**Investment in learning and development** We continue to invest significantly in our people.

			OUR FOCUS IN 2016	PRINCIPAL RISKS AND UNCERTAINTIES

Order book value
£3.9bn

	£bn
2015	3.9
2014	3.5
2013	3.0
2012	2.4

Our focus in 2016
- Increase revenue and order book across our six core service lines.

Principal risks and uncertainties
- Political, economic and market conditions
- Financial strength
- Winning new work
- Operational delivery
- Acquisitions

Revenue
£1,316.5m

	£m
2015	1,316.5
2014	1,122.5
2013	960.0
2012	934.5

Our focus in 2016
- Continue to grow organically and through acquisition.

Principal risks and uncertainties
See pages 46-50

Staff turnover
10.1%

	%
2015	10.1
2014	10.5
2013	8.5
2012	7.4

Our focus in 2016
- Conduct Group-wide employee engagement survey.

Principal risks and uncertainties
- People and skills
- Financial strength

2014	Total	Male	Female
Employees	3,538	2,857	681
Board members	8	6	2
Senior management	30	27	3

2015	Total	Male	Female
Employees	4,115	3,291	824
Board members	8	6	2
Senior management	43	38	5

Our focus in 2016
- Launch revised Diversity and Inclusion strategy.

Investment in training	£m
2015	3.9
2014	3.4
2013	3.0
2012	2.9

Training days	000
2015	15
2014	14
2013	10
2012	8

Our focus in 2016
- Continue to broaden the skills and capabilities of our workforce.

Principal risks and uncertainties
See pages 46-50

PRIORITY	TARGET	PERFORMANCE
5) Create and deliver innovative sustainable solutions We are focused on creating intelligent, sustainable solutions that improve the performance of our customers' businesses. We invest in research, innovation and emerging technology to provide customers with new services that reduce impact on the communities we serve. By aligning our pipeline of innovation to our customer challenge, we are able to work closely with them through every stage of development.	Increase the number of patents in line with the business plan	**Number of patents** KPI The patent portfolio has been rationalised to focus on customer requirements. New patents have been introduced in 2015 to replace patents that have expired and where we are prioritising new services to customers. We evaluate all new patent investment based on return on investment.
	Continue to extract innovative solutions through an open innovation programme	**Number of innovations** 20% increase in the number of innovations in the last 12 months.
6) Working in collaboration Partnering and collaboration form a central part of our approach. Both are essential in delivering complex engineering and services. In a market where collaboration continues to deliver value, Costain focuses on developing strategic partnerships to support the development of broader services and technology.	Average key supplier performance score greater than 50%	**Supplier performance** KPI Our supply chain continues to achieve consistently high performance scores.
	Increase the % of work in lower risk, cost-reimbursable contracts	**Collaborative contracts** Over 90% of our order book is in target-cost, cost-reimbursable forms of contract.

	OUR FOCUS IN 2016	PRINCIPAL RISKS AND UNCERTAINTIES

Total number of patents

28

	Number
2015	28
2014	29
2013	31
2012	36

Our focus in 2016

- Continue to identify, develop and exploit patent technology to enhance our competitive advantage in the marketplace.

Principal risks and uncertainties

- People and skills
- Financial strength

Total number of innovations

97

	Number
2015	97
2014	81
2013	25
2012	10

Our focus in 2016

- Continue to increase the number of new innovations identified, developed and implemented across the Group in 2016.

Principal risks and uncertainties
See pages 46-50

Supplier performance

68%

	%
2015	68
2014	69
2013	70
2012	69

Our focus in 2016

- Continue to work in close collaboration with our supply chain, involving them at the earliest opportunity to ensure optimum solutions are developed for our customers.

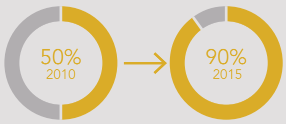
Principal risks and uncertainties

- People and skills
- Political, economic and market conditions
- Operational delivery

Collaborative contracts

+90%

Collaborative contracts 2015



Our focus in 2016

- Continue to increase our revenue from alliance/framework contracts.

Principal risks and uncertainties
See pages 46-50

BRINGING PEOPLE TOGETHER TO HELP THE COMMUNITIES WE SERVE

The 150 Challenge not only raised money for four very worthwhile causes but it also brought everyone in the Company together to create social value, which is the cornerstone of a longer-term sustainable business.

Wai-Keat Ngai
Social Sustainability Officer

PROJECT

The Costain 150 Challenge

THE CHALLENGE

To celebrate Costain's 150th Anniversary, the Company launched the 150 Challenge, which called on everyone in the business to help raise £1 million in 2015 for the Costain Charitable Foundation's four chosen charities – the British Heart Foundation, Macmillan Cancer Support, youth charity The Prince's Trust and Samaritans.

THE SOLUTION

Costain mobilised every department, every project and every team, from the office to the construction site. A cast of thousands featured employees, family, friends and members of the supply chain; everyone in the business and beyond stepped up to meet the challenge in the most ingenious and innovative ways possible. Across the length and breadth of the UK, people contributed to the cause by swimming, running, walking, hiking, cycling, climbing, baking, singing, washing, rallying, skydiving and much more besides, to raise money for the four chosen charities.

THE VALUE WE CREATED

In total, the Company raised £1,137,351, including a £500,000 donation from Costain, which matched the money raised by its employees and supporters. For Macmillan Cancer Support, the money will go towards ensuring no one faces cancer alone; for the British Heart Foundation, the money will help it continue to fund life-saving research; for The Prince's Trust, the money will help change the lives of disadvantaged young people across the UK; and for Samaritans, the money will go towards ensuring they are there for anyone in need of a safe space to talk, in confidence, about whatever's getting to them.

CORPORATE RESPONSIBILITY REVIEW

We have had a strong year, continuing on our sustainability journey, implementing our **Costain Cares** strategy. In a year of unprecedented global social and political insecurity we remain confident of our focus on: **Relationships**, **Our Environment** and **The Future**.

GOAL | PERFORMANCE

Relationships

We encourage open, honest and respectful communication. We believe in strong, long-lasting relationships that are mutually beneficial.

A safe working environment free from harm

Group Accident Frequency Rate
%

2015	0.08
2014	0.10
2013	0.12
2012	0.09
2011	0.11

Group All Accident Frequency Rate
%

2015	1.81
2014	2.01
2013	2.05
2012	1.83
2011	2.22

Best annual safety performance ever delivered by Costain

A healthy working environment for all our people

Absence rate
Days

2015	4.5
2014	3.3

Absence rate remains well below the UK average of 6.6 days per year

400+
employees completed CPR training

Support the local communities in which we operate, ensuring we leave a lasting legacy

Group average score in the Considerate Constructors Scheme

2015	41.3
2014	40.6

A positive increase in the average Considerate Constructors Scheme score, out of 50

Group charitable donations
£

2015	523,475
2014	226,418
2013	173,000
2012	171,000
2011	135,000

Attract, retain and develop the best people for the Costain Group

SAYE
%

2015	24
2014	24
2013	25
2012	17

SAYE take-up by eligible employees

Diversity

	% female	% BAME
2015	20.02	9.60
2014	19.00	11.00
2013	19.00	7.20
2012	19.40	8.00
2011	22.20	6.60

HIGHLIGHTS	OUR FOCUS IN 2016
• Two Safety, Health and Environment (SHE) leadership impact days took place across 48 sites, engaging Costain, joint venture and supply chain staff on key SHE themes. • Costain was awarded 32 RoSPA awards, including two Orders of Distinction, two President's Awards and three Gold Medals. • The Heysham to M6 Link project won the prestigious RoSPA Astor Trophy for its management of occupational health. • Costain hosted a 'Safety and the Boardroom' dinner, with the Health and Safety Executive and its Customers. • Costain facilitated work placements and training on Construction (Design & Management) Regulations 2015 to Health & Safety Executive inspectors, to help provide them with a better understanding of how health and safety is managed on major construction and engineering projects.	• Achieve a Group AFR of 0.07. • Launch new Group SHE Strategy with an ambitious new mission to halve the level of harm over the next three years. • Hold two SHE Leadership impact days focusing on activities which bring the key enablers to life. • Process safety training for all contract leaders, focusing on the prevention and mitigation of catastrophic events and major accidents and incidents.
• Emotional resilience training sessions were provided to employees by the Samaritans, as part of the Costain 150 Challenge legacy. • There are now six nurses employed by Costain to support contracts in both the management of occupational health and the promotion of wellbeing. • 80% of employees received a medical within the last two years.	• Launch new Health Maturity Matrix, with all contracts to be independently verified by the end of the year. • 85% of staff receive a medical by the end of the year. • Promote health & wellbeing in the workplace by the delivery of themed campaigns focusing on the management of Hand Arm Vibration and awareness of cancers, with particular emphasis on prostate cancer.
• The Group donated over £520,000 to charitable causes including £500,000 to the Costain Charitable Foundation. • 15 Considerate Constructors Scheme awards received by Costain projects, including seven Gold awards and a National Runner-up, Most Considerate site for the Portsmouth Flood Alleviation. • Heysham M6 link road project twice opened its doors to the public, with over 5,000 local people taking part in 'welly walks' which raised over £20,000 for St John's Hospice and the Costain 150 Challenge.	• Employee volunteering target has been set at donating 10,000 hours to good causes. • The Costain Charitable Foundation to support The Prince's Trust, Macmillan Cancer Support, Age UK and The Wildlife Trust in 2016. • All projects to implement sustainability action plans, which include community benefits initiatives.
• 430 employees were promoted, in keeping with the target to promote 10% of staff each year. • The positive take-up in SAYE is a reflection of the confidence in the current strategy. • Unconscious bias training rolled out to all senior managers, including the Executive Board.	• Launch new Diversity and Inclusion strategy. • Further roll-out of unconscious bias training to all management levels. • Conduct a Group-wide employee engagement survey.

GOAL | PERFORMANCE

Our Environment

We operate in the built environment, where we meet national needs for strategic investment in infrastructure. We compete in the economic environment, where we must deliver value for customers and shareholders. We have to deliver responsibly to the natural environment for the benefit of everyone.

Conserve natural resources through effective waste management, minimising water consumption and sustainable sourcing of materials

Waste removed from site tonnes

	Tonnes
2015	673,329
2014	684,886
2013	695,000
2012	351,417
2011	241,899

Waste diverted from landfill %

	%
2015	93
2014	94
2013	95
2012	93
2011	89

Waste levels continue to fall with high levels of diversion from landfill

Protect and enhance the environment

Environmental incidents number

	Number
2015	86
2014	108
2013	80
2012	85
2011	24

Environmental incident frequency rate (EIFR) %

	%
2015	0.25
2014	0.35
2013	0.28
2012	0.28
2011	0.08

A positive reduction in environmental incidents

The Future

We play an important role in the provision of infrastructure vital for the UK economy. The benefits of investment in infrastructure today will be felt for many years to come.

Work with our customers and supply chain to develop skills to respond to future needs within our sector

Number of work experience placements Days

	Days
2015	1,303

Number of schools engaged

	Number
2015	178
2014	50

Contribute to economic growth by supporting our supply chain, including small and medium-sized enterprises

Number of SMEs engaged in Supply Chain Academy

	Number
2015	37
2014	31
2013	30

	HIGHLIGHTS		OUR FOCUS IN 2016
	• Costain held a successful supply chain event in collaboration with JCB and 14 of our plant providers to explore new and emerging technologies that can play a large role in reducing our gas oil-related emissions. • Secured funding from InnovateUK in partnership with Edinburgh University and Cenex to develop a low carbon supply chain with regards to plant and telemetry systems more specifically.	• Introduced mandatory procurement of Eco-tower lights saving 1,573 tonnes of carbon, and utilised hybrid generators on numerous projects.	• Improve procurement systems to promote the assessment of sustainability. • Further develop and implement our resource efficiency strategy extending this further into plant telematics and reinforcing efficiency measures such as hybrid generators company wide. • Improve systems to influence the sustainability of design and procurement of materials. • Reduce our non-operational carbon footprint (5% reduction from 2013 baseline) focusing on office and travel emissions.
	• Reduced the number of incidents while still encouraging honest reporting. • EIFR reduced below our target. • Costain signed a framework agreement with The Wildlife Trust to promote greater biodiversity in the delivery of evermore complex infrastructure projects and held a successful first Wildlife week.	• The A-one+ Highways England Area 12 received a Green Apple Award for its winning nomination in the Energy Management category.	• Reduce number and severity of incidents (target for EIFR of 0.2). • Improve systems and management of silt pollution risk. • 100% of projects to have an appropriate Biodiversity Action Plan in place.
	• Over 11,500 downloads of Costain's Engineering Your Tomorrow careers app. • From September to December 2015, Costain was the most popular company searched on Plotr, the Government-supported, employer-led careers website.	• Over 80 active Costain STEM ambassadors took part in careers engagement events in 2015. • Costain has six Ph.D students working on a variety of research projects.	• Develop and launch inspirational work experience programme, which includes advertising vacancies via Plotr. • Shape the curriculum for students starting at the London Design & Engineering University Technical College in September 2016. • Increase number of research students for Ph.D and Masters degrees. • Work with charities and social enterprises such as The Prince's Trust to improve access routes to employment for the industry.
	• The intake for the Supply Chain Academy illustrates an increase in the number of supply chain members participating in the academy in comparison to previous years. • Costain joined the Supply Chain Sustainability School (SCSS), which complements Costain's Supply Chain Academy.	• Costain co-founded the Offsite School to provide free of charge, online learning material. In November 2015, it hosted an Offsite School event in Coventry attended by over 130 suppliers and client representatives.	• Focus on delivering the eighth intake of the Supply Chain Academy. • Trial Local Multiplier 3 on all new projects to ascertain the local value derived from Costain projects in the communities in which we operate. • Measure SME spend on all contracts. • Focus on promoting the early involvement of the supply chain to help develop innovative, low carbon solutions.

CASE STUDY

Relationships

Supply Chain Academy

Costain launched its industry-leading Supply Chain Academy (SCA) in 2012, to support and develop small to medium-sized enterprises (SMEs). Key to delivering economic benefits is a competent base of local businesses which can directly affect employment levels.

Costain understands that many SMEs do not have the skills or resources to consider tendering for work on our major projects, so we equip them to perform to the standard we expect of our supply chain. This provides assurance of a competent local resource to deliver its projects, and the communities benefit from increased employment opportunities.

The Academy offers SMEs free industry training on 22 modules focusing on industry best practice, sound business strategies and awareness of legislation, and include Leadership and Management, Equality and Diversity, Financial Management, Safety, Health and Environment and Business Development. We also offer a module on Building Information Management, in line with the Government target of using BIM on all centrally procured projects by 2016.

This is combined for maximum effectiveness with other engagement activities, for example facilitating 'Meet the Buyer' events to provide small businesses with little tendering experience useful information regarding procurement processes and pre-qualification requirements.

SMEs joining the supply chain via the SCA benefit from ongoing support and development, including business mentors, performance management and reviews. Coaching is also provided in how best to tender for and win work.

Benefi s

The Academy's training effectively upskills the local SMEs to deliver to the high standard of Costain's projects. This enables businesses to be included with the supply chain which would otherwise not have considered tendering.

For example, Kelly Formwork was introduced to Costain's Crossrail projects in 2012. Since then they have grown and developed, with SCA help, into preferred supplier status and is now one of Costain's Top 100 suppliers. It has since won four significant work packages on Crossrail and other projects.

Since its launch, the Supply Chain Academy has welcomed around 3,390 attendees from 113 SMEs over seven intakes. They have all benefitted from a structured programme of learning delivered by experts from both within our business and our strategic partners.

Our Environment

Crossrail's C610

The Alstom TSO Costain joint venture (ATC) delivering Crossrail's C610 – system wide contract is an example of the significant emphasis Costain places on the protection of the environment.

The C610 project involves the complex task of installing the track, overhead electric conductor rails to power the trains, ventilation, drainage, lighting, over 40km of walkways and 30km of fire mains through the new east and west tunnels running deep beneath London.

Working in such a heavily developed urban environment that spans nine different London Boroughs challenges the team to control noise levels and minimise impacts on local residents. A challenge addressed through maintaining positive relationships with all local stakeholders, the implementation of noise mitigation techniques such as noise shrouding and the use of super silenced machinery. Noise monitoring is undertaken across all sites to ensure the impact is effectively monitored.

There has been a strong push on all Costain projects over the last five years to improve resource efficiency and minimise carbon emissions. The C610 project target is to reduce total project carbon emissions by 8%. From as early as the bid phase the team have invested significant time and planning into developing a number of resource efficient innovations.

Both office and site-based solutions contribute to an average 10.5% reduction in net carbon emissions. Over 1km of LED photocell hoarding lights and over 5km of dual LED/emergency tunnel lights have been installed along with using hybrid batteries to power satellite sites reducing fuel use from generators by 50%.

The project also has its very own fleet of 15 heavy duty pieces of plant that all better EU and UK standards for fuel and emission efficiency, along with the first fleet of EU stage IV mid-sized locomotives in the UK to service the temporary construction railway.

As a result of such a significant effort the project was in record time awarded Crossrail's Greenline recognition. The project also won a Crossrail innovation award in 2015 for 'most innovations contributed'.

The project invests a significant amount of time and resource into supporting local community projects, such as: planting 100 trees with the Royal Docks Learning Activity Centre to build a wild community garden and working with the children to create working allotments. The project has also helped create woodland paths through the surrounding areas of Greenwich & Bexley Community Hospice, moving a total of 11 tonnes of bark and chippings in the process.

The Future

London Design and Engineering UTC

London Design & Engineering UTC

The Costain Group is a proud founding sponsor of the London Design and Engineering UTC which is due to open its doors in 2016.

The new school will provide young people with the specific technical and work-related skills they require to work in the engineering and construction industry. The high level of investment in technology in the school includes BIM software, meaning the young people are at the forefront of driving technical innovation for the future. The vocational and project-based curriculum supported by Costain will mean the young people are learning real problem solving skills related to real work challenges. The culture of the school is based around a real working environment so young people will be learning how to behave and perform in a work environment.

Costain's involvement with the school is in response to the long-term shortage in young people studying STEM subjects and entering STEM careers as well as a direct intervention to address the lack of diversity in the industry.

As a founding sponsor Costain has a hands-on role in developing the future curriculum and in doing so shortening the learning curve when transitioning between education and employment, thus ensuring the apprentices we train will be better equipped and specifically developed for our business needs.

PROMOTING INNOVATION AND COLLABORATION TO ACHIEVE THE BEST OUTCOME

We had to implement a number of different techniques in order to achieve the best possible outcome, without compromising on health and safety. It has been a huge achievement to hand over the Royal Oak Portal and track bed to the railway systems team.

Lydia Walpole
Agent, Paddington New Yard

CUSTOMER

Crossrail

PROJECT

Paddington New Yard

THE CHALLENGE

Crossrail's Paddington New Yard (C336) project includes the construction of a new 180m long elevated bus deck to connect with Westbourne Park Bus Garage, a concrete batching plant for Tarmac Lafarge, a head house above the Royal Oak Portal and the railway Track Formation west of the Royal Oak Portal. The site is constrained by existing infrastructure, including London Underground and National Rail services, the A40 flyover, the Grand Union Canal and an operational Tower Transit Bus Depot. The site is also a major entry point for the railway systems works (C610) and the fit-out of new rail tunnels. The challenge for the C336 team was to successfully deliver a phased handover to allow the C610 team of Costain, TSO and Alstom Transport access to the tunnels to deliver ventilation, walkways, drainage, fire mains and lighting.

THE SOLUTION

Having just one access point for both teams created logistical constraints. To overcome this, the C336 team devised an innovative solution to create a roadway under the new elevated bus deck. They achieved this by installing a bespoke temporary propping structure before constructing two permanent reinforced concrete columns and sections of the bus deck derailment walls. This solved a logistical challenge by providing an optimum access route for the large deliveries into Westbourne Park for the Temporary Rail Head construction. This collaboration and innovation led to much greater flexibility and improved logistical efficiency, which benefited both teams. C336 also brought in geotechnical specialists Bachy Soletanche to trial a new piling technique to reduce the materials used and excavated as a more sustainable solution with programme benefi s.

THE VALUE WE CREATED

Costain was a member of a talented and integrated delivery team, supported by specialists from across the business. As a major tier-one contractor, Costain was able to bring together the right people on the right contracts, which allowed for greater collaboration even on the biggest and most complex infrastructure projects in Europe. In total, Costain was awarded 13 Crossrail contracts.

DIVISIONAL REVIEW

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

£996.1m
Revenue
Infrastructure

£2.8bn
Order book
Infrastructure

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 its plans to build Hinkley C New Nuclear Power Station in advance of its final investment decision.

£317.6m
Revenue
Natural Resources

£1.1bn
Order book
Natural Resources

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 AMP6 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 21st-century.

During the year, Costain also continued to close out AMP5 frameworks for United Utilities, Southern Water and Severn Trent Water. A number of AMP5 contracts will continue into the current year, including the wastewater 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 life-cycle 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 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 focused 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.

RISK MANAGEMENT

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

Risk management processes are incorporated within the Group's normal management and governance systems at all levels.

Turn over for a full description of our principal risks and information about how we manage them
See pages 46 to 50

Risk management framework

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

Risk management processes are incorporated within the Group's normal management and governance systems at all levels and form an integral part of the day-to-day activity of the Company. The new Group Risk Management function has coordinated the development of a comprehensive process for the review and assessment of risk, focused principally at the strategic operations of the Group. This supplements and integrates with the processes already established at contract level, is in line with ISO 31000 and provides a more consistent approach to risk management activities Group-wide. Risks, which form the basis for the principal risks and uncertainties detailed in this section, are challenged and validated by the Group Executive Board and the Board on a regular basis.

Risk appetite

The Board keeps under constant review the relationship between our strategic ambitions and the management of risk. The Company continues to operate a formal risk appetite document which includes, amongst other things, the Investments Committee tender review procedures and formal guidelines for joint ventures. The Company continues to expand its business activities and is now entering into knowledge and innovation based contracts. As a result of this, procedures for this type of work have been strengthened, levels of authority have been reviewed and guidelines implemented. Further details of the Company's appetite to risk is provided overleaf.

Risk management and control responsibility framework

Top-down
Oversight, identification, assessment and mitigation at corporate level

The Board
- Sets strategic objectives and defines the risk appetite
- Maintains overall responsibility of the Group's risk management and internal control systems
- Considers the variety and extent of risk exposure against the risk appetite for our principal risks
- Provides leadership to ensure an effective risk management culture

Group Executive Board
- Assesses and mitigates risk
- Monitors the implementation of risk management processes and internal controls
- Directs resources to effectively implement controls

Audit Committee
- Reviews the effectiveness of risk management and internal control systems
- Supports the Board in monitoring exposure against the risk appetite

Internal Audit
- Reviews the effectiveness of risk management and internal control systems in order to support the Audit and Executive Committees

Bottom-up
Identifi ation, assessment and mitigation at contract and functional levels

Operational level
- Implements the risk management processes to ensure internal controls are embedded throughout operational management
- Identifies, manages and maintains accountability for risk within local areas of responsibilities
- Embeds a culture of awareness to develop and enhance the quality of risk management

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.

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	Change in 2015
1) Health, Safety and Environment • Failure to prevent a major safety incident/accident or environmental event which could adversely affect the Group's reputation and its operational and financial performance • 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. See our performance metrics on page 24 • Detailed Health, Safety 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 • Any breaches in procedures are reported quickly and acted upon as appropriate • Performance metrics in the Group's Annual Incentive Plan also include a key non-financial indicator for Health and Safety	No change
2) Political, economic and market conditions 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: • Changes in Government policy on spending including an increased burden on corporate entities • The result of the EU referendum • The changing nature of China's 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. See the business model (page 18) for details • Increasingly longer 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	No change

▲ Increased risk

II No change to risk

▼ Decreased risk

Risk and impact	Risk appetite	Mitigation	Change in 2015
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, increased and extended in 2015 • 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 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	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.	• The order book at year end stands at £3.9 billion, an increase of 11% from 2014, providing long-term visibility of earnings. See page 26 for the order book analysis • 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 • In 2015, the Group acquired Rhead Group to further enhance its scale and ability to provide end-to-end delivery services • 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	

Risk and impact	Risk appetite	Mitigation	Change in 2015
5) Operational delivery 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: • 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	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 reviewed on page 69 • 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 Panel to the Main Board • Extensive review of the supply chain strength prior to engagement and a requirement to use performance bonds where they are appropriate. A case study on our engagement with our supply chain is provided on page 36 • 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	II

▲ Increased risk

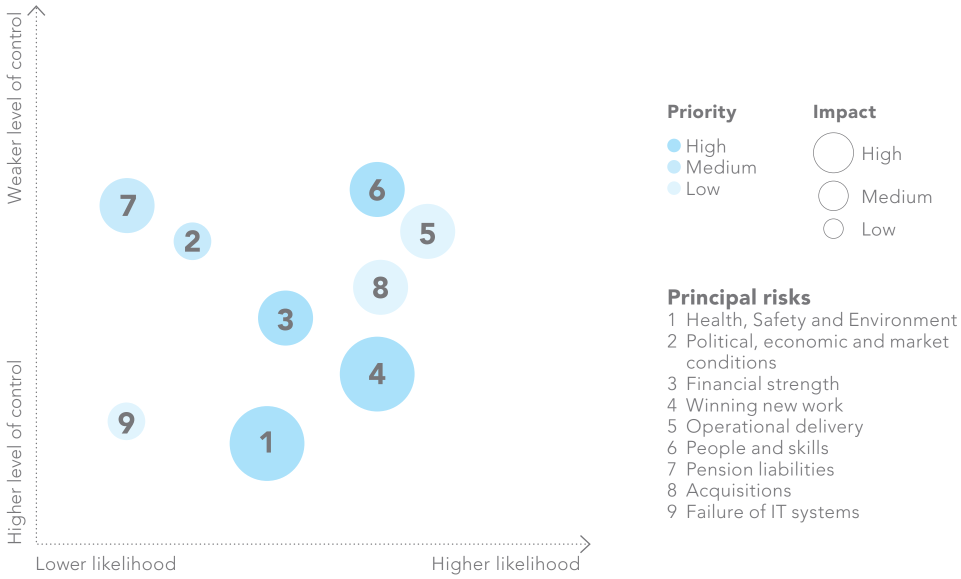
II No change to risk

▼ Decreased risk

Risk and impact	Risk appetite	Mitigation	Change in 2015
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. This is reviewed on page 26 • 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	II
7) Pension liabilities • The Group has a deficit of £36.7m 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. 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 • 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 • 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 • 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 • 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	▲

Risk and impact	Risk appetite	Mitigation	Change in 2015
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	All critical systems are to be regularly backed up and a disaster recovery contingency plan put in place.	• Business continuity systems ensure a suitably qualified team for support, including specialist outsourced suppliers, and safeguards knowledge • 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 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	▲

Current assessment of the impact and priority of the principal risks



▲ Increased risk

⏸ No change to risk

▼ Decreased risk

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 1 to 56. Principal risks and uncertainties are described on pages 46 to 50. In addition, Note 17 to the financial statements on pages 135 to 140 includes 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 are also 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 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 on pages 46 to 50. 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.

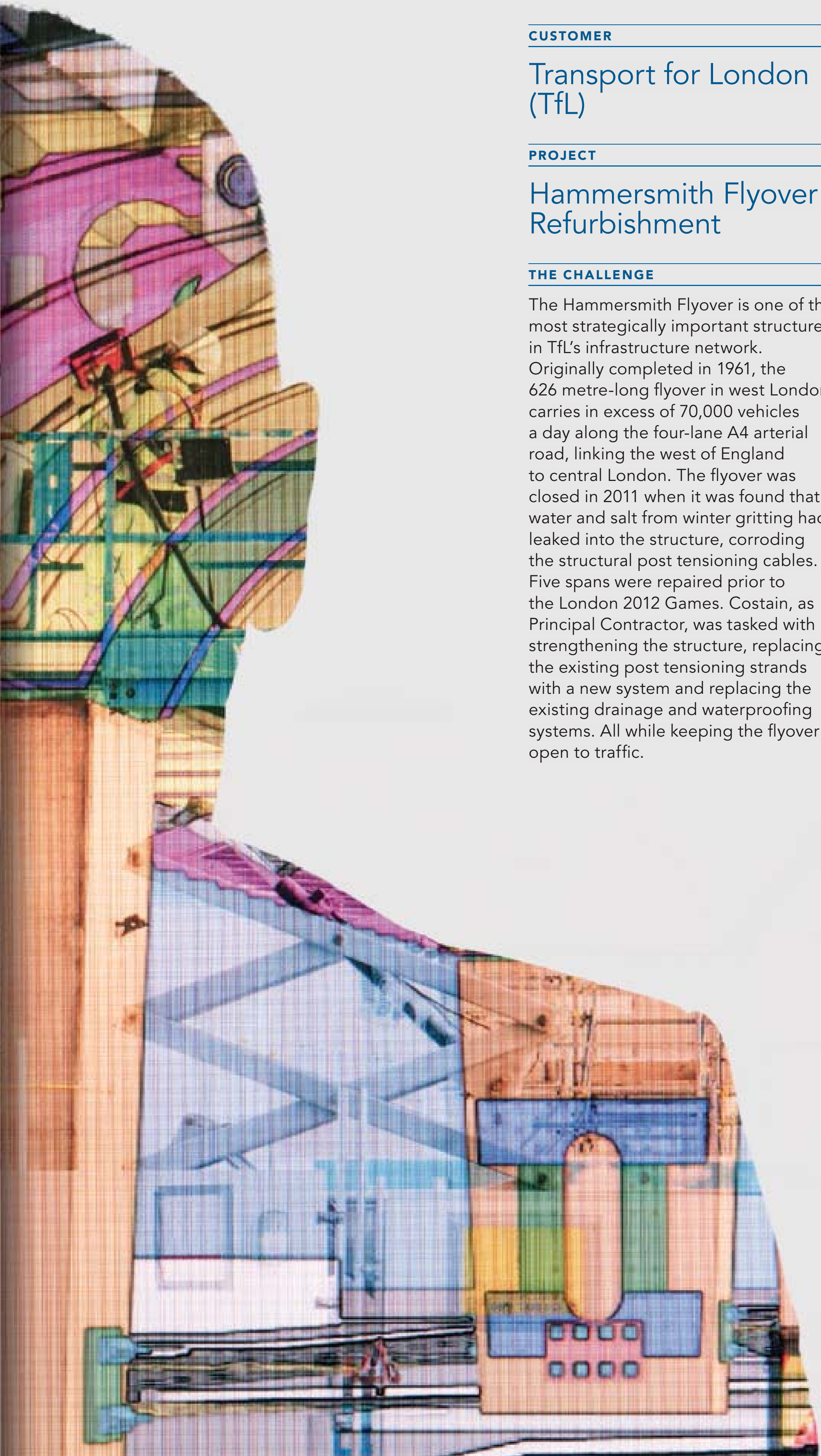
In making this statement, the Directors carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

RISING TO THE CHALLENGE

"

The strengthening and refurbishment of the Hammersmith Flyover was a highly complex project but the whole team rose to the challenge, safely completing the work this summer within a very tight timescale to the delight of Transport for London. I am immensely proud of what we have achieved.

Andy Bannister
Project Manager



CUSTOMER

Transport for London (TfL)

PROJECT

Hammersmith Flyover Refurbishment

THE CHALLENGE

The Hammersmith Flyover is one of the most strategically important structures in TfL's infrastructure network. Originally completed in 1961, the 626 metre-long flyover in west London carries in excess of 70,000 vehicles a day along the four-lane A4 arterial road, linking the west of England to central London. The flyover was closed in 2011 when it was found that water and salt from winter gritting had leaked into the structure, corroding the structural post tensioning cables. Five spans were repaired prior to the London 2012 Games. Costain, as Principal Contractor, was tasked with strengthening the structure, replacing the existing post tensioning strands with a new system and replacing the existing drainage and waterproofing systems. All while keeping the flyover open to traffic.

THE SOLUTION

Collaboration across the design and supply chain ensured the safest and most practical solutions were developed. The existing structure was not designed to support external cables and additional strengthening had to be added in the form of concrete blisters to connect the new cables to the bridge. Each of the 15 piers were supported by two roller bearings and, through a complex strengthening solution of the piers and the existing piers, the flyover was jacked up and lowered over 60 times. Each jacking phase was monitored for movement to within 0.01mm to ensure that the structure was relocated in exactly the correct place. The work took place overnight ensuring no disturbance to peak time traffic flows.

THE VALUE WE CREATED

The project team worked day and night over two years to fully restore and strengthen the 1960s flyover, extending the life of the structure by a further 60 years, saving the UK economy an estimated £101 million per annum if the flyover was out of service.

"THIS PERFORMANCE REFLECTS THE EFFECTIVE IMPLEMENTATION OF THE GROUP'S FOCUSED STRATEGY WHICH HAS NOW DELIVERED FIVE SUCCESSIVE YEARS OF INCREASE IN UNDERLYING OPERATING PROFIT."

Anthony Bickerstaff
Finance Director

£1,316.5m
Revenue

£33.2m
Underlying operating profit

Overview

In 2015, the Group 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 five 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 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 life-cycle 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.

11.0p
Dividend per share

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

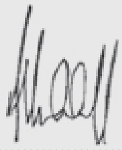
Translation exposure: the results of the Group's overseas activities, mainly non-core activities in Spain, are translated into sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The balance sheets of overseas subsidiaries and investments are translated 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
01 March 2016

INTRODUCTION TO CORPORATE GOVERNANCE

We are committed to maintaining the highest standards... to achieve our vision of being one of the UK's leading engineering solutions providers.

David Allvey
Chairman

I am satisfied that the Board and its committees are working effectively and that there is the appropriate balance of skills, experience diversity and independence.

Chairman's summary statement

Dear Shareholder

As a Board, we are committed to maintaining the highest standards of corporate governance to enable us to continue to achieve our vision of being one of the UK's leading engineering solutions providers. Our role is to create a robust governance framework that encourages transparency and accountability, combined with a meticulous and efficient approach to internal control and risk management.

Strategy

This year, the Board has again undertaken wide-ranging discussions on key strategic issues. This has included a number of workshops attended by members of the Group Executive Board and third-party advisers. These conversations continued to be focused on implementing our unique *'Engineering Tomorrow'* strategy, including the ongoing consideration of potential in-fill acquisitions to complement Costain's existing capabilities as opportunities arise. A three-year business plan was approved in December 2015.

Board effectiveness

Each year, the Board undertakes a formal evaluation of its effectiveness and that of its Committees. This year the process has been internally facilitated and led by me as the Chairman. It has built on the work carried out last year by independent external facilitators, SCT Consultants Ltd. In addition, James Morley, the Senior Independent Director, has also led a review of my performance with input from the other Directors. Further details of the evaluation process can be found on page 64. Following this review, I am satisfied that the Board and its Committees are working effectively and that there is the appropriate balance of skills, experience, diversity and independence.

Board composition

In September 2015, Ahmed Samy, a Non-Executive Director, and the nominee on the Board of Mohammed Abdulmohsin Al-Kharafi & ons Company for General Trading, General Contracting and Industrial Structures WLL (Kharafi), stepped down from the Board when Kharafi's holding fell below the level at which it was entitled to a nominee directorship.

After 14 years as Non-Executive Director, the last seven as Chairman, it was announced in November 2015 that I will 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.

On the following pages, we explain our approach to corporate governance, demonstrating how the Board and its committees have fulfilled their responsibilities to ensure robust governance practices are embedded throughout the Company.

David Allvey
Chairman
01 March 2016

BOARD OF DIRECTORS
EXPERIENCED LEADERSHIP

DAVID ALLVEY
(70)[3] FCA, ATII

Non-Executive Chairman

Appointment

November 2001

Skills and experience

David Allvey was appointed Chairman in January 2008 prior to which he was Chairman of the Audit Committee. With a career that started in civil engineering and subsequently as a Chartered Accountant, his previous roles include Group Finance Director for BAT Industries plc, Group Finance Director for Barclays Bank plc and Chief Operating Officer for Zurich Financial Services, member of the UK Accounting Standards Board and member of the International Accounting Standards Insurance Group. David was previously Senior Non-Executive Director of Intertek Group plc (2002 to 2011), Senior Non-Executive Director of William Hill plc (2002 to 2011), Senior Independent Director of Friends Life FPG Limited (formerly Friends Provident Group plc) (2009 to 2011), Chairman of Arena Coventry Ltd (2006 to 2012), Non-Executive Director of Thomas Cook plc (2007 to 2012) and Senior Independent Director of Friends Life Holdings plc (formerly Friends Life Group plc) (2009 to 2015).

David is a Director of The Costain Charitable Foundation.

External appointments

Non-Executive Director of Clydesdale Bank plc, Non-Executive Director of National Australia Group Europe Limited and Non-Executive Director of Aviva Life Holdings UK Limited.

ANDREW WYLLIE
(53) CBE, FREng, MBA, BSc, CEng, FICE, CCMI

Chief Executive

Appointment

September 2005

Skills and experience

Andrew Wyllie was appointed Chief Executive in September 2005. He was previously Managing Director of Taylor Woodrow Construction Ltd (2001 to 2005) and a member of the Taylor Woodrow plc Executive Committee. Andrew joined Taylor Woodrow in 1984 and worked on major contracts in Africa, the Middle East, the Far East and the UK.

Andrew has an MBA from London Business School, is a Fellow of the Royal Academy of Engineering, Vice President of the Institution of Civil Engineers, a Fellow of the Institute of Directors and the British American Project. He is also a member of the CBI Construction Council and a Companion of the Chartered Management Institute. Andrew was awarded a CBE for services to construction and engineering in the 2015 New Year's Honours list.

External appointments

Non-Executive Director of Scottish Water.

ANTHONY BICKERSTAFF
(51) FCCA

Finance Director

Appointment

June 2006

Skills and experience

Tony Bickerstaff was appointed Finance Director in June 2006. Tony has extensive knowledge of the construction and support services sectors both in the UK and overseas. He is responsible for all aspects of the financial management of the Group as well as playing a major role in the Group's strategic and operational development. Previously, Tony was with the Taylor Woodrow Group, which he joined in 1982. He held a number of senior management and financial positions in Taylor Woodrow including Finance Director of Taylor Woodrow Construction Limited. Prior to becoming Finance Director, he was Divisional Operations Director in charge of Taylor Woodrow Group's PFI projects.

External appointments

Non-Executive Director and Chair of the Audit Committee of Low Carbon Contracts Company Limited and Electricity Settlements Company Limited.

JAMES MORLEY
(67)[1,2,3] BSc, FCA

Senior Independent Director

Appointment

January 2008

Skills and experience

James Morley was appointed as the Senior Independent Director in January 2013 prior to which he served as Chairman of the Audit Committee from January 2008 until the end of October 2012. He is a Chartered Accountant with some 28 years' experience as a board member of both listed and private companies. Previous roles include Chief Operating Officer of Primary Group Ltd (2006 to 2007), Group Finance Director of Cox Insurance Holdings plc (2002 to 2005), Group Finance Director of Arjo Wiggins Appleton plc (1999 to 2001), Group Executive Director Finance of Guardian Royal Exchange plc (1990 to 1999), Deputy Chief Executive and Finance Director of Avis Europe plc (1976 to 1989), Non-Executive Director of the Bankers' Investment Trust plc (1994 to 2008), Non-Executive Director of W S Atkins plc (2001 to 2009), Non-Executive Director of Trade Indemnity Group plc (1991 to 1996), Non-Executive Director of The Innovation Group plc (2007 to 2015), Non-Executive Chairman of Acumus Ltd. (2011 to 2012), Non-Executive Director of Speedy Hire plc (2009 to 2015) and Non-Executive Director of BMS Group Ltd. (2011 to 2015).

External appointments

Non-Executive Director of Clarkson plc and Minova Insurance Holdings Ltd.

JANE LODGE
(60)[1,2,3] FCA, BSc

Independent Non-Executive Director

Appointment
August 2012

Skills and experience
Jane Lodge was appointed as a Non-Executive Director in August 2012 and was appointed Chair of the Audit Committee with effect from the end of October 2012. Prior to this Jane spent 35 years at Deloitte LLP (UK), 25 as an audit partner advising global companies, particularly in the manufacturing, house building and property and construction sectors. She was senior partner of the Birmingham office and the Deloitte UK Manufacturing Industry Sector. Jane was previously a Non-Executive Director and Chair of the Audit Committee, Moorgate Industries Limited (2014 to 2015).

External appointments
Non-Executive Director and Chair of the Audit Committee, Devro PLC, Non-Executive Director, Black Country Living Museum Trust Ltd, Non-Executive Director and Chair of the Audit Committee, DCC PLC, Non-Executive Director, Bromsgrove School Foundation and Non-Executive Director and Chair of the Audit Committee, Sirius Minerals Plc.

DAVID MCMANUS
(62)[1,2,3] BSc

Independent Non-Executive Director

Appointment
May 2014

Skills and experience
David McManus was appointed as a Non-Executive Director with effect from 12 May 2014. David began his career with the Fluor Corporation (1975 to 1980) after graduating in civil engineering and went on to hold a number of executive positions in Shell UK (1980 to 1989), LASMO plc (1989 to 1994), Atlantic Richfi ld Company (ARCO) (1994 to 2000), BG Group (2000 to 2004) and as Executive Vice President, International Operations of Pioneer Natural Resources (2004 to 2012). David was formerly a Non-Executive Director of Cape plc (2004 to 2012), serving as Chairman from 2006 to 2008 and was also a Non-Executive Director of Caza Oil & Gas Inc. (2011 to 2015).

External appointments
Non-Executive Director at the Hess Corporation, FlexLNG and Rockhopper Exploration plc.

ALISON WOOD
(52)[1,2,3] MBA, BA

Independent Non-Executive Director

Appointment
February 2014

Skills and experience
Alison Wood was appointed as a Non-Executive Director with effect from 01 February 2014 and was appointed as Chair of the Remuneration Committee from the beginning of April 2014. Alison is the former Global Director of Strategy and Corporate Development at National Grid plc (2008 to 2013). Before that, Alison spent nearly 20 years in a number of strategy and leadership roles at BAE Systems plc including Group Strategic Development Director. Alison has also held Non-Executive Director positions with BTG plc (2004 to 2008) and Thus Group plc (2007 to 2008).

External appointments
Non-Executive Director at Cobham plc and Senior Independent Director at e2v technologies plc.

Former Director
Ahmed Samy retired as a Non-Executive Director with effect from 10 September 2015.

Committee membership
1 Member of the Remuneration Committee

2 Member of the Audit Committee

3 Member of the Nomination Committee

Group Executive Board
See page 60

Committee activities
See pages 70 – 94

GROUP EXECUTIVE BOARD
DRIVING OUR STRATEGY

The Executive Board has primary authority for the day-to-day management of the Group's operations, following policies laid down by the Group Board. It consists of the Executive Directors and other senior managers and is chaired by Andrew Wyllie, Chief Executive. The members of the Executive Board are:

ANDREW WYLLIE CBE
Chief Executive

ANTHONY BICKERSTAFF
Finance Director

SALLY AUSTIN
Group HR Director

TIM BOWEN
Corporate Development Director

NIGEL CURRY
Consulting and Advisory Services Director

MARTIN HUNTER
Group Financial Controller

DARREN JAMES
Managing Director
Infrastructure

DAVID TAYLOR
Group Commercial Director

ALEX VAUGHAN
Managing Director
Natural Resources

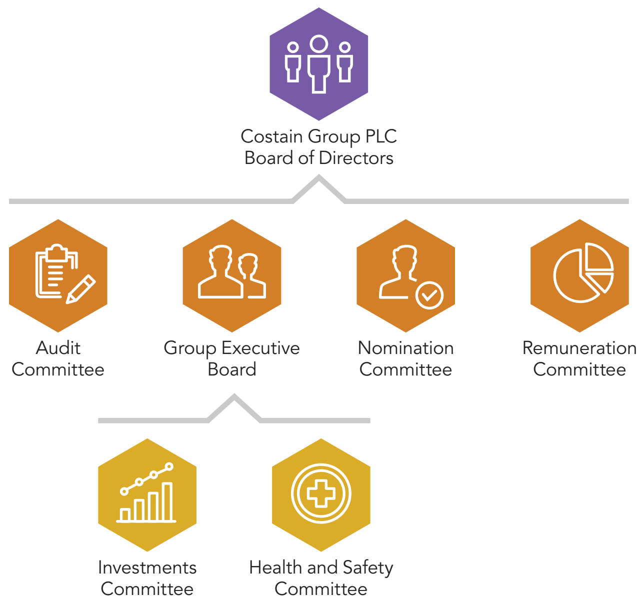
TRACEY WOOD
Legal Director and Company Secretary

Statement of compliance

As a premium listed company on the London Stock Exchange, the Company is reporting in accordance with the UK Corporate Governance Code published in 2014 (the Code)[1], which sets out standards of good practice in relation to board leadership, effectiveness, accountability, remuneration and relations with shareholders.

The Board considers that the Company has applied the main principles of the Code which it considers to be central to the effective management of the business and to maintaining the confidence of investors. Throughout the entire year, the Company complied with the provisions of the Code, except for provision B.2.3, which requires Non-Executive Directors to be appointed for a specific term. This was because the Company's former major shareholder, Kharafi, was entitled to appoint a Non-Executive Director until 10 September 2015 when its interest in the issued ordinary share capital of the Company fell below 7%. Further details can be found on page 64 of this Corporate Governance report.

Group's organisational structure



The Audit Committee report on pages 70 to 74, the Nomination Committee report on pages 75 and 76 and the Directors' Remuneration report on pages 77 to 94 are also incorporated into this report by reference.

Leadership

Role of the Board

The Board is collectively responsible for the management of the Company. The Board's main role is to create long-term value for shareholders by providing entrepreneurial and prudent leadership of the Company. It does this by setting the Company's strategic aims and overseeing their delivery, ensuring that the necessary financial and other resources are available, and by maintaining a balanced approach to risk within a framework of effective controls.

The Board has adopted a schedule of matters specifically reserved for its approval. The schedule details key aspects of the affairs of the Company which the Board does not delegate, including key strategic, operational and financial issues.

A copy of the schedule of matters can be found on the Company's website at **costain.com**.

The Group's organisational structure is established and overseen by the Board and designed to allow effective decision-making and to meet corporate governance standards. A diagram illustrating the structure is shown on the left.

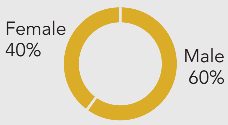
The Board has established Committees which are responsible for audit, remuneration, appointments and succession. Each Committee plays a vital role in helping the Board to ensure that high standards of corporate governance are maintained throughout the Group.

The Committees are governed by terms of reference which are reviewed annually and can be viewed in the corporate governance section of the Company's website. The members of each Committee and details of their attendance are shown on page 62.

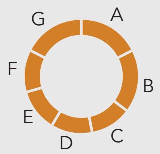
1 A copy of the Code is publicly available at www.frc.org.uk.

The Non-Executive Directors all bring valuable experience, insight and perspective to the Board.

Board gender

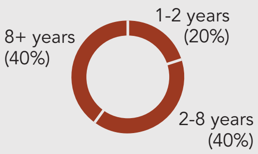


Board expertise



A Finance/banking (3 Directors)
B Construction/engineering (3 Directors)
C Housebuilding/property (2 Directors)
D Insurance (2 Directors)
E Manufacturing (2 Directors)
F Oil & gas/utilities (2 Directors)
G Other sectors (3 Directors)

Board tenure



The Group Executive Board is accountable for running the business and delivering the Group strategy. It consists of the Executive Directors and other senior managers, is chaired by Andrew Wyllie (Chief Executive) and works with the support of a number of operational Committees and functions. Further details can be found on page 60.

Board composition and attendance

The Board currently comprises the Chairman, two Executive Directors and four independent Non-Executive Directors. The membership of the Board and biographical details of all the Directors can be found on pages 58 and 59.

The biographies illustrate that the Non-Executive Directors have a range of business and financial experience that is important and relevant to the management of the Company. The Board believes that there is an appropriate balance between Executives and Non-Executives and that this balance is enhanced by the varying lengths of service, gender balance and expertise of the Non-Executive Directors which is depicted in the pie charts on this page.

The Board recognises the importance of greater diversity (including gender diversity) in the boardroom and throughout the business, further details of which are given in the Nomination Committee report on pages 75 and 76.

The Board meets regularly, with eight scheduled meetings having taken place during the year. The Directors' attendance record at the scheduled Board meetings and Board Committee meetings for the year ended 31 December 2015 is shown in the table below. For the Board and Committee meetings, attendance is expressed as the number of meetings that each Director attended out of the number that they were eligible to attend. In addition, ad-hoc meetings were arranged to deal with matters between the scheduled meetings as appropriate.

Board roles

The roles of the Chairman and Chief Executive are separately held and the division of their responsibilities is clearly established. The Chairman, David Allvey, is responsible for the effective leadership and operation of the Board whilst the Chief Executive, Andrew Wyllie, is responsible for managing the business of the Company through the implementation of policies and strategies as determined by the Board. The role of the Senior Independent Director, James Morley, involves providing a sounding board for the Chairman, acting as a point of contact for shareholders to raise concerns should they arise and meeting with the other Non-Executive Directors, without the presence of the Chairman or Executive Directors, to discuss such matters as the appraisal of the Chairman's performance. The Non-Executives, together with the Chairman, also meet without the Executive Directors being present from time to time as a matter of good corporate governance. The Non-Executive Directors

	Board Maximum 8	Audit Committee Maximum 4	Remuneration Committee Maximum 4	Nomination Committee Maximum 2
Executive Directors				
Andrew Wyllie	8/8	4[a]	3[a]	2[a]
Anthony Bickerstaff	8/8	4[a]	3[a]	2[a]
Non-Executive Directors				
David Allvey	8/8	4[a]	4[a]	2/2
James Morley	8/8	4/4	4/4	2/2
Jane Lodge	8/8	4/4	4/4	2/2
Alison Wood	8/8	4/4	4/4	2/2
David McManus	8/8	4/4	4/4	2/2
Ahmed Samy[b]	5/5	n/a	n/a	1/1

(a) Not a member of the Committee – attendance at meeting by invitation.
(b) Retired from the Board with effect from 10 September 2015.

The Board considers that the performance evaluations demonstrate that each Director continues to contribute effectively and the Board as a whole demonstrates good practice.

all bring valuable experience, insight and perspective to the Board, through their former executive roles and their other non-executive positions, which are held across a wide range of businesses and disciplines, and this facilitates robust decision-making by the Board as a whole.

Board independence

The Board considers each of its Non-Executive Directors to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the judgement of such Non-Executive Directors.

At the time of his original appointment in January 2008, the Chairman of the Company was considered independent by the Board. However, in accordance with the Code, the ongoing test of independence is not applicable in relation to the Chairman.

The Company complies with the requirement under provision B.1.2 of the Code that at least half of the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent, notwithstanding that this requirement is waived in respect of smaller companies, such as the Company, which is a member of the FTSE SmallCap Index.

Appointments to the Board and retirement of Directors

In November 2015, the Company announced that after 14 years as a Non-Executive Director, including the last seven as Chairman, David Allvey intends to retire from the Board during the course of 2016. The Company has now commenced a process, led by James Morley, Senior Independent Director, to identify and appoint a successor to David Allvey.

The appointment and replacement of Directors is governed by the Company's Articles of Association, the Code, the Companies Act 2006 and related legislation. The Articles of Association may be amended by a special resolution of the Company's shareholders. The Company's Articles of Association require that all Directors should be subject to election by shareholders at the first opportunity after their appointment and to re-election thereafter at intervals of no more than three years. The Company's Articles of Association also provide that Non-Executive Directors who have served for longer than nine years should be subject to annual re-election. Accordingly, the aforementioned provisions of the Company's Articles of Association comply with provision B.7.1 of the Code, as applicable to smaller companies below the FTSE 350.

2015 Board visit to Manchester included:

Monday 06 July 2015

Site visits to the A556 and Heysham M6 link projects

Tuesday 07 July 2015

Presentations on:

- R&D Group overview including Plasma Vitrifi ation
- Development of the Group's engineering capability
- Shale gas
- Board dinner with senior managers and other invited guests

Wednesday 08 July 2015

Presentations on:

- Rail electrification
- The developing power market

The Executive Directors have contracts of employment with the Company, terminable on 12 months' notice, whilst the Chairman and Non-Executive Directors all have letters of appointment with the Company. An independent Non-Executive Director's appointment is for an initial period of three years, at the expiry of which time the appointment is reviewed to determine whether the appointment should continue. All contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours.

The Company's major shareholder, UEM Group Berhad, currently holding a 13.53% interest in the Company, is entitled to appoint a Non-Executive Director for so long as it holds 7% of the aggregate nominal value of the then issued ordinary share capital of the Company. UEM Group Berhad has not taken advantage of this option since 04 December 2009. Until September 2015, Kharafi as also a major shareholder in the Company. Following a disposal of shares in the Company on 10 September 2015, its interest in the Company fell below the 7% level at which it was entitled to appoint a Non-Executive Director and its nominated Director, Ahmed Samy, therefore retired from the Board. In consequence, the Company did not comply with provision B.2.3 of the Code throughout the whole of the year, which requires that all Non-Executive Directors should be appointed for a specific term.

Board effectiveness

Performance

The Board has established a formal process for the evaluation of the performance of the Board and its principal Committees and further details are provided on pages 75 and 76 of the Nomination Committee report. The Board considers that the performance evaluations demonstrate that each Director continues to contribute effectively and the Board as a whole demonstrates good practice on the key indicators of Board effectiveness.

Board induction and training

On appointment, the Directors take part in an induction programme, pursuant to which they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board Committees and the powers delegated to the Committees, the Group's corporate governance practices and procedures, and the latest financial information about the Group.

As regards the continuing professional development of the Executive and Non-Executive Directors, Board members, independent of any formal training arranged by the Company, are encouraged to attend seminars and conferences on issues relevant to their appointment as Directors of a public company, particularly matters concerned with corporate governance, audit and remuneration issues. In addition, Board site visits are considered essential to ensure that Directors have a thorough understanding of the business operations and issues that affect the Group. The Board also takes part in the Company's Health and Safety training programmes.

Operation of the Board

The Chairman sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items. In order to discharge their duties, the Directors are provided with full and timely access to papers prior to Board meetings via a fully encrypted electronic portal system. Directors have access to all information relating to the Group and are free to seek any further information they consider necessary. After each meeting, the Company Secretary operates a comprehensive follow-up procedure to ensure that actions are completed as agreed by the Board.

These site visits and presentations helped me to gain deeper insight into the different aspects of the Costain business and were of great benefi . I found everyone at Costain to be incredibly welcoming and knowledgeable.

Alison Wood
Independent Non-Executive Director

Senior executives below board level are invited to attend Board meetings from time to time in order to deliver presentations on issues that are relevant to their particular business sector or function. During the year, the Directors set aside several days to combine scheduled Board and Committee meetings with visiting regional offices and operational sites in order to provide the Non-Executives with an opportunity to meet both senior managers and other members of staff and to obtain a greater insight into particular aspects of the business and projects that the Company is engaged in.

In July 2015, the Board travelled to the Company's new office in Manchester and the highlights of their visit are detailed in the table shown on page 64.

In addition, between Board meetings, the Chairman and Non-Executive Directors have access to the Chief Executive, Finance Director and Company Secretary in order to progress the Company's business. The Chairman and Non-Executive Directors also receive a weekly report from the Chief Executive, monthly management accounts, internal audit reports and regular management reports and information, which enable them to scrutinise the Group and its management's performance against agreed objectives. The Board is also kept up to date on legal, regulatory and governance matters by both the Company Secretary and external advisers.

All Board members have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and applicable rules and regulations are followed, and who is also the Company's Legal Director. The appointment and removal of the Company Secretary is a matter reserved for Board approval. The Board also obtains advice from professional advisers as and when required at the expense of the Company.

Re-election of Directors

In accordance with Article 78 of the Company's Articles of Association and provision B.7.1 of the Code, David Allvey, Anthony Bickerstaff and Jane Lodge are due to offer themselves for re-election at the 2016 Annual General Meeting (AGM). David Allvey, having been in office for a continuous period in excess of nine years, is required to stand for re-election on an annual basis. Anthony Bickerstaff and Jane Lodge, having served on the Board at the time of the two preceding AGMs without retiring, are both required to stand for re-election at the 2016 AGM. David Allvey and Jane Lodge have letters of appointment and Anthony Bickerstaff has a contract of employment with the Company, details of which are set out in the Directors' Remuneration report on page 90.

Having due regard to the results of the externally facilitated review of the Board's performance conducted by SCT Consultants Ltd, and to periodic internal evaluations (further details provided on pages 75 and 76 of the Nomination Committee report), the Board confirms that it is of the opinion that each of the Directors standing for re-election continues to perform effectively, that they demonstrate commitment to their particular roles and that they ensure that proper time is devoted to Board and Committee meetings and should therefore be re-elected at the forthcoming AGM.

Directors' conflicts of interest and external appointments

The Non-Executive Directors may serve on a number of other company boards provided they continue to demonstrate the requisite commitment to discharge their duties to the Company effectively and such external appointments are seen as being beneficial to the overall decision-making process of the Board as a whole. The Company also encourages the

Executive Directors to take up non-executive positions, with the prior consent of the Company, in the belief that such appointments broaden their skills and enhance the contribution which they can make to the Company's performance. Generally, no more than one such appointment may be undertaken by the Executive Directors. The Company has procedures in place for managing conflicts of interest. Directors are required to declare all external appointments or relationships with other companies and the Board has adopted appropriate processes to manage and, if appropriate, approve any such appointment or relationship which could result in a possible conflict of interest. The Board has satisfied itself that there is no compromise to the independence of the Directors who have appointments on the boards of, or relationships with, other companies.

Corporate Responsibility (CR)

The Board receives reports from the Company's CR Director and monitors progress on a regular basis.

Remuneration

Details of the Company's remuneration policy and how it has been implemented, together with the activities of the Remuneration Committee are to be found on pages 77 to 94 of the Directors' Remuneration report.

Shareholder communication and engagement

The Company remains committed to maintaining good relationships with both institutional and private shareholders. There continues to be regular dialogue with institutional investors and brokers.

At the time of the announcement of the full-year and half-year results, presentations are made to brokers' analysts, the press and institutional investors. These presentations are available on the Company's website at **costain.com**. In addition, there are meetings with analysts, financial journalists and institutional investors throughout the year including a 'Capital Markets Day'.

The Chairman is available to discuss strategy and governance issues with shareholders, and James Morley, as the Senior Independent Director, is available to shareholders if they have any concerns that have not been, or cannot be, addressed through the normal channels of Chairman, Chief Executive or Finance Director.

The Company obtains feedback from its brokers, Investec and Liberum Capital, on the views of institutional investors on a non-attributed basis. As a matter of routine, the Board reviews reports from its brokers on issues relating to recent share price performance, trading activity and institutional sentiment. The Board also receives copies of relevant analysts' reports on an ad-hoc basis.

The Board regards the AGM as an important opportunity to communicate directly with shareholders. The AGM provides shareholders with an opportunity to ask questions of the Directors during the meeting and also on a more informal basis following the conclusion of the meeting, at which senior members of staff are also present. The AGM also gives shareholders an opportunity to listen to a presentation from the Chief Executive on the current trading performance and developments within the business. Board members, including the Chairs of the Remuneration, Nomination and Audit Committees, attended the 2015 AGM and propose to attend the 2016 AGM, where they will be available to answer questions.

Shareholders may raise issues or concerns by contacting the Group's Investor Relations Director via the email address stated on the Company's website or by writing to the Company Secretary.

Accountability

Financial and business reporting

The Board is required by the Code to present a fair, balanced and understandable assessment of the Company's position and prospects and reference is made to the statement of Directors' responsibilities on page 100 together with the statement on the status of the Company as a going concern and the financial viability statement on page 51.

The preparation of this Annual Report and Accounts involved input from a number of functions across the Group and the Board was involved at an early stage to enable review, challenge and discussion ahead of approving the final publication.

The Board also recognises that its responsibility to present a fair, balanced and understandable assessment also extends to interim and other price-sensitive reports that the Company may publish from time to time.

Business model

The Strategic report on pages 1 to 56 gives details of the Company's business model and the strategy for delivering the objectives of the Company.

Risk management and internal control

Risk management

Risk management is firmly established and plays a critical role ensuring the Group continues to meet its objectives. The Board is responsible for making a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity and for ensuring that appropriate mitigating actions are in place to manage them. The principal risks and uncertainties facing the Company at the date of this report can be found on pages 46 to 50 of the Strategic report.

Enterprise Risk Management Process

Enterprise Risk Management approach

The Enterprise Risk Management (ERM) approach assesses and manages on an ongoing basis the most significant risks to the Group's objectives. The ERM process covers all types of risk including operational, financial, legal and regulatory. The Company's assessment of risk includes explicit consideration of the possible impacts of the risks on the reputation of the Group as a whole, analysing both the potential causes and impact of risk. Using this process, suitable consideration of the controls needed to minimise the likelihood of risks occurring and those which can help to maximise resilience to risks are made.

The ERM framework is recurrent; reviewing risk levels regularly and ensuring frequent monitoring of control implementation. Whilst coordinated and supported by the Group Risk Management function, ownership of risk is maintained at the relevant business unit level.

The ERM process ensures the Costain Way, a common platform which contains all governance, controls, policies and procedures for the Company, is further fine-tuned to enhance the control environment. This approach provides review and development of the formal and informal controls necessary to ensure we meet our objectives.

Our risk focus for 2016

During 2015, the emphasis on risk management was centred on the controls for design management (including appointment of third-party design consultants), subcontractors more generally, the development of controls for building information modelling and insurance interfaces. In 2016, our risk focus will become more strategic in nature, with the Group's broader market activities being monitored in order to ensure further development of the competitive edge.

The overall assessment is that there is a strong risk management culture within the Group which is continuing to develop, supported centrally by the Group Risk Management function. This will include training provision at all levels in the Group.

Ensuring the effectiveness of the system of risk management and internal controls

The Board is responsible for the effective and ongoing monitoring and review of the Group's system of internal controls. In addition, the Board supported by the Audit Committee also carries out an annual review of the effectiveness of the systems. Such a system, however, can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board maintains full control over strategic, financial, operational and compliance issues. The Chief Executive has full authority to act subject to the matters reserved to the Board and to the requirements of Group policies, and is expressly responsible for Health and Safety.

The Board and Group Executive Board receive regular reports on Safety, Health and Environmental performance and significant operational matters. The Group Executive Board is responsible for ensuring compliance with Company procedures.

Operational controls

The Company uses the Costain Way, its operational management system, to detail controls and procedures including Group policy statements, procedure manuals and other written instructions, which are reviewed and updated regularly. The objectives of the Costain Way are to provide assurance that:

- company activities across the business are compliant with appropriate legislation and codes of practice;
- company systems, procedures and processes are effective at mitigating identified risks;
- customer expectations are understood, communicated and effectively delivered;
- management controls are consistently applied across the Group; and
- performance is reviewed, validated and continually improved.

The Costain Way has been externally certified by BSI as compliant to management standards including ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (health and safety), ISO 22301 (business continuity), ISO 27001 (information security) and BS 11000 (collaboration).

Each contract leader is wholly accountable for performance of their operations. They complete a monthly report that provides detailed information on Safety, Health and Environmental performance, cash flow, value, cost and profit, claims and variations, risk management, progress and staffing levels. This enables management to monitor performance and intervene where appropriate. All contracts operate within a controlled framework of best practice assured by second (system design and senior management review) and third (internal and third-party audit) line defences.

Financial controls

There is a comprehensive annual budgeting system, linked to the annual strategy review, for each business unit within the Group. The budget for the following year is reviewed and finalised by the Executive Board, alongside the three-year business plan, before final approval by the Board each December.

The Company has in place internal controls and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. These are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.
Each division's performance is reviewed monthly by management and reported against budget to the Board and Executive Board. The reports cover profit and loss and cash flow with an accompanying narrative on significant issues underlying the financial reports. Furthermore, a review of the consolidated financial statements is completed by management to ensure that the financial position and results of the Group are appropriately refl cted therein. The Group Treasurer and Group Taxation Manager report to the Audit Committee, via the Finance Director, on any issues of significance to the Group.

Compliance

The Company expects the highest standards from all employees, suppliers and joint venture partners. The Group's policies contain a statement on business conduct, emphasising the legal, ethical and moral standards that must be employed in all the Company's business dealings. This statement is regularly reviewed and updated as appropriate to ensure compliance with any change in legislation.

Internal Audit monitors compliance against the Costain Way using a risk-based approach to ensure the focus is on high-risk activities and thus verify the appropriate implementation of controls. This independent assurance ensures risks inherent to the Company's business processes are reasonably controlled and assists management in assessing requirements for further controls.

In the event of a critical legal issue, a legal report is submitted to the Board. An annual review of all litigation valued above £50,000 is submitted to the Board for review. Significant legal and regulatory changes are notified to the appropriate staff and training given where necessary.

AUDIT COMMITTEE REPORT

The review on behalf of the Board of the effectiveness of the Group's risk management and internal control systems has continued to be a strong focus for the Committee.

Jane Lodge
Chairman of the Audit Committee

Members of the Committee
Jane Lodge
James Morley
David McManus
Alison Wood

Chairman's summary statement

Dear Shareholder

I am pleased to take this opportunity, on behalf of the Board, to present our report on the work of the Audit Committee (the Committee) in respect of the year ended 31 December 2015.

Throughout the year, the Committee has continued to focus on the integrity of the Group's financial reporting, the review of the effectiveness of the Group's risk management and internal controls systems, together with scrutinising the robustness of the internal and external audit process.

Following updates to the UK Corporate Governance Code (the Code), the Committee has also spent time making sure the additional requirements introduced by the Code were met by the Group. This year we appointed a dedicated Group Risk Manager accountable directly to the Committee. The ensuing enhancements to the risk management framework and processes, and systems of internal control were a particular focus for the Committee. We have also introduced visual indicators to make it easier to interpret the year-on-year change in a specific risk. More details of the Group's principal risks can be found on pages 46 to 50.

The Committee also considered the period over which the viability statement will apply.

Operation of the Committee

The Committee is comprised exclusively of independent Non-Executive Directors. The members of the Committee and details of their attendance at meetings are given on page 62. Biographies are shown on pages 58 and 59.

The Company considers that it has in Jane Lodge, as Chair of the Audit Committee, an appropriate person possessing the necessary recent and relevant financial experience. Full details of her experience can be found in her biography shown on page 59.

The meetings of the Committee are normally also attended by the Chairman, the Chief Executive, the Finance Director, the External Auditor, the Group Risk Manager, the Head of Internal Audit and the Group Financial Controller. Other senior executives will attend as required to provide information on matters being discussed which fall into their area of responsibility. The Committee regularly meets privately with the External Auditor, Group Risk Manager and Head of Internal Audit. The Company Secretary is the Secretary to the Committee.

Terms of reference

The Committee's terms of reference are available from the Company Secretary and are published on the Company's website at **costain.com**. These are reviewed annually and some minor changes were made in 2015.

Role of the Committee

In accordance with its terms of reference and in compliance with the Code, the Committee is responsible for:

- monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's performance, and reviewing significant financial judgements contained in them;
- reviewing the effectiveness of the Group's system of internal controls and the processes for management of the risks facing the Group;
- reviewing the effectiveness of the internal audit function and approving, in consultation with the Chief Executive, the appointment and termination of employment of the head of that function;

The Committee considered whether the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

- monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the External Auditor;
- ensuring that an appropriate relationship between the Group and the External Auditor is maintained, including reviewing non-audit services and fees;
- reviewing the Group's systems for detecting fraud, preventing bribery and allowing employees to raise concerns in a safe and confidential manner; and
- reviewing its terms of reference and its effectiveness from time to time and recommending to the Board any changes required as a result of the review.

Principal activities during the year

In 2015, the principal activities of the Committee and the manner in which it discharged its responsibilities were as follows:

Financial statements

The Committee reviewed and evaluated the Group's draft financial statements, preliminary and interim results and reports from the External Auditor on the outcome of its reviews and audits in 2015. At the Board's request, it also considered whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Significant accounting matters

The Committee considered key accounting issues, matters and judgements in relation to the Group's financial statements and disclosures relating to:

Key contract judgements

As more fully explained in Note 2, on pages 114 to 120, 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. These 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 judgements of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation using detailed contract valuations and forecast of the costs to complete. Given the Company's extensive portfolio of contracts, a large proportion of time was spent by the Committee during the year reviewing the positions and judgements taken by management on a number of material contracts across the Group, through discussions with management and the External Auditor.

This review included, amongst other things, consideration of the Manchester Waste Disposal Authority PFI contract awarded in 2007. 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.

On the basis of these reviews, the Committee concluded that it was content with the judgements that had been made and that appropriate disclosures have been made.

Pension

The Group's defined benefit scheme requires signifi ant 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 Committee takes written advice from an independent qualified actuary. The assumptions and sensitivities are set out in Note 20 on pages 142 to 145.

The carrying value of goodwill and intangible assets

As set out in Note 11 on page 129, the goodwill and acquired intangible balances within the Group relate to the acquisition of companies. During the year ended 31 December 2015, the Committee critically reviewed the analysis performed by management on the valuation of intangibles on the Rhead acquisition and impairment considerations in respect of the goodwill and intangibles and agreed with the amortisation charge in respect of intangibles and the conclusion that no impairment to goodwill was necessary.

Alcaidesa Holding SA

The Committee has reviewed the net carrying value of each of the asset holdings in Spain held by the Group's subsidiary, Alcaidesa Holding SA, following the reorganisation of the Group's non-core joint venture in Spain as set out on page 44 of the Strategic report. The Committee addressed this issue by considering the report from management on the review carried out of the carrying value of the marina assets and the golf courses, including associated land. The Committee agreed that no impairment should be taken against the assets.

Going concern and new viability statement

The Committee reviewed the Group's processes for the management of cash flow and working capital, committed funding, its ability to generate cash and its ability to raise further funding. It also challenged management's sensitivity analysis including mitigating actions.

Future IFRS and UK GAAP developments

During the year, the Committee received a management report from the External Auditor regarding future accounting developments likely to affect the presentation of the Group's financial statements, including capitalisation of operating leases and revenue recognition on long-term contracts.

Risk management and internal controls

Details of the Group's internal controls and risk management framework are more fully set out on pages 45 to 50 of the Strategic report and pages 67 to 69 of the Corporate Governance report.

The Committee on behalf of the Board has evaluated the effectiveness of the systems of risk management and internal controls operated within the Group pursuant to the FRC's guidance on internal control. The evaluation covered all material controls, including financial, operational and compliance controls. The review did not identify any significant weaknesses in the system of internal control and risk management.

The Committee has also considered the confidential reporting and whistle-blowing procedures the Company has in place and is satisfied with the procedures.

The Committee has received regular reports on the programme and findings of reviews at each of its meetings and has been presented with action plans to resolve any highlighted areas.

Internal audit

The Group has an internally resourced internal audit function reporting directly to the Committee. The Committee is responsible for monitoring and reviewing the operation and effectiveness of this function and approves the scope of the annual plan. During the year, the Committee undertook an internal assessment of the effectiveness and independence of the internal audit function which highlighted some areas for continued improvement, including the greater use of guest auditors to complement the core team. In addition, an external consultant was engaged to carry out a review and a number of improvements were actioned, including a greater link between audit planning and the Group's strategic objectives, resulting in the improved effectiveness of internal audit reporting.

The Committee has received regular reports on the programme and findings of reviews at each of its meetings during the course of the year and has been presented with action plans to resolve any highlighted areas.

Independence of the External Auditor

The Company's External Auditor is KPMG LLP (KPMG or External Auditor).

In order to ensure the independence and objectivity of the External Auditor, the Committee monitors the non-audit services being provided to the Group by its External Auditor, and has adopted a policy on the provision of non-audit services by the External Auditor with the objective of ensuring that such services do not impair the independence or objectivity of the External Auditor.

The policy also sets out a number of key principles that underpin the provision of non-audit services by the External Auditor: the External Auditor should not audit its own firm's work; make management decisions for the Group; have a mutuality of financial interest with the Group; or be put in the role of advocate for the Group.

Approval of the Committee is required for any services provided by the External Auditor where the fee is likely to be in excess of £25,000. The Committee reviews all services being provided by the External Auditor annually to assess the independence and objectivity of the External Auditor, taking into consideration relevant performance and regulatory requirements, so that those are not impaired by the provision of permissible non-audit services.

In 2015, the External Auditor performed very limited non-audit services in respect of which fees payable to the External Auditor were less than £0.1 million (2014: £0.4 million).

In accordance with best practice and professional standards, the Company also requires its External Auditor to adhere to a rotation policy whereby the audit engagement partner is rotated after five years. The External Auditor is also required to periodically assess whether, in its professional opinion, it is independent and those views are shared with the Committee.

The Senior Statutory Auditor (who has signed the Audit report on behalf of KPMG on page 103) is Andrew Marshall, who was appointed as the lead audit partner at the beginning of 2013.

The Committee is satisfied that the independence of the External Auditor is not impaired given that the audit engagement partner has recently changed and that the amount of non-audit fees are of a level that does not impact upon KPMG's objectivity and independence.

Audit quality and approach to audit tender

As part of a formal review process, external audit effectiveness questionnaires are completed by members of the Committee, the Executive Directors, other members of the Executive Board and certain members of the finance team. Based on the responses to the questionnaires, the Company Secretary produces a report for detailed consideration by the Committee.

Based on its consideration of the report, together with its own ongoing assessment, for example, through the quality of the External Auditor's reports and the audit partner's interaction with the Committee, the Committee remains satisfied with the efficiency and effectiveness of the external audit.

The Committee has not therefore considered it necessary to require the audit to be put out to tender. The audit has not been put to tender since KPMG was appointed as the Company's auditor more than 20 years ago. The Committee continues to be satisfied with the work of the External Auditor, considers that it remains objective and independent and has unanimously recommended to the Board that a resolution for the reappointment of KPMG as the Company's External Auditor be proposed to shareholders at the 2016 AGM.

The Committee recognises the requirements in the Code that the external audit contract be put out to tender at least every 10 years, notwithstanding that this requirement is waived in respect of smaller companies, such as the Company, which is a member of the FTSE SmallCap Index. In addition, the Committee has also discussed the new EU regulation in relation to rotation including the proposed transition rules and has considered the potential optimum timing for a tender of the external audit. The lead audit partner was not present during such discussions.

Jane Lodge
Chairman
01 March 2016

NOMINATION COMMITTEE REPORT

Boardroom diversity (including gender diversity) continues to be our important area of focus for the Committee.

David Allvey
Chairman

Members of the Committee
David Allvey
James Morley
Jane Lodge
David McManus
Alison Wood

Chairman's summary statement

Dear Shareholder

The Nomination Committee (the Committee) is comprised exclusively of independent Non-Executive Directors with myself acting as Chairman. The members of the Committee and details of their attendance at Committee meetings are given on page 62 and their biographies are shown on pages 58 and 59.

In November 2015, the Company announced that, after 14 years as a Non-Executive Director, including the last seven as Chairman, my intention is to retire from the Board during the course of 2016. The Company has now commenced a process, led by James Morley, Senior Independent Director, to identify my successor and such appointment will be approved by the Nomination Committee in due course. JCA Partners LLP has been appointed to help facilitate this process and, having no other connection with the Company, is considered to be independent.

Role of the Committee

The principal role of the Committee is to review the structure and composition of the Board and to identify and propose to the Board suitable candidates to fill Board vacancies.

The Committee directs the periodic Board effectiveness reviews, both internal and external, which form part of the regular evaluation and development work conducted by the Board to ensure it continues to improve its overall effectiveness. The Committee also reviews management training and succession planning arrangements in respect of the Company's senior executives. The Company Secretary is the secretary of the Committee.

Main activities during the year

In 2015, the Committee discharged its responsibilities by performing the following activities:

- Reviewing the overall structure and composition of the Board;
- Undertaking Board evaluations as detailed below;
- Receiving notifications from Directors of situations, such as proposed external appointments, in which a potential conflict of interest may arise;
- Reviewing/recommending to the Board the reappointment of those Directors who are due to offer themselves for re-election at the Annual General Meeting in accordance with the Articles of Association, following due consideration of the Board's policy on independence and the results of periodic Board performance reviews;
- Reviewing succession planning in respect of the Executive Directors; and
- Reviewing succession planning and development of talent in respect of the Company's senior executives.

Board diversity

Boardroom diversity (including gender diversity) continues to be an important area of focus for the Committee with the aim of attracting and maintaining a Board which has a broad range of skills, backgrounds and experience whilst ensuring that the best people are appointed. Within this context, and as part of the ongoing process of refreshing the Board, the Company continues to encourage and welcome interest from a wide range of candidates which will add to the Board's diversity. The Committee acknowledges the Women on Boards Davies Review published in October 2015 which reviews progress over the last five years on implementing Lord Davies' original recommendations concerning representation of women on boards.

The Board's strength continued to be demonstrated through its composition, clarity of roles and clear focus on strategy.

The Committee notes the Review's recommendations of increasing the voluntary target for women represented on FTSE 350 Boards to 33% by 2020, as well as improving the percentage of women on executive boards and in the most senior leadership positions within companies. Costain is fully supportive of and embodies such principles (notwithstanding that, as a member of the FTSE SmallCap Index, it is not subject to such recommendations) which is reflected in the composition of our Board and Group Executive Board, further details of which can be found on pages 58 to 59 and 60 of this Annual Report respectively.

Board evaluations

The Board has established a formal process for the evaluation of the performance of the Board and its principal Committees.

For the 2015 financial year, the Board's annual evaluation was carried out internally. It was facilitated by the Company Secretary under the direction of the Chairman. The process involved each of the Directors completing a high-level questionnaire and a comprehensive discussion between the Chairman and each of the Board members. Separately, the Senior Independent Director met with the Non-Executive Directors without the Chairman being present in order to discuss the appraisal of the Chairman's performance.

After reviewing the outcomes of the evaluation process, the Chairman prepared a summary report that was discussed by the Board. It was concluded that the Board's strength continued to be demonstrated through its composition, clarity of roles and clear focus on strategy.

The procedures, effectiveness and development of the Board will continue to be kept under review. The last externally facilitated Board review was conducted by SCT Consultants Ltd in respect of the 2014 financial year.

The next independently facilitated review is expected to take place in respect of the 2017 financial year in accordance with provision B.6.2 of the Code, notwithstanding that this requirement is waived in respect of smaller companies, such as the Company, which is a member of the FTSE SmallCap Index.

The Board considers that the performance reviews show that each Director continues to have sufficient time, knowledge and commitment to contribute effectively to the Board and its Committees and that the Board as a whole demonstrates good practice on the key indicators of Board effectiveness.

Succession planning

The Committee adopts a formal and transparent procedure for the appointment of new Directors to the Board.

The Board has appointed an external search consultant, JCA Partners LLP, in order to identify a new Chairman. The Committee has provided a full specification of the skill set required.

In the year under review, the Committee received updates from Sally Austin, the Group Human Resources Director, on the talent management processes in the Group including the progress of senior leaders. The Committee also reviewed the succession for members of the Group Executive Board and other senior employees.

David Allvey
Chairman
01 March 2016

DIRECTORS' REMUNERATION REPORT

We continue to take a disciplined approach to ensure that our remuneration framework rewards the right behaviours and supports the goals of our *'Engineering Tomorrow'* strategy.

Alison Wood
Chairman of the Remuneration Committee

Chairman's summary statement

Dear Shareholder

I am pleased to present, on behalf of the Board, our Directors' Remuneration report in respect of the year ended 31 December 2015.

Performance and variable pay outcomes for the year ended 31 December 2015

The Company performed solidly during the year, delivering strong profitable earnings growth, a record order book of £3.9 billion and a strong net cash position of over £100 million. We have made excellent progress against the strategic priorities of the business, including the £36 million acquisition of Rhead Group in August 2015 which has been fully integrated within the Group. The success of our strategy of partnering with our blue-chip clients is reflected in the exceptional level of our repeat business – over 90% of our order book is with existing clients. Performance against the strategic priorities is set out on pages 24 to 29 of the Strategic report.

The 2015 AIP was subject to a mixture of financial and non-financial performance metrics aligned with the key strategic priorities underpinning our *'Engineering Tomorrow'* strategy. Based on the adjusted 2015 EBITA of £33.1 million and taking into account performance in the year against the other AIP performance metrics, the Chief Executive and Finance Director will receive 79.8% and 80.3% of their maximum AIP opportunity respectively. Further details are set out on page 84.

The LTIP award granted on 07 May 2013 is due to vest in May 2016 (subject to the Committee's determination that the performance conditions have been met) at 50% of maximum. This vesting is based on the delivery of EPS targets as set out on page 85 and reflects the sustained level of performance delivered in the business over the three-year period to 31 December 2015.

Remuneration policy

We have not made any changes to our remuneration policy and we continue to take a disciplined approach to execution to ensure that our remuneration framework rewards the right behaviours and supports the goals of our *'Engineering Tomorrow'* strategy.

The following is an overview of how our remuneration policy supports the strategic priorities of the business:

Health and Safety remains our highest priority	• AIP includes a Health and Safety performance metric.
Encourage behaviours which facilitate the delivery of innovative and sustainable solutions to increasingly complex and large-scale national needs, to ensure we remain competitive and continue to deliver shareholder value	• Performance targets are set to reward sustainable business performance, whilst not encouraging inappropriate business risks to be taken. • AIP performance metrics aim to balance earnings growth and other key financial objectives with non-financial indicators. • One-third of any AIP award earned is deferred into shares to ensure that executives consider the longer-term impacts of their decisions and the effect on the sustainability of the business. • Our LTIP captures long-term growth in earnings. An additional two years' deferral on 50% of LTIP awards which vest, further supports longer-term alignment between executives and shareholders.
Develop a best-in-class team	• Our remuneration policy is designed to attract and retain high-calibre individuals in an increasingly competitive market and to remunerate executives fairly and responsibly.

Definitions used in this report

AIP: Annual Incentive Plan

DSBP: Deferred Share Bonus Plan

EBITA: Earnings Before Interest, Tax and Amortisation as adjusted by the Remuneration Committee to take account of relevant events (such as acquisitions or disposals) and ensure that the performance measures are assessed on a consistent basis year-to-year

EPS: Earnings Per Share as adjusted by the Remuneration Committee to take account of relevant events (such as acquisitions or disposals) and ensure that the performance measures are assessed on a consistent basis year-to-year

LTIP: Long-Term Incentive Plan

SDP: Share Deferral Plan

Reward for 2016

We have reduced the number of measures under the AIP to simplify the plan and reinforce the messages around the key underlying measures which support the execution of our strategy; continuing to improve our Health and Safety performance, delivering Group profit, building a profitable order book, cash management and the delivery of critical project and corporate activities which are the personal responsibility of our Executive Directors. Further details are set out on page 87.

We approved salary increases for the Executive Directors of 2.5% with effect from 01 April 2016 after carefully considering their performance and the range of salary increases awarded to other employees.

The Board carried out a review of Non-Executive Director fees in February 2016, taking into account the responsibilities and time commitments of the roles, whilst also having regard to market positioning. Fees have not been increased since 01 April 2014. It was decided that, with effect from 01 April 2016, the Non-Executive Directors' basic fee would be increased by 2.4% as detailed on page 87 of this report.

In November 2015, the Company announced that after 14 years as a Non-Executive Director, including the last seven as Chairman, David Allvey intends to retire from the Board during the course of 2016. The fees for the new Chairman will be set in line with the Remuneration Policy and will be disclosed in next year's Directors' Remuneration report.

Conclusion

The Policy report approved at our 2014 AGM remains in force and we have therefore published the Policy table but not the full Policy section. The Policy report in its entirety is available in the 2013 Annual Report on our website.

Overall, given the Company's performance over the one- and three-year periods to the end of the 2015 financial year, we believe that the remuneration of the Executive Directors in respect of 2015 continues to reflect our success in the delivery of our *'Engineering Tomorrow'* strategy and the drive for profitable and sustainable long-term growth for our shareholders. The following pages describe in further detail how we have implemented our remuneration policy in respect of 2015, together with our approach for 2016.

Alison Wood
Chairman of the Remuneration Committee
01 March 2016

At a glance summary: Executive Directors' remuneration

Salary increases of 2.5% per annum from 01 April 2016.

2015 AIP outcome of 79.8% (Chief Executive) and 80.3% (Finance Director) of maximum (see page 84).

One third of the amount earned under the 2015 AIP deferred in shares for two years (see page 84).

Vesting of the 2013 LTIP at 50% of maximum, supported by aggregate adjusted EPS of 92.56 pence over the performance period (see page 85).

The number of measures under the AIP has been reduced and simplified to reinforce the key messages of our strategy and the fundamental expectations on performance for the period to 31 December 2016 (see page 87).

Remuneration disclosure

This report, approved by the Board, has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

It is unaudited unless otherwise stated. In this report we describe how the principles of good governance relating to Directors' remuneration, as set out in the UK Corporate Governance Code published in 2014 (the Code), are applied in practice. The Remuneration Committee (the Committee) confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.

The report is in two sections:

- Extract from the Policy report (pages 79 to 81). This section contains the Policy table summarising the remuneration policy approved at the 2014 AGM and is for information only.
- The Annual Report on Remuneration (pages 82 to 94). This section sets out details of how our remuneration policy was implemented for the year ended 31 December 2015 and how we intend for the policy to apply for the year ended 31 December 2016 and is the subject of an advisory shareholder vote at the 2016 AGM.

Extract from the Policy report

The Company's policy on the remuneration of its Directors was approved by shareholders under a binding vote at the AGM on 07 May 2014 and will apply until replaced by a new or amended policy. We have set out below the policy table (but with certain date specific references updated) and the full policy is available in the 2013 Annual Report on the Company's website at **costain.com**.

Remuneration policy for Executive Directors is set out below.

Element	Purpose and link to strategy	Operation	Maximum opportunity

Salary	• To attract and retain high-calibre individuals.
	• Reflects skills, experience over time.
	• Provides an appropriate level of basic fixed income whilst avoiding excessive risk arising from over-reliance on variable income.
		• Generally reviewed annually (with any change effective 01 April) but exceptionally at other times of the year.
		• Set with reference to individual performance, experience and responsibilities.
		• Reflects the market rate for the individual and their role, determined with reference to remuneration levels in companies of similar size and complexity, taking into account pay levels within the Company in general.
		• Higher increases may be appropriate where an individual is promoted, changes role or where an individual is appointed on a below-market salary with the expectation that his salary will increase with experience and performance.
			• Salaries to apply for the year from 01 April 2016 are:
			  • Chief Executive: £459,363
			  • Finance Director: £304,329
			• There is no maximum salary value.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Annual Incentive Plan (AIP)	• To incentivise the achievement of key financial and strategic targets for the forthcoming year without encouraging excessive risk taking. • Promotes greater alignment with shareholders. • To facilitate share ownership.	• The Committee considers and approves the measures and targets at the start of each year and ensures they are aligned with business strategy and are sufficiently stretching. • Financial metrics comprise at least three quarters of AIP opportunity, of which at least half will be a measure of Group profit. • In addition to these financial metrics, the AIP includes Health and Safety targets and personal objectives. • In setting financial parameters, the Committee takes into account the Company's internal budgets and, where applicable, investors' expectations. The targets applying to financial measures are based on a sliding scale. • Two thirds paid in cash. • Not pensionable. • Deferral into shares of one third of earned AIP; this vests on the second anniversary of grant (subject to continued employment and not being under notice of termination, either given or received, on the date of vesting). • Shares provided under the AIP are typically purchased by a trust on behalf of the Group so as to not lead to any dilution of shareholder interest. • Awards may be subject to clawback if the Committee becomes aware of a material misstatement to the audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant.	• Maximum: 150% of salary. • There is no minimum opportunity.
Long-Term Incentive Plan (LTIP)	• Aligned to main strategic objectives of delivering sustainable profit growth which in turn should deliver enhanced returns.	• Annual grant of performance shares, half of which vest after three years subject to continued service and performance targets, and half of which vest after five years (the final two years being subject only to continued service). • LTIP performance is measured over three years. • The performance condition consists of a measure of EPS over a three-year period, starting with the year of grant. • Awards may be subject to clawback if the Committee becomes aware of a material misstatement to the audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant.	• LTIP awards with a face value of not more than 100% of salary. • Amount that is paid for achievement of threshold performance: 15% of the maximum.
SAYE Scheme	• Offered to all eligible UK employees, to facilitate share ownership and provide further alignment with shareholders.	• Periodic grants which normally vest after three or five years subject to continued service.	• Executive Directors are eligible to participate in the SAYE Scheme on the same terms as other employees.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Pension	• To aid retention and remain competitive in the marketplace.	• Annual pension allowance. • Paid as a cash contribution to the Defined Contribution pension scheme and/or a cash supplement.	• Allowance up to 22% of base salary.
Other benefit	• To aid retention and be competitive in the marketplace. • Healthcare benefits in order to minimise business disruption.	• Company car and fuel (or car allowance). • Medical insurance. • Life assurance.	• N/A.
Share ownership guidelines	• Further alignment of interests between Costain Board and shareholders.	• Executive Directors are required to build and maintain a shareholding worth not less than 100% of base salary through the retention of vested share awards or through open-market purchases.	• N/A.

Notes

The choice of the performance metrics applicable to the AIP reflects the Committee's aim that our annual incentives should balance the delivery of earnings growth and other key financial objectives with non-financial indicators, particularly Health and Safety targets, and specific individual objectives. The LTIP captures long-term growth in earnings, which we believe is most closely aligned with the financial performance expected by our shareholders.

The quantum of salary, benefits and incentive packages of Executives (and senior management) are set with reference to market comparatives and the impact of an individual's role. Employees below Executive level receive packages that are reflective of their role and typically have less emphasis on variable, performance-related pay than for Executive Directors. Long-term incentives are provided only for the most senior executives who, it is anticipated, have the greatest potential to influence the overall performance of the Company.

Remuneration policy for Chairman and Non-Executive Directors is set out below.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	• Attract and retain high-performing individuals.	• Remuneration for Non-Executive Directors, other than the Chairman, is determined by the Board, following consultation between the Chairman and the Chief Executive. The Chairman's fee is determined by the Board following consultation between the Committee and the Chief Executive. Fees are reviewed annually and any increase is effective from 01 April. • Remuneration for Non-Executive Directors, other than the Chairman, comprises a basic annual fee for acting as Non-Executive Director of the Company and additional fees for the Senior Independent Director, and chairmanship of the Audit and Remuneration Committees.	• N/A.
Share ownership guidelines	• Alignment of interests between Costain Board and shareholders.	• Non-Executive Directors are required to build and maintain a shareholding worth not less than 100% of their annual fee.	• N/A.

Annual Report on Remuneration

Operation of Committee

The Committee is comprised exclusively of independent Non-Executive Directors. The members of the Committee and details of their attendance at Committee meetings are given on page 62. Biographies are shown on pages 58 and 59. The Committee is chaired by Alison Wood.

Terms of reference

The Committee's terms of reference are available on the Company's website at **costain.com** or from the Company Secretary. Copies of the letters appointing the Committee's advisers can be obtained from the Company Secretary.

Remuneration Committee activity

The following table sets out the key remuneration issues which the Committee covered at each of the meetings over the course of the year.

Date	Key agenda items
06 February 2015	Approved the methodology to be used to determine the extent that EPS and operating profit performance conditions have been met with regard to the LTIP granted in 2012
	Approved the 2014 AIP annual cash bonuses subject to final audit of the 2014 accounts
	Approved the Chairman's and Non-Executive Directors' fees for 2015
	Reviewed the Directors' Remuneration report
09 March 2015	Granted awards under the LTIP
	Approved the vesting of the 2012 LTIP
	Granted awards under the SDP relating to the 2014 year end AIP bonus
	Noted the vesting of the 2013 DSBP
14 August 2015 (Concept Meeting)	Reviewed the overall structure of the AIP performance measures
	Reviewed the Company's Share Ownership Guidelines
16 December 2015	Approved the performance targets in respect of the proposed 2016 LTIP
	Reviewed the proposed 2016 AIP performance measures and list of participants
	Reviewed the proposed 2016 annual salary increases for the Executive Directors, Executive Committee and the wider workforce

Advice provided to the Committee

Advice was sought where appropriate from a number of sources. During the course of the year, the Chief Executive, the Finance Director, the Group's Chairman, the Group HR Director, and the Legal Director and Company Secretary were invited to attend various meetings of the Committee, although none was present when their own remuneration was being discussed.

To assist the Committee in ensuring that the Company's remuneration practices take due account of market and best practice, the Committee has access to experienced specialist independent consultants. During the year, the Committee took advice, as appropriate, from Deloitte LLP (a member firm of Deloitte Touche Tohmatsu Limited).

It is the policy of the Committee to put the remuneration consultant function out to tender on a periodic basis to ensure that the Company continues to receive independent support and advice of a high standard. Following a tender process in 2014 by the Committee, Deloitte LLP was appointed in place of New Bridge Street (a trading name of Aon Hewitt Limited) to act as the Company's remuneration consultants. Deloitte LLP received fees of £31,320 for the year ended 31 December 2015.

Deloitte LLP is a founder signatory to the Remuneration Consulting Group's Code of Conduct and is considered by the Committee to be independent. During the year, Deloitte LLP also provided advice to the Company in relation to the operation of the Company's share plans.

Voting on the remuneration report at the AGM in 2015

Last year's remuneration report was approved by shareholders with a 99.26% (2014 AGM: 99.64%) vote in favour (including discretionary votes).

Implementation of Policy in the year to 31 December 2015

Single Total Figure of remuneration for each Director

This table and the associated footnotes have been audited by KPMG LLP.

	2015						2014					
	Salary & Fees £	Taxable Benefit £	Pension* £	Annual Incentive £	LTIP** £	Total £	Salary & Fees £	Taxable Benefits £	Pension £	Annual Incentive £	LTIP*** £	Total £
Executive Directors												
A Wyllie	445,426	13,346	97,994	536,446	321,169	1,414,381	434,562	13,275	95,603	469,583	365,907	1,378,930
A O Bickerstaff	295,095	11,846	64,921	357,623	213,773	943,258	287,898	11,775	63,337	327,176	242,413	932,599
Chairman												
D P Allvey	136,056	–	–	–	–	136,056	135,226	–	–	–	–	135,226
Non-Executive Directors												
J A Lodge	53,046	–	–	–	–	53,046	52,722	–	–	–	–	52,722
D McManus[1]	43,937	–	–	–	–	43,937	28,165	–	–	–	–	28,165
J Morley	50,367	–	–	–	–	50,367	50,060	–	–	–	–	50,060
A J Wood[2]	50,367	–	–	–	–	50,367	44,919	–	–	–	–	44,919
M R Alexander[3] (former Director)	–	–	–	–	–	–	12,285	–	–	–	–	12,285
A Samy[4] (former Director)	30,643	–	–	–	–	30,643	43,669	–	–	–	–	43,669

* A pension contribution of £40,000 was paid to Andrew Wyllie's chosen pension arrangement and the balance was paid to him directly as a taxable benefit. The amount quoted for Anthony Bickerstaff was paid to him directly as a taxable benefit.

** The value of the 2013 LTIP which is due to vest in 2016 is subject to the Committee's determination (see Note (c) below).

*** Based on the share price as at the date of vesting, being 328.87 pence per share.

1 Appointed as a Non-Executive Director w.e.f. 12 May 2014.

2 Appointed as a Non-Executive Director w.e.f. 01 February 2014 and as Chairman of the Remuneration Committee w.e.f. 01 April 2014.

3 Retired as a Non-Executive Director w.e.f. 31 March 2014.

4 Retired as a Non-Executive Director w.e.f. 10 September 2015.

Additional Notes to the single total figure of remuneration

(a) Taxable benefits provided to Executive Directors

The main benefits available to the Executive Directors during 2015 (and their approximate values) were a car allowance of £12,000 (2014: £12,000) for Andrew Wyllie and £10,500 (2014: £10,500) for Anthony Bickerstaff, together with private medical insurance for both Executive Directors of £1,346 (2014: £1,275). This package of benefits was unchanged from 2014.

(b) Determination of the 2015 Annual Incentive

The combined maximum AIP opportunity for the Chief Executive and the Finance Director for the year ended 31 December 2015 remained unchanged from 2014 at 150% of base salary, with one third of the earned AIP award to be deferred into shares for a further two years and two thirds of the earned AIP award paid in cash. Grants will be made under the SDP in April 2016.

The performance measures established by the Committee for the 2015 AIP continued to align reward with the Company's *'Engineering Tomorrow'* strategy whilst not encouraging inappropriate business risks to be taken. These included inter alia a maximum measure of £35.5 million for Group EBITA[1].

The achievement of the performance measures has been reviewed, with appropriate input from the Audit Committee, following the end of the 2015 financial year. The maximum 2015 AIP opportunity against each of the performance measures is shown below, together with the AIP award actually achieved.

The Committee is satisfied that these measures remain aligned with the execution and delivery of the Company's strategy.

Performance measures	AIP opportunity – maximum percentage of bonus		Actual performance	AIP award – as a percentage of bonus		AIP performance measure –	
	Andrew Wyllie	Anthony Bickerstaff		Andrew Wyllie	Anthony Bickerstaff	Threshold	Maximum
Group EBITA[1]	60%	60%	£33.1m	42%	42%	£29.1m	£35.5m
Group Cost Control	6%	6%	+	4.3%	4.3%	+	+
Group Health and Safety[2]	10%	10%	AFR 0.08	10%	10%	0.08	0.08
Order Book Contract Profit	6%	4%	+	6%	4%	+	+
Total Order Book	6%	n/a	£3.9bn	5.5%	n/a	£3.2bn	£4.0bn
Cash Balance[3]	6%	4%	£149.1m	6%	4%	£95.9m	£117.2m
Corporate Activities	n/a	10%	+	n/a	10%	+	+
Personal Performance[4]	6%	6%	n/a	6%	6%	n/a	n/a
Total	100%	100%	n/a	79.8%	80.3%	n/a	n/a

1 Calculated on an adjusted basis as approved by the Committee.

2 Includes leadership of Health and Safety engagement and culture.

3 Measured pre-acquisition and investments.

4 Includes the development of the senior leadership team and personal development activities, e.g. academic studies, work with professional bodies/institutions.

+ The Committee has determined that these particular performance measures remain commercially sensitive and, as such, has chosen not to disclose them as they provide our competitors with insight into our business plans.

(c) Vesting of the 07 May 2013 LTIP award

The LTIP award granted on 07 May 2013 was based on performance to the year ended 31 December 2015 and is due to vest in May 2016, subject to the Committee's determination that the performance conditions have been met.

This award has two performance conditions:

Aggregate EPS[1] for the financial years ended 31 December 2013, 2014 and 2015	Vesting level (for 50% of the award)
Below 80.48 pence	0%
80.48 pence	15%
Between 80.48 pence and 90.73 pence	15% – 100% pro rata
90.73 pence or more	100%

Operating profit for the financial year ended 31 December 2015	Vesting level (for 50% of the award)
Below £35m	0%
Between £35m and £42m	0% – 50% pro rata
£42m	50%
Between £42m and £50m	50% – 100% pro rata
£50m	100%

1 As adjusted following the capital raising in March 2014.

In addition, the Committee agreed that no element of the award relating to the Operating Profit shall vest unless an EPS underpin has been met which requires that the aggregate EPS performance condition as shown above is met in full and that the EPS for the financial year ending 31 December 2015 is at least 33.84 pence (as adjusted following the capital raising in March 2014).

For the purposes of the LTIP, EPS is adjusted by the Committee to take account of relevant events (such as acquisitions or disposals) and ensure that the performance measures are assessed on a consistent basis year-to-year. EPS for the financial year ended 31 December 2015 calculated on an adjusted basis approved by the Committee was 25.63 pence and aggregate EPS for the financial years ended 31 December 2013, 2014 and 2015 (calculated on the same basis) was 92.56 pence. As a result, 100% of the element relating to aggregate EPS is due to vest (50% of the maximum award), and 0% of the element relating to Operating Profit is due to vest (50% of the maximum award). Therefore, 50% of the awards granted on 07 May 2013 are due to vest in May 2016 and are shown in the table below:

	Number of shares granted[1]	Number of shares due to vest[2]	Number of shares due to lapse	Dividends on shares due to vest	Total shares due to vest[2]	Estimated value[3]
Andrew Wyllie	175,502	87,751	87,751	–	87,751	£321,169
Anthony Bickerstaff	116,817	58,408	58,409	–	58,408	£213,773

1 As adjusted following the capital raising in March 2014.

2 Subject to the Committee's official determination that the performance conditions have been met and to any other adjustment.

3 Valued based on the average share price over the final three months of the financial year ended 31 December 2015, being 366 pence per share.

(d) Pensions and life assurance

Under their terms of engagement, the Executive Directors are entitled to an annual pension allowance of 22% of base salary. Life assurance cover of four times base salary is provided through the Costain Life Assurance Scheme. The annual premiums payable in respect of life assurance for Andrew Wyllie and Anthony Bickerstaff were £2,161 (2014: £2,016) and £1,432 (2014: £1,335) respectively.

The Group offers a Group Flexible Retirement Plan which was set up in 2009 with Standard Life for employees and senior management. Neither Executive Director participated in the scheme.

(e) Chairman

Remuneration for the Chairman comprises a basic annual fee which was maintained at £136,056 with effect from 01 April 2015 (01 April 2014: £136,056).

(f) Non-Executive Directors

Remuneration for Non-Executive Directors, other than the Chairman, comprises a basic annual fee for acting as a Non-Executive Director of the Company and additional fees for the Senior Independent Director and chairmanship of the Audit and Remuneration Committees. The annual fees set with effect from 01 April 2015 were as follows (being the same as the fees applying with effect from 01 April 2014):

2015 Fees	Basic Fee	Senior Independent Director	Audit Committee Chairman	Remuneration Committee Chairman
Fees	£43,937	£6,430	£9,109	£6,430

Grants made during the year

2015 LTIP Grant

Grants were made under the LTIP on 9 March 2015. The grant level for the Executive Directors remains at 100% of salary. Half of the award vests after three years, subject to continued service and performance conditions (as set out below), and the other half vests after five years (the final two years being subject only to continued service), thereby ensuring long-term alignment of the Executive Directors' and shareholders' interests.

Performance measures for the 2015 LTIP are as follows:

Aggregate EPS over the financial years ended 31 December 2015, 2016 and 2017	Vesting level
Below 83.9 pence	0%
83.9 pence	15%
96.9 pence or more	100%
Between 83.9 pence and 96.9 pence	Between 15% and 100% pro rata on a straight-line basis

The share awards granted under the 2015 LTIP are as follows:

	Number of shares	Face value[1]	End of performance period	Threshold vesting	Weighting (% of award)
Andrew Wyllie	141,710	£448,158	31 December 2017	15%	100%
Anthony Bickerstaff	93,883	£296,905	31 December 2017	15%	100%

1 Valued using the share price on the business day prior to the date of grant (06 March 2015), being 316.25 pence per share.

2015 SDP Grant

The Company granted awards under the Costain Share Deferral Plan to the Executive Directors during 2015, details of which are shown on page 93.

All-employee share plans

The Company granted options under the Costain SAYE scheme to the Executive Directors during 2015, details of which are shown on page 93.

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS OTHER INFORMATION

Implementation of Policy in the year to 31 December 2016

Salary

For 2016, the Committee approved a 2.5% increase for the Executive Directors, effective 01 April 2016. A 2.5% salary increase budget will also be applied across the Company in 2016. The results of the salary review are set out in the table below:

	Salary 2016	Salary 2015	% change
Andrew Wyllie	£459,363	£448,159	2.5%
Anthony Bickerstaff	£304,329	£296,906	2.5%

Non-Executive Director fees

Non-Executive Directors' fees have been increased with effect from 01 April 2016 as follows:

2016 Fees	Basic Fee	Senior Independent Director	Audit Committee Chairman	Remuneration Committee Chairman
Fees	£45,000	£6,600	£9,400	£7,000

2016 Annual Incentive

Executive Directors and other senior management are eligible for annual bonuses under the AIP to encourage improved performance, with targets established by the Committee to align rewards with the Company strategy. The targets were set at the end of December 2015/beginning of 2016 and are clearly aligned with the delivery of our *'Engineering Tomorrow'* strategy. Their achievement will be reviewed, with appropriate input from the Audit Committee, at the end of the year.

The combined maximum bonus opportunity for the Chief Executive and the Finance Director for the year ended 31 December 2016 will remain unchanged from 2015 at 150% of base salary, with one third of earned bonus deferred into shares for a further two years, to be awarded under the SDP, and two thirds of earned AIP paid in cash.

The performance measures for the 2016 AIP are as follows:

Performance Measures	2016 AIP Opportunity – Maximum Percentage of Bonus	
	Andrew Wyllie	Anthony Bickerstaff
Group EBITA	55%	55%
Group Health and Safety	10%	10%
Order Book	10%	10%
Cash Balance	10%	10%
Personal Performance	15%	15%
Total	100%	100%

The Committee has chosen not to disclose in advance the performance targets for the year ended 31 December 2016, as these include items which the Committee considers commercially sensitive. The Committee will continue to provide retrospective disclosure of certain performance targets in next year's Annual Report on Remuneration to the extent the Committee determines these measures are not commercially sensitive.

2016 LTIP Grant

The grant level for the Executive Directors remains at 100% of salary. Subject to the achievement of performance conditions as set out below, half of the award will vest after three years and the other half will vest after five years (the final two years being subject only to continued service), thereby ensuring long-term alignment of the Executive Directors' and shareholders' interests.

It is proposed that the targets for the 2016 LTIP awards will be as follows:

EPS performance condition

Sum of the EPS for the financial years ending 31 December 2016, 2017 and 2018	Vesting level for awards
Below 91.7 pence	0%
91.7 pence	15%
101.4 pence or more	100%
Between 91.7 pence and 101.4 pence	Between 15% and 100% pro rata on a straight-line basis

The Committee has the discretionary power to vary these EPS targets. It is anticipated that the 2016 LTIP awards will take place in April 2016.

The Committee believes that EPS remains the most appropriate metric to use under the LTIP, as growth in EPS is one of the key drivers of the Company's share price. As with previous LTIP awards, EPS for the awards that are due to be made in 2016 shall be calculated on an adjusted basis as determined by the Committee to take account of relevant events (such as acquisitions or disposals) and ensure that the performance measures are assessed on a consistent basis year-to-year.

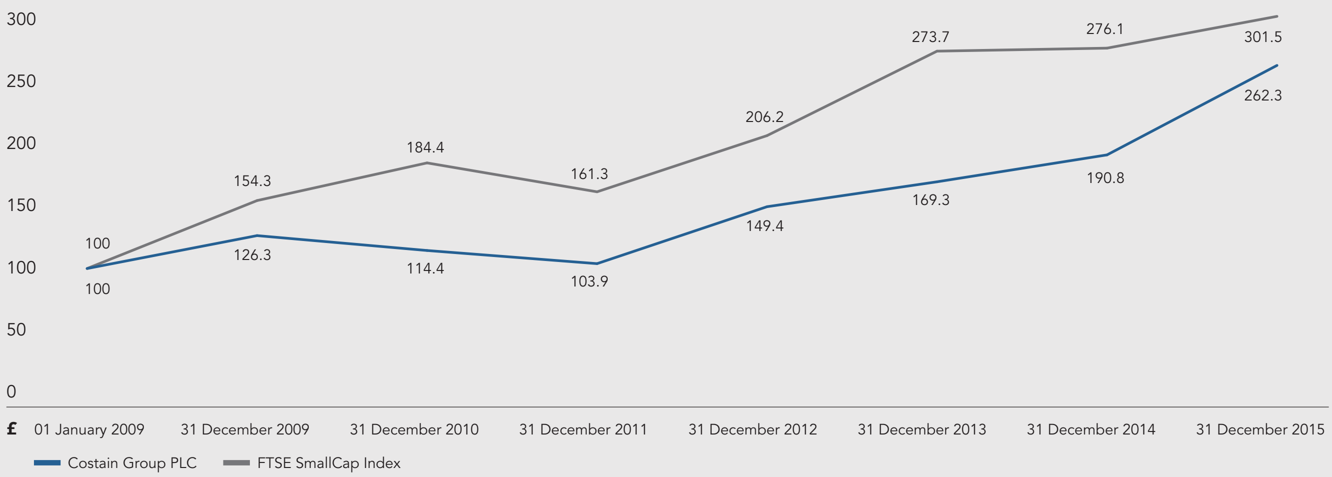
A clawback and malus provision is incorporated in the AIP and the LTIP (and the legacy DSBP) with regard to any material misstatement to audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant.

Other information

Performance graph

The graph below shows the value, by 31 December 2015, for £100 invested in Costain Group PLC on 01 January 2009 compared with the value of £100 invested in the FTSE SmallCap Index. The Committee believes that the SmallCap Index is a more appropriate index to use than the FTSE All-Share Index as it is the index in which the Company is a constituent and comprises companies of a more similar size to Costain.

Total shareholder return (from 01 January 2009)



Source: Thomson Reuters Datastream

Change in Chief Executive's remuneration

	Year ending 31 December						
	2015	2014	2013	2012	2011	2010	2009
Total remuneration	£1,414,381	£1,329,007	£1,251,239	£1,089,337	£1,228,332	£1,603,014	£887,814
AIP (%)	79.8%	71.6%	75%	55%	86%	94%	84%
LTIP vesting (%)	50%	50%	50%	100%	100%	96%	0%

Statement of change in pay of Chief Executive compared to other employees

The table below shows the movement in the remuneration for the Chief Executive between the current and previous financial year compared to the average (per head) for all employees.

	2015	2014	% change
Chief Executive			
– salary	£445,426	£434,562	2.50%
– benefits	£13,346	£13,275	0.53%
– bonus[1] (annual incentive)	£469,583	£482,017	-2.58%
Average per employee			
– salary[2]	£42,220	£41,705	1.23%
– benefits[3]	£4,653	£4,579	1.62%
– bonus[4] (annual incentive)	£3,482	£3,331	4.53%

1 Bonus figures for the Chief Executive are calculated on the basis of the combined cash bonus actually paid and the value of the share options that were granted under the DSBP and AIP during 2014 and 2015 (for the financial years ended 31 December 2013 and 2014 respectively).

2 Average salary for employees is calculated on the basis of the annual monthly UK salary bill divided by the average number of monthly paid UK employees.

3 Employee benefits are calculated based on the total cost to the Company of private medical insurances, life assurance, company cars and car allowances, averaged per head for monthly paid employees.

4 Bonus figures earned for 2015 for the whole Company are not yet available hence, for employees, the comparator figure is the total bonus payments made to monthly paid employees during 2014 and 2015 averaged per head.

Relative importance of spend on pay

The table below illustrates the change in expenditure by the Company on remuneration paid to all the employees of the Group and distributions to shareholders from the financial year ending 31 December 2014 to the financial year ending 31 December 2015.

	2015 £m	2014 £m	% change
Overall expenditure on pay	190.6	162.1	17.6%[1]
Dividend	10.2	8.4[2]	21.4%

1 Increase primarily due to circa 10% increase in average headcount including the increase in the number of employees following the acquisition of Rhead Group in August 2015.

2 In March 2014, the Group raised net proceeds of £70.3 million by way of a Firm Placing and Placing and Open Offer of 33,382,068 new ordinary shares and amended its dividend policy resulting in an increase in the total dividend payment.

These matters were selected to be shown as they represent key distributions by the Group to its stakeholders.

Directors' appointment

The dates of each of the Director's original appointment and expiry of current term are as follows:

Director	Date of original appointment	Expiry of current term[1]
Andrew Wyllie	25 April 2005	Terminable on 12 months' notice
Anthony Bickerstaff	03 March 2006	Terminable on 12 months' notice
David Allvey	01 November 2001	Close of 2016 AGM
James Morley	09 January 2008	Close of 2017 AGM
Jane Lodge	01 August 2012	01 August 2018
Alison Wood	01 February 2014	01 February 2017
David McManus	12 May 2014	12 May 2017

1 Expiry of Current Term is subject to:
(a) the appointment of an independent Non-Executive Director can be terminated by reasonable notice on either side (of not less than one month);

(b) re-election is required at the AGM following their appointment, subsequent re-election at intervals of no more than three years and, for Non-Executive Directors, re-election at each AGM if having served on the Board for more than nine years, in accordance with the Code and the Company's Articles of Association. David Allvey, Anthony Bickerstaff and Jane Lodge are the Directors who are due to offer themselves for re-election at the 2016 AGM.

External directorships

Andrew Wyllie was appointed as a Non-Executive Director of Scottish Water on 07 April 2009 and, in respect of the appointment for the year ended 31 December 2015, he was paid £20,208 (2014: £20,016). Anthony Bickerstaff was appointed as a Non-Executive Director and Chair of the Audit Committee of Low Carbon Contracts Company Limited and Electricity Settlements Company Limited on 11 November 2014 and, in respect of the appointment for the year ended 31 December 2015, he was paid £31,000 (2014: £4,253). The Executive Directors have retained these fees in accordance with the policy set out in the Policy report.

Share awards under the legacy Deferred Share Bonus Plan (DSBP)

Under the legacy DSBP, deferred bonus awards were granted in the following two forms:

i. an option with a nil exercise price over a fixed value of shares (the Combined Deferred Award), which is granted in combination with an HMRC approved market value option over a fixed number of shares (the Option) – this applies to an individual maximum of £30,000; and

ii. an option with a nil exercise price over a fixed number of shares (Deferred Award).

Details of the Executive Directors' participation in the DSBP are as follows:

Executive	Date granted	Balance at 01 January 2015	Granted during year	Share price at date of grant	Vested during year	Market price at date of vesting	Market price at date of exercise	Amount realised on exercise (excluding deduction of tax)	Balance at 31 December 2015	Actual/ expected vesting date
Andrew Wyllie	03.04.13	39,122[*1]	–	259p[*]	40,486[2]	315p	315p		–	April 2015
		11,576[*3] (£29,981)[*]	–		11,576 (£29,981)			£86,915	–	
		11,576[*4]	–		11,576				–	
	31.03.14	61,778[1]	–	290p	–	–	–	–	61,778	March 2016
Anthony Bickerstaff	03.04.13	21,918[*1]	–	259p[*]	22,682[2]	315p	315p		–	April 2015
		11,576[*3] (£29,981)[*]	–		11,576 (£29,981)			£57,191	–	
		11,576[*4]	–		11,576				–	
	31.03.14	40,928[1]	–	290p	–	–	–	–	40,928	March 2016

* As adjusted following the capital raising in March 2014.

1 Number of shares under the Deferred Award.

2 In addition, Andrew Wyllie and Anthony Bickerstaff received 1,364 and 764 dividend shares respectively upon vesting.

3 Maximum number and value of shares under the Combined Deferred Award.

4 Number of shares under the Option.

The value of the shares under the Combined Deferred Award and the Option are equal. The Combined Deferred Award and the Option must normally be exercised at the same time. When calculating the maximum value of the shares under a Deferred Award that may be granted under the terms of the DSBP, the value of the shares under the Option is not counted.

All of the awards become exercisable on the second anniversary of the date of grant subject to the continued employment of the participant. The value of the shares delivered under the Combined Deferred Award on exercise is the same as the value of the shares under that award at the time of grant. The number of shares under the Deferred Award and Option at grant will be delivered to the participants on exercise. To the extent that all or any part of an award becomes exercisable, it remains, subject to the DSBP Rules, exercisable until the tenth anniversary of the date of grant.

Share awards under the Long-Term Incentive Plan (LTIP)

Details of the Executive Directors' participation in the LTIP are as follows:

Executive	Date granted	Balance at 01 January 2015	Granted during year	Share price at date of grant	Vested during year	Market price at date of vesting	Market price at date of exercise	Lapsed during year	Amount realised on exercise (excluding deduction of tax)	Balance at 31 December 2015	Actual/ expected vesting date
Andrew Wyllie	09.05.12[1]	222,524*	–	187p*	111,262	328p	328.87p	111,262	£365,907	–	May 2015
	07.05.13[2]	175,502*	–	241p*	–	–	–	–	–	175,502	May 2016
	07.05.14[3]	164,467	–	265p	–	–	–	–	–	164,467	May 2017–2019
	09.03.15[4]	–	141,710	316p	–	–	–	–	–	141,710	March 2018–2020
Anthony Bickerstaff	09.05.12[1]	147,422*	–	187p*	73,711	328p	328.87p	73,711	£242,413	–	May 2015
	07.05.13[2]	116,817*	–	241p*	–	–	–	–	–	116,817	May 2016
	07.05.14[3]	108,959	–	265p	–	–	–	–	–	108,959	May 2017–2019
	09.03.15[4]	–	93,883	316p	–	–	–	–	–	93,883	March 2018–2020

1 50% of the award (Tier 1) was subject to an aggregate EPS target for the financial years ended 31 December 2012, 2013 and 2014 of 81.66* pence (15% vests) to EPS of 90.73* pence (100% vests) on a sliding scale between 15% and 100% pro rata to the EPS actually achieved. The remaining 50% of the award (Tier 2) was based on operating profit for the financial year ending 31 December 2014 of £29.6 million (15% vests) to £37 million (50% vests) to £44.4 million (100% vests) on a sliding scale pro rata to the operating profit actually achieved. In addition, no element of the Tier 2 award would vest unless the EPS (before pension interest) for the financial year ended 31 December 2014 was at least 32.21* pence and Tier 1 has vested in full. 50% of the target was met.

2 50% of the award (Tier 1) was subject to an aggregate EPS target for the financial years ended 31 December 2013, 2014 and 2015 of 80.48* pence (15% vests) to EPS of 90.73 pence (100% vests) on a sliding scale between 15% and 100% pro rata to the EPS actually achieved. The remaining 50% of the award (Tier 2) was based on operating profit for the financial year ending 31 December 2015 of £35 million (15% vests) to £42 million (50% vests) to £50 million (100% vests) on a sliding scale pro rata to the operating profit actually achieved. In addition, no element of the Tier 2 award would vest unless the EPS (before pension interest) for the financial year ended 31 December 2015 was at least 33.84* pence and Tier 1 had vested in full. Subject to the Committees' confirmation, 50% of the target has been met.

3 100% of the award is subject to an aggregate EPS target for the financial years ended 31 December 2014, 2015 and 2016 of 83.9 pence (15% vests) to EPS of 92.9 pence (100% vests) on a sliding scale between 15% and 100% pro rata to the EPS actually achieved. 50% of the award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2016, whilst the remaining 50% of the award will normally vest on the fifth anniversary of the date of grant (with no further performance conditions applying) provided the individual remains an employee or officer of the Company.

4 100% of the award is subject to an aggregate EPS target for the financial years ended 31 December 2015, 2016 and 2017 of 83.9 pence (15% vests) to EPS of 96.9 pence (100% vests) on a sliding scale between 15% and 100% pro rata to the EPS actually achieved. 50% of the award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2017, whilst the remaining 50% of the award will normally vest on the fifth anniversary of the date of grant (with no further performance conditions applying) provided the individual remains an employee or officer of the Company.

* As adjusted following the capital raising in March 2014.

The LTIP awards, which are expressed as options, have a nil exercise price. At 31 December 2015, the derived mid-market price of the ordinary shares in the Company, as advised by the Company's brokers, was 373.50 pence. The range of the share price of the ordinary shares during 2015 was 275 pence to 397 pence.

Share awards under the Share Deferral Plan (SDP)

Details of the Executive Directors' participation in the SDP are as follows:

Executive	Date granted	Balance at 01 January 2015	Granted during year	Share price at date of grant	Vested during year	Market price at date of vesting	Market price at date of exercise	Lapsed during year	Amount realised on exercise (excluding deduction of tax)	Balance at 31 December 2015	Actual/ expected vesting date
Andrew Wyllie	09.03.15	–	48,999[1]	316.25p	–	–	–	–	–	48,999	March 2017[2]
Anthony Bickerstaff	09.03.15	–	34,140[1]	316.25p	–	–	–	–	–	34,140	March 2017[2]

1 Awards under the SDP are structured as options with a nil exercise price.

2 Awards become exercisable on or around the second anniversary of the date of grant subject to the Rules of the SDP and the continued employment of the participants. To the extent that the awards become exercisable, they will remain exercisable until the tenth anniversary of the date of grant.

Share Options under the SAYE Scheme (SAYE)

Details of the Executive Directors' SAYE options are as follows:

Executive	Date granted	Balance at 01 January 2015	Granted during year	Exercise price	Exercised during year	Market price at date of exercise	Lapsed during year	Amount realised on vesting	Balance at 31 December 2015	Exercised/ Exercisable from/to
Andrew Wyllie	30.09.13	1,689*	–	206.55p*	–	–	–	–	1,689	Nov 2016–May 2017
	29.09.14	2,253	–	234.80p	–	–	–	–	2,253	Nov 2017–May 2018
	28.09.15	–	1,834	314.00p	–	–	–	–	1,834	Nov 2018–May 2019
Anthony Bickerstaff	30.09.13	1,689*	–	206.55p*	–	–	–	–	1,689	Nov 2016–May 2017
	29.09.14	2,253	–	234.80p	–	–	–	–	2,253	Nov 2017–May 2018
	28.09.15	–	1,834	314.00p	–	–	–	–	1,834	Nov 2018–May 2019

* As adjusted following the capital raising in March 2014.

Directors' shareholdings

Details of the Directors' share interests in the Company as at 31 December 2015 and, at the date of this report, are as follows:

Director	Beneficially owned	Outstanding DSBP awards	Outstanding SDP awards	Outstanding LTIP awards	Outstanding SAYE awards	Shareholding guidelines (% of salary/fee)	Actual Shareholding (% of salary/fee)
Andrew Wyllie	355,000	61,778	48,999	481,679	5,776	100%	185.95%
Anthony Bickerstaff	197,826	40,928	34,140	319,659	5,776	100%	153.80%
David Allvey[1]	23,313	–	–	–	–	100%	45.35%
James Morley	47,111	–	–	–	–	100%	202.29%
Jane Lodge	22,222	–	–	–	–	100%	89.52%
Alison Wood[2]	6,666	–	–	–	–	100%	29.78%
David McManus[3]	0	–	–	–	–	100%	0%

1 Part held by a connected person.

2 Appointed as a Non-Executive Director w.e.f. 01 February 2014.

3 Appointed as a Non-Executive Director w.e.f. 12 May 2014.

The Directors are required to build and maintain a shareholding worth not less than 100% of base salary/fee through the retention of vested share awards (for the Executive Directors) or through open market purchases.

DIRECTORS' REPORT

The Directors submit to the members their report and accounts of the Company for the year ended 31 December 2015.

The Governance reports on pages 57 to 94 and the Strategic report on pages 24 to 27 and pages 32 to 33 (with regard to information about employee involvement and greenhouse gas emissions) are also incorporated into this report by reference.

The Company has chosen to include the disclosure of likely future developments of the Company's business in the Strategic report.

Incorporation and constitution

Costain Group PLC is domiciled in England and incorporated in England and Wales under Company Number 1393773.

Profit and dividend payments

The profit after tax for the financial year ending 31 December 2015 amounted to £22.2 million (2014: £21.0 million). An interim dividend of 3.75 pence per share (2014: 3.25 pence) amounting to £3.9 million (2014: £3.2 million) was paid on 23 October 2015. A final dividend at the rate of 7.25 pence per share (2014: 6.25 pence) amounting to £7.4 million (2014: £6.3 million) will also be recommended to shareholders at the Annual General Meeting (AGM) to be held on 05 May 2016. If approved, the dividend will be paid on 20 May 2016 to shareholders registered at close of business on 15 April 2016.

Dividends and other distributions

The Company may, by ordinary resolution, from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Directors act in good faith, they are not liable for any loss that shareholders may suffer because a lawful dividend has been paid on other shares which rank equally with or behind their shares.

The Board may withhold payment of all or any part of any dividends or other monies payable in respect of the Company's shares from a person with a 0.25% interest in a class of the Company's shares if such a person has been served with a restriction notice after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

Share capital

The Company's share capital consists of ordinary shares with a nominal value of 50 pence each.

The issued share capital of the Company as at 31 December 2015 was £51,050,208.50, consisting of 102,100,417 ordinary shares of 50 pence each.

Further details of the share capital of the Company can be found in Note 21 on page 145.

The awards granted in May 2012 under the 2012 Long-Term Incentive Plan (LTIP) matured as at 31 December 2014 resulting in the vesting of awards in May 2015 over 689,042 ordinary shares of 50 pence each with a nil exercise price. Further details regarding the vesting of the 2012 LTIP awards can be found in the Directors' Remuneration report on page 92.

At the 2013 AGM, shareholders approved the renewal of the scrip dividend scheme which authorises the Directors to offer and allot ordinary shares in lieu of cash dividends to those shareholders who elect to participate in the scrip dividend. This authority was granted for a period of five years (until the conclusion of the 2018 Annual General Meeting) which at that time was in line with the guidelines of the Investment Association (IA), formerly the ABI. As the current IA guidelines now require renewal at least every three years, shareholder approval will be sought to renew the Directors' authority to offer a scrip dividend scheme at the 2016 AGM.

In May 2015, 129,149 ordinary shares of 50 pence each were allotted to shareholders in respect of the final dividend for 2014 and, in October 2015, 72,299 ordinary shares of 50 pence each were allotted to shareholders in respect of the interim dividend for 2015. Further information on the scrip dividend scheme is set out on page 156. Details about joining the scrip dividend scheme can also be found on the Company's website at **costain.com**.

Restrictions on transfer of securities

There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Disclosure and Transparency Rules of the Financial Conduct Authority (DTR3), whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities.

Major shareholders

As at 19 February 2016, the Company had been notified, including under the Disclosure and Transparency Rules issued by the Financial Conduct Authority (DTR5), of the following voting interests in its ordinary share capital:

Shareholder	Number of shares/ Voting rights	% of voting rights
UEM Group Berhad(i)	13,810,850	13.53
Miton Group plc	8,700,856	8.52
JO Hambro Capital Management Group Limited	6,223,696	6.10

(i) Shares are held by a nominee on behalf of this beneficial owner.

Rights and obligations attaching to shares

In accordance with the Articles of Association, the Company can issue shares with any rights or restrictions attached to them provided such rights or restrictions do not restrict any rights or restrictions attached to existing shares. These rights or restrictions can be decided either by ordinary resolutions passed by the shareholders or by the Directors as long as there is no conflict with any resolution passed by the shareholders. Subject to the Articles of Association, the Companies Act 2006 and other shareholders' rights, the issue of shares is at the disposal of the Board.

Powers in relation to the Company issuing or buying back its own shares

The Directors may only issue and buy back shares if authorised to do so by the Articles of Association or the shareholders in general meeting. At the Company's AGM held on 06 May 2015, shareholders granted an authority to the Directors to allot ordinary shares up to an aggregate nominal amount of £16.8 million. As this authority is due to expire on 05 May 2016, shareholders' approval will be sought to renew the Directors' authority to allot ordinary shares at the 2016 AGM, up to an aggregate nominal amount of £17,016,736. As at 31 December 2015, the only shares that had been allotted were in order to satisfy awards under employee share schemes and the scrip dividends. The Directors did not request authority to buy back any of the Company's shares at the last AGM in 2015 and they do not propose to do so at this year's AGM.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company. In accordance with an Undertaking entered into in October 1997, the Company's major shareholder, UEM Group Berhad, currently holding a 13.53% interest in the Company, is entitled to appoint a Non-Executive Director as long as it holds 7% of the aggregate nominal value of the then issued share capital of the Company. UEM Group Berhad has not taken advantage of this option since 04 December 2009.

Restrictions on voting

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him/her if any call or other sum then payable by him/her in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

The Company is not aware of any agreement between holders of securities that may result in restrictions of voting rights.

Employee Share Trust

As at 31 December 2015, ACS HR Solutions Share Plan Services (Guernsey) Limited, as Trustee of the Costain Group Employee Trust, held 0.33% of the issued share capital of the Company on trust for the benefit of those employees who exercise their share awards/options under the Company's Long-Term Incentive Plan, Deferred Share Bonus Plan, Share Deferral Plan and Save As You Earn Scheme (in respect of 'good leavers' who leave the employment of the Company before their contract matures). The Trustee does not exercise any right to vote or to receive a dividend in respect of this shareholding.

Powers of the Directors

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given to the Company by special resolution, the business of the Company will be managed by the Board, who may exercise all the powers of the Company. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Amendment of Articles of Association

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's shareholders. A copy of the Articles of Association is available on the Company's website at **costain.com**.

Political donations

No political donations were made during the year ended 31 December 2015 (2014: nil). The Company has a policy of not making donations to political organisations.

Directors' interests

No Director had any material interest in any contract of significance with the Group during the period under review. Details of Directors' emoluments and interests in shares in the Company, including any changes in interests during 2015, are contained in the Directors' Remuneration report, which appears on pages 77 to 94.

Independent auditors

It is proposed that KPMG LLP is reappointed as auditor of the Company and it will hold office from the conclusion of the AGM in May 2016 until the conclusion of the next general meeting at which the accounts are laid before the Company. See pages 73 and 74 of the Audit Committee report and the Notice of Annual General Meeting, available on the Company's website at **costain.com**, for further details.

Significant agreements – change of control

The Directors are not aware of any significant agreements to which the Company and/or any of its subsidiaries or associates are a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, save in respect of the Facility Agreements relating to the Company's banking and surety bonding facilities, which would become terminable upon a change of control. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment as a result of a successful takeover bid except that provisions of the Company's share schemes and plans may cause options and awards to be granted to employees under such schemes and plans to vest on a takeover.

Research and development

The Group is involved in research and development in all the sectors in which it operates. The Group's engineers and technical staff in these named sectors seek to develop and deliver technical advances. In undertaking certain elements of this research and development work, the Group is supported by arrangements with certain British universities and various technology specialists.

Greenhouse gas emissions

The Strategic report on pages 24 and 25 details the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013. This information is incorporated by reference into (and shall be deemed to form part of) this report.

Directors' indemnity

Costain Group PLC maintains liability insurance for its Directors and officers. There are no subsisting indemnities in favour of its Directors.

Appointment and replacement of Directors

Brief biographies of the present members of the Board are given on pages 58 to 59.

The Directors shall be not less than two and not more than 18 in number. The Company may by ordinary resolution vary the minimum and/or maximum number of Directors.

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company and is then eligible for reappointment.

At every AGM of the Company, any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGM and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself/herself for reappointment by the members.

The Board, or any Committee authorised by the Board, may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

The Company may by special resolution remove any Director before the expiration of his/her period of office. The office of a Director shall also be vacated under a number of situations which are set out in the Articles of Association of the Company. These include: a Director wishing to resign, being required to step down due to ill health, becoming bankrupt; or being prohibited by law from being a Director.

Employee information

The average number of employees within the Company and Group is shown in Note 5 to the financial statements on page 125.

Apart from ensuring that an individual has the ability to carry out a particular role, the Company does not discriminate in any way. The Company endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the Group. The Company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

The Company maintains a strong communication network and employees are encouraged to discuss with management matters of interest and issues affecting the day-to-day operations of the Group. Employees are kept informed of the financial and economic factors affecting the Company's performance, and other matters of concern to them as employees, through various means including regular updates from the Chief Executive and other senior managers and a Costain online news service. Employees also have the opportunity to provide feedback and ask questions at the annual staff road shows which take place around the country. Further details of the actions taken to introduce, maintain or develop arrangements aimed at employees are described in the Corporate Responsibility review on pages 32 and 33.

Essential contracts or other arrangements

Given the scope and diversity of the Company's activities, the Company does not consider that it has contractual or other arrangements which are essential to the business of the Group and which are required to be disclosed.

Disclosure of information to auditor

The Directors confirm that, so far as they are aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the Company's External Auditor is unaware and that each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's External Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By Order of the Board

T. Wood

Tracey Wood
Company Secretary
01 March 2016

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration report and accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law, the Directors are required to prepare the Group and Company accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Under Company law, the Directors must not approve the financial statements unless they are satisfied that these give a true and fair view of the state of affairs of the Group and the Company and of their profit or loss for that period.

In preparing each of the Group and the Company accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the accounts and the Director's Remuneration report comply with the Companies Act 2006 and as regards the Group accounts, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' Remuneration report and Corporate Governance statement that comply with that law and those regulations.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Directors consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

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 IFRSs as adopted by the EU, 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.

On behalf of the Board

David Allvey
Chairman
01 March 2016

Andrew Wyllie
Chief Executive
01 March 2016

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Costain Group PLC for the year ended 31 December 2015 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and Expense, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statement and related notes. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Contract accounting estimates

Refer to page 71 (Audit Committee report), pages 114 to 120 (accounting policies).

- *The Risk:* The Group recognises revenue and profit in accordance with IAS 11 based on the stage of completion of contracts which is assessed with reference to the proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total costs of the contract at completion. The recognition of revenue and profit therefore relies on estimates in relation to the final out-turn of costs on each contract. Changes to these estimates could give rise to material variances in the amount of revenue and profit/loss recognised. Cost contingencies may also be included in these estimates to take account of specific uncertain risks, or disputed claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and adjusted where appropriate. The revenue on contracts may also include variations and claims. Variations and claims are recognised on a contract-by-contract basis when the Group believes it is probable that the amount will be recovered from the customer and the amount can be measured reliably. In limited circumstances, recoveries from insurers are assumed where sufficient progress has been made to meet accounting recognition requirements. Therefore there is a high degree of risk and associated management judgement in: estimating the amount of revenue to be recognised by the Group with respect to the final out-turn on contracts; assessing the level of the contingencies; and recognising receipt of variations, claims and insurance recoveries.
- *Our response:* Using a variety of quantitative and qualitative criteria we selected a sample of contracts to assess and challenge the most significant and complex contract estimates. We obtained the detailed project management review papers from the Group to support the estimates made and challenged the judgements underlying those papers with senior operational, commercial and financial management. In this area our audit procedures included:
  - evaluating the financial performance of contracts against budget and historical trends;
  - completing site visits to certain higher risk or larger value contracts, physically inspecting the stage of completion of individual projects and identifying areas of complexity through observation and discussion with site personnel;
  - challenging the Group's judgement in respect of forecast contract out-turn, contingencies, settlements and the recoverability of contract balances via agreement to third-party certifications and confirmations and with reference to our own assessments, historical outcomes and industry norms;
  - analysing correspondence with customers around variations and claims and considering whether this information is consistent with the estimates made by the Group;
  - analysing correspondence and meeting minutes with insurers around recognised insurance claims, analysing assessments of these claims undertaken by the insurer's legal or technical experts, if applicable, and considering whether this information supports the position taken on the contract;
  - inspecting selected contracts for key clauses, identifying relevant contractual mechanisms such as pain/gain shares, design bonuses, liquidated damages and success fees and assessing whether these key clauses have been appropriately reflected in the amounts recognised in the financial statements;
  - assessing whether the amounts recognised in the financial statements resulting from the estimates and assumptions made represent a balanced view of the risks and opportunities pertinent to each contract position;
  - considering whether provisions against contracts sufficiently reflect the level of risk, and challenging the Group's judgement in this area with reference to our own assessments; and
  - considering the adequacy of the Group's disclosures in respect of contract accounting and the key risks relating to these amounts.

Accounting for acquisitions

Refer to page 72 (Audit Committee report), pages 114 to 120 (accounting policies) and page 152 (financial disclosures).

- *The Risk:* During the year, the Group acquired the business of the Rhead Group Limited. Under the requirements of relevant accounting standards, the Group has assessed the fair value of the assets and liabilities acquired in this transaction and estimated the fair value of the contingent consideration payable. Due to the size of the acquisition (£36 million), and the inherent judgement involved in estimating the fair value of intangible assets, and contingent consideration, we considered these to be significant audit risks.
- *Our response:* In this area our audit procedures included, among others:
  - With respect to the valuation of intangible assets we challenged the assumptions and methodologies used by the Group to derive the fair value of the intangible assets. We were assisted by our valuation specialists and our procedures included discussing the approach taken with the Group and corroborating the explanations provided by comparing key assumptions to: market data; underlying accounting records; past performance of the acquired business; our past experience of similar transactions; and the Group's forecasts supporting the acquisition. We have also considered the adequacy of the disclosure of the fair value of intangible assets.
  - With respect to the contingent consideration, our work was focused on the forecast results of the acquired business which is the basis on which the estimate of the contingent consideration has been determined. The assumptions underlying those forecasts were compared with the historical trading performance of the acquired operation, results since the acquisition date, order book at year end, and the Group's planned development of the business.

As explained in Notes 13 and 25, during the year the Group exited its joint venture in Spain. The Group retained ownership of the marina, two golf courses and a small proportion of the land held for development. Ownership of the majority of the land for development was taken by its former joint venture partner. We have continued to perform audit procedures over the assets retained by the Group. However, following improvements in the trading performance of the marina and golf courses and stabilisation of the local property market there is a consequential reduced risk of impairment and we have not assessed this as one of the risks that had the greatest effect on our audit. Accordingly, it is not separately identified as a risk in our report this year.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group's financial statements as a whole was set at £1.45 million (2014: £1.4 million), determined with reference to a benchmark of Group profit before taxation and finance charges of £29.5 million of which it represents 4.9% (2014: 5.3%).

We report to the Audit Committee any corrected or uncorrected misstatements exceeding £72,500, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by component auditors at the key reporting components in Spain, Aberdeen and by the Group audit team at the Group's head offices. These procedures covered 99% of total Group revenue; 99% of Group profit before tax and 99% of total Group assets. The segment disclosures in Note 3 set out the individual significance of specific countries.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities. The audits undertaken for Group reporting purposes in Spain and Aberdeen were performed to a materiality level set by the Group audit team of £750,000, having regard to the size and risk profile of those components.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability statement on page 51, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three-year period to 31 December 2018; or
- the disclosures in Note 2 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 51, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance statement on page 61 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibility statement (set out on page 100), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at **www.kpmg.com/uk/auditscopeukco2014a**, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Andrew Marshall (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
01 March 2016

DEVELOPING NEW, INNOVATIVE AND IMPROVED WAYS OF WORKING

This project is a fantastic example of what can be achieved if you focus on innovative thinking and challenge everything you do to ensure that the output is as efficient as it possibly can be.

Anthony Voltz
Project Manager
Haslemere Water Treatment Works

CUSTOMER

Thames Water

PROJECT

Haslemere Water Treatment Works

THE CHALLENGE

Thames Water's Haslemere Water Treatment Works had been offline for 18 months because of potential water quality risks. The eight$_2$O team, of which Costain is a member, had to design and install an effective, compact, safe, environmentally-friendly and cost-effective method of returning the site to full production in time to meet the high summer peak demand period in 2015. This was just six months.

THE SOLUTION

The team opted to install Ultraviolet (UV) Plant technology, which deactivates microorganisms as they pass ultraviolet lamps submerged in the water. To meet the timescale challenge, the project required offsite manufacturing and assembly activities to happen concurrently with on-site civils works. The team adopted Costain's 'Factory Thinking' principles, where fabrication and components are integrated into one module in an offsite facility ready for delivery to the site. The team selected proven supply chain partners capable of achieving the milestones, ensuring the design input offsite was integral to the overall design.

THE VALUE WE CREATED

Our UV solution saved in excess of £2 million in capital expenditure compared to the filtration solution in Thames Water's business plan. By commissioning the new plant in time for the summer peak demand, the need for Thames Water to install temporary process equipment was eliminated, saving Thames Water approximately £500,000 of operational costs. The project was initially scheduled as a seven-month design and build programme, but the offsite construction method brought the delivery time down to less than five months, 30% lower than originally planned.

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	3	1,316.5	–	1,316.5	1,122.5	–	1,122.5
Less: Share of revenue of joint ventures and associates	13	(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	–	–	–	4.0	–	4.0
Share of results of joint ventures and associates	13	(0.1)	–	(0.1)	(1.3)	–	(1.3)
Profit from operations	3	33.1	(3.6)	29.5	31.4	(5.2)	26.2
Finance income	7	0.8	–	0.8	0.7	–	0.7
Finance expense	7	(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	3/4	29.9	(3.9)	26.0	28.5	(5.9)	22.6
Taxation	8	(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	9	25.1p	(3.3)p	21.8p	27.8p	(5.6)p	22.2p
Diluted	9	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 £m	2014 £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 FINANCIAL POSITION

AS AT 31 DECEMBER

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Intangible assets	11	52.3	31.0
Property, plant and equipment	12	37.3	10.0
Investments in equity accounted joint ventures	13	0.4	25.5
Investments in equity accounted associates	13	0.5	0.3
Loans to equity accounted associates	13	1.7	1.7
Other	14	8.2	31.8
Deferred tax	8	10.6	9.2
Total non-current assets		111.0	109.5
Current assets			
Inventories		2.9	1.3
Trade and other receivables	14	271.8	197.1
Cash and cash equivalents	15	146.7	148.5
Total current assets		421.4	346.9
Total assets		532.4	456.4
Equity			
Share capital	21	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	20	36.7	41.7
Other payables	18	2.8	4.5
Provisions for other liabilities and charges	19	0.1	0.1
Total non-current liabilities		39.6	46.3
Current liabilities			
Trade and other payables	18	329.0	296.3
Taxation	8	2.7	1.5
Interest bearing loans and borrowings	16	38.5	–
Provisions for other liabilities and charges	19	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

The financial statements were approved by the Board of Directors on 01 March 2016 and were signed on its behalf by:

A Wyllie
Director

A O Bickerstaff
Director

Registered number: 1393773

COMPANY
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

	Notes	2015 £m	2014 £m
Assets			
Non-current assets			
Investments in subsidiaries	13	102.5	100.1
Total non-current assets		102.5	100.1
Current assets			
Trade and other receivables	14	98.5	58.2
Cash and cash equivalents	15	0.1	10.2
Total current assets		98.6	68.4
Total assets		201.1	168.5
Equity			
Share capital	21	51.1	50.6
Share premium		6.2	5.5
Other reserves		16.6	14.2
Retained earnings		59.8	67.5
Total equity attributable to equity holders of the parent		133.7	137.8
Liabilities			
Non-current liabilities			
Provisions for other liabilities and charges	19	1.1	1.3
Total non-current liabilities		1.1	1.3
Current liabilities			
Trade and other payables	18	26.2	27.9
Taxation	8	1.5	1.5
Interest bearing loans and borrowings	16	38.5	–
Provisions for other liabilities and charges	19	0.1	–
Total current liabilities		66.3	29.4
Total liabilities		67.4	30.7
Total equity and liabilities		201.1	168.5

The financial statements were approved by the Board of Directors on 01 March 2016 and were signed on its behalf by:

A Wyllie
Director

A O Bickerstaff
Director

Registered number: 1393773

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 01 January 2014	33.4	4.7	4.8	(0.1)	–	0.5	43.3
Profit for the year	–	–	–	–	–	21.0	21.0
Other comprehensive (expense)/income	–	–	(2.0)	0.1	–	(14.2)	(16.1)
Issue of ordinary shares under employee share option plans	0.4	0.2	–	–	–	(0.3)	0.3
Issue of ordinary shares under capital raise (Note 21)	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 01 January 2015	50.6	5.5	2.8	–	–	51.9	110.8
Profit for the year	–	–	–	–	–	22.2	22.2
Other comprehensive expense	–	–	(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

There are no significant restrictions on the ability to remit overseas reserves.

Details of the nature of the above reserves are set out below.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company, as well as from the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Merger reserve

The capital raise in 2014 was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

COMPANY
STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Other reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 01 January 2014	33.4	4.7	12.0	–	21.9	72.0
Comprehensive income	–	–	–	–	0.7	0.7
Issue of ordinary shares under employee share option plans	0.4	0.2	–	–	(0.3)	0.3
Issue of ordinary shares under capital raise (Note 21)	16.7	–	–	53.6	–	70.3
Transfer	–	–	–	(53.6)	53.6	–
Equity-settled share-based payments granted to employees of subsidiaries	–	–	2.2	–	–	2.2
Dividends paid	0.1	0.6	–	–	(8.4)	(7.7)
At 31 December 2014	50.6	5.5	14.2	–	67.5	137.8
At 01 January 2015	**50.6**	**5.5**	**14.2**	**–**	**67.5**	**137.8**
Comprehensive income	**–**	**–**	**–**	**–**	**2.9**	**2.9**
Issue of ordinary shares under employee share option plans	**0.4**	**–**	**–**	**–**	**(0.4)**	**–**
Equity-settled share-based payments granted to employees of subsidiaries	**–**	**–**	**2.4**	**–**	**–**	**2.4**
Dividends paid	**0.1**	**0.7**	**–**	**–**	**(10.2)**	**(9.4)**
At 31 December 2015	**51.1**	**6.2**	**16.6**	**–**	**59.8**	**133.7**

Details of the nature of the above reserves are set out below.

Other reserve

The Company grants certain of its subsidiaries rights to its equity instruments as part of its share-based payment plan incentive schemes. The impact is recognised within this non-distributable reserve.

Merger reserve

The capital raise in 2014 was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

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	13	0.1	1.3
Finance income	7	(0.8)	(0.7)
Finance expense	7	4.3	4.3
Taxation	8	3.8	1.6
Profit on sales of interests in joint ventures and associates	4	–	(4.0)
Depreciation of property, plant and equipment	4	2.9	2.0
Amortisation of intangible assets	4	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	5	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 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	13	–	0.1
Additions to property, plant and equipment	12	(2.0)	(5.3)
Additions to intangible assets	11	(0.2)	(0.8)
Proceeds of disposal of property, plant and equipment		0.1	0.6
Additions to cost of investments	13	(1.0)	(1.7)
Repayment of loans to joint ventures and associates	13	–	0.1
Acquisition related deferred consideration	17	(5.4)	(3.3)
Acquisition of interest in joint operation		–	(2.4)
Acquisition of subsidiary (net of acquired cash and cash equivalents)	25	(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	10	(9.4)	(7.7)
Drawdown/(repayment) of revolving credit facility	16	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	15	148.5	82.7
Cash, cash equivalents and overdrafts at end of the year	15	146.7	148.5

COMPANY CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit for the year		2.9	0.7
Adjustments for:			
Finance income		(2.0)	(0.7)
Finance expense		–	0.1
Taxation		–	(0.4)
Cash from/(used by) operations before changes in working capital and provisions		0.9	(0.3)
Increase in receivables		(37.8)	(6.5)
Decrease in payables		(1.3)	(21.4)
Movement in provisions		(0.1)	(0.1)
Cash used by operations		(38.3)	(28.3)
Interest received		0.1	0.7
Interest paid		(2.5)	(0.1)
Net cash used by operating activities		(40.7)	(27.7)
Cash flows from investing activities			
Dividends received		1.5	–
Net cash from investing activities		1.5	–
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		–	70.6
Ordinary dividends paid	10	(9.4)	(7.7)
Drawdown/(repayment) of revolving credit facility	16	38.5	(25.0)
Net cash from financing activities		29.1	37.9
Net (decrease)/increase in cash and cash equivalents		(10.1)	10.2
Cash and cash equivalents at beginning of the year	15	10.2	–
Cash and cash equivalents at end of the year	15	0.1	10.2

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Costain Group PLC (the Company) is a public limited company incorporated in the UK. The address of its registered office and principal place of business is disclosed on page 156 of this Annual Report. The principal activities of the Company and its subsidiary undertakings (collectively referred to as 'the Group') are described in the Strategic report.

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. The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements were authorised for issue by the Directors on 01 March 2016.

2 Summary of significant accounting policies

Both the Company financial statements and the Group consolidated financial statements 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. On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Basis of preparation

These financial statements are presented in pounds sterling, rounded to the nearest hundred thousand. The financial statements are prepared on the historical cost basis, except that financial assets and derivative financial instruments are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed later in this Note.

Going concern

The Group's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic report. The financial position of the Group, its cash flows, liquidity position, borrowing and bonding facilities, use of financial instruments and hedging activities, exposure to credit risk and its objectives, policies and processes for managing its capital and financial risk are described in the Financial review section of these financial statements and in Note 17.

The Group's principal business activity involves long-term contracts with a number of customers, virtually all in the UK. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its committed bonding facilities from banks and surety companies. These facilities have financial covenants that are tested quarterly.

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.

Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently by the Group and the Company to each period presented in these financial statements.

The following standards and interpretations are effective for the year ended 31 December 2015:

- 'Defined Benefit Plans: Employee Contributions' (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010-2012 Cycle.
- Annual Improvements to IFRSs 2010-2012 Cycle.

The impact of these standards is limited to minor disclosure changes and alignment of accounting policies has not necessitated any prior year restatements.

2 Summary of significant accounting policies continued

Basis of consolidation

(a) The Group's financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group and control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Associates are operations over which power exists to exercise significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Associates are accounted for using the equity method.

(c) Joint ventures are those joint arrangements where control is shared with another entity, and where the Group has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method from the date that the joint venture commences until the date that joint control of the entity ceases.

(d) The presentation of investments in associates and joint ventures in the statement of financial position restricts the minimum carrying value to £Nil. Where the cost of investment would be negative, due to losses incurred, then an amount up to the value of the negative position is applied to any outstanding loan balance with the investment or, where future funding commitments exist, a provision is made up to the value of the commitment. Any such transfers of excess losses from the carrying value of investments are shown within reclassifications in Note 13.

(e) Joint operations are those joint arrangements over which joint control exists, established by contractual agreement, which are not legal entities and where the parties have rights to the assets and obligations for the liabilities relating to the arrangement. Where a joint operation exists, then the Group entity involved records the assets it controls, the liabilities and expenses it incurs and its share of income. Such joint operations are reported in the consolidated financial statements on the same basis. Transactions between Group companies and joint operations eliminate on consolidation.

(f) Intra-group balances and transactions together with any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates, joint ventures and joint operations are eliminated to the extent of the interest in the entity or operation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Currency translation

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign operations are translated to pounds sterling at exchange rates ruling at the statement of financial position date. The revenues and expenses of foreign operations are translated to pounds sterling at rates approximating to the exchange rates ruling at the dates of these transactions.

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are recognised directly in equity and those that have arisen since 01 January 2004, the date of transition to IFRS, are presented as a separate component of equity. Cumulative exchange differences are released into the income statement upon disposal. Translation differences that arose before the date of transition to IFRS in respect of all foreign operations are not presented as a separate component.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax and includes the share of revenue of joint operations. Over 95% of the Group's revenue arises from long-term contracts.

(a) Long-term contracts

Revenue arises from increase in the value of work performed on construction contracts and on the value of services provided during the year. Where the outcome of a long-term contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs.

Variations and claims are included in revenue where it is probable that the amount, which can be measured reliably, will be recovered from the customer. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2 Summary of significant accounting policies continued

Revenue recognition continued

Construction work in progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and less amounts billed and is included in amounts due from customers for contract work. Cost includes all expenditure related directly to specific projects and an appropriate allocation of fixed and variable overheads based on normal operating capacity. Amounts valued and billed to customers are included in trade receivables. Where cash received from customers exceeds the value of work performed, the amount is included in credit balances on long-term contracts.

(b) Other revenue
Revenue from other services contracts is recognised when the service is provided.

Revenue from the sale of land is recognised when the significant risks and rewards of ownership have been transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total rental income on a straight-line basis over the term of the lease.

Income statement presentation – Other items

In order to aid understanding of the underlying and overall performance of the Group, certain amounts are shown in the consolidated income statement in a separate column headed 'Other items'. Items are included under this heading where the Board considers them to be of a one-off and unusual nature or related to the accounting treatment of acquisitions.

Pre-contract costs

Costs associated with bidding for contracts are written off as incurred. When it is probable that a contract will be awarded, usually when preferred bidder status is secured, costs incurred from that date to the date of financial close are carried forward in the statement of financial position and included in amounts due from customers for contract work.

Research and development

Research and development activities are usually directly attributable to a project and accounted within project costs.

Goodwill and other intangible assets

Goodwill arising on acquisitions represents the excess of the fair value of the consideration over the identifiable assets, liabilities and contingent liabilities of the acquired entity and goodwill arising on the acquisition of subsidiaries is included in non-current assets. The attributable costs of acquisitions are expensed to the income statement.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

Other intangible assets comprise acquired intangible assets: customer relationships, order book and brand and computer software. Customer relationships and other intangibles acquired are measured at the present value of cash flows attributable to the relationship less an appropriate contributory asset charge. Computer software is carried at cost; subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, otherwise expenditure is expensed as incurred.

Amortisation begins when an asset is acquired or, in the case of computer software, available for use and is amortised over the following periods:

Brands	– on a straight-line basis up to three years
Order book	– in line with expected profit generation up to three years
Customer relationships	– on a straight-line basis up to seven years
Other intangibles	– on a straight-line basis up to five years

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment losses.
Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. Cost comprises purchase price and directly attributable costs. Freehold land is not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful lives as follows:

Freehold buildings	– 50 years
Leasehold buildings	– shorter of 50 years or lease term
Plant and equipment	– remaining useful life (generally 3 to 10 years)
Marina (Alcaidesa)	– concession period (21 years remaining)
Golf courses (Alcaidesa)	– 50 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position date.

2 Summary of significant accounting policies continued

Investments – Company

Company investments in subsidiaries are carried at cost less provisions for impairment.

Impairment of non-financial assets

For the purposes of impairment testing, goodwill is allocated to each of the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The carrying amounts of other assets, except inventories and deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset, or its cash generating unit, is less than the recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates resulting in the recoverable amount rising above the impaired carrying value of the asset. An impairment loss is reversed only to the extent that the carrying amount of the assets does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the statement of financial position when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

Taxation

The tax expense represents the sum of UK corporation tax and overseas tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all temporary differences except for those specific exemptions set out below and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or other assets and liabilities, other than in a business combination, in a transaction that affects neither the taxable profi nor the accounting profit

Deferred tax liabilities are recognised for temporary differences arising on investments in subsidiaries and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates based on those enacted or substantially enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Additional taxes arising from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

2 Summary of significant accounting policies continued

Leases

Leases principally comprise operating leases. Payments made under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that a payment under the guarantee will be required.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised as distributions in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in Note 10 to the financial statements.

Share-based payments

These comprise equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed over the vesting period, based on the estimate of awards that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each statement of financial position date. Fair value is measured by the use of a Black-Scholes option pricing model.

Where options are granted over shares in the Company to employees of subsidiaries, the Company recognises in its financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity.

Retirement benefit obligations

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in Note 20. The assets of the scheme are held separately from those of the Group.

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

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

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

Financial assets and liabilities

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

A financial asset is derecognised only when the contractual rights to the cash flows from that asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Loans and receivables
Loans and other receivables with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables and measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade and other receivables
Trade and other receivables do not carry interest and are stated at their initial value less impairment losses.

Impairment of financial assets
Estimated recoverable amounts are based on the ageing of the outstanding receivable and provisions against individual receivables are recognised when management deems the amounts are not collectible.

2 Summary of significant accounting policies continued

Financial assets and liabilities continued

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(b) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. Where borrowings are the hedged item in an effective fair value hedge relationship, the carrying value is adjusted to reflect the fair value movements associated with the hedged risk. Financial liabilities are derecognised only when the obligations are discharged, cancelled or expire.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(c) Derivative financial instruments

Derivative financial instruments are used to manage risks arising from changes in foreign exchange rates, interest rates and inflation and are measured at their fair value. The fair value of forward exchange contracts is their quoted market value at the statement of financial position date. Valuations for forward exchange contracts are determined using valuation techniques supported by reference to market values for similar transactions.

Certain derivative financial instruments are designated as hedges in line with established risk management policies and classified as follows:

- Fair value hedges that hedge the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges that hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction.

For fair value hedges, any gain or loss from re-measuring the hedging instrument at fair value is recognised in the income statement and adjusted against the carrying amount of the hedged item.

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any ineffective portion in the income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flow affects the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss is transferred to the income statement.

Any gains or losses arising from changes in fair value of derivative financial instruments not designated as hedges are recognised in the income statement.

Fair value measurement

When measuring the fair value of a financial or non-financial asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement.

Significant areas of judgement 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, assessments of the carrying values 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.

2 Summary of significant accounting policies continued

Significant areas of judgement and estimation continued

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 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 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 Holding 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 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 11.

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 20.

IFRSs not applied

The following IFRSs having been endorsed, will be applicable from 1 January 2016 unless otherwise stated:

- IFRS 9 'Financial Instruments' – Published in July 2014 and replacing the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement.' IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption permitted.

  The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

- IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contacts' and IFRIC 13 'Customer Loyalty programmes'. IFRS 15 is effective for annual reporting periods beginning on or after 01 January 2018, with early adoption permitted.

  The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

- 'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11).
- 'Clarification of Acceptable methods of Depreciation and Amortisation' (Amendments to IAS 16 and IAS 38).
- 'Equity Method in Separate Financial Statements' (Amendments to IAS 27).
- 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012-2014 Cycle.
- Disclosure Initiative (Amendments to IAS 1).

3 Operating segments

The Group has two core business segments: Natural Resources and Infrastructure plus Alcaidesa 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. The segments are discussed in the Strategic report section of these financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group evaluates segment performance on the basis of profit or loss from operations before interest and tax expense before and after other items. The segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Following the acquisition of Rhead Group, 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 13 and 25), the land development segment has been renamed Alcaidesa.

Intersegment sales and transfers are not material.

2015	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £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 profi /(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
Segment profit/(loss) is stated after charging the following:					
Depreciation	1.2	1.2	0.5	–	2.9
Amortisation (including acquired intangible assets)	2.7	1.2	–	–	3.9
Segment assets					
Reportable segment assets	172.1	171.4	30.5	1.1	375.1
Unallocated assets:					
Deferred tax					10.6
Cash and cash equivalents					146.7
Total assets					532.4

3 Operating segments continued

2015	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £m
Expenditure on non-current assets					
Property, plant and equipment	0.3	1.5	0.2	–	2.0
Intangible assets	0.2	–	–	–	0.2
Segment liabilities					
Reportable segment liabilities	103.0	218.5	2.1	10.3	333.9
Unallocated liabilities:					
Retirement benefit obligations					36.7
Borrowings					38.5
Taxation					2.7
Total liabilities					411.8

2014 (restated)	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £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 profi /(loss)	0.4	34.4	–	(6.1)	28.7
Profit on sales of interests in joint ventures and 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
Segment profit/(loss) is stated after charging the following:					
Depreciation	1.0	1.0	–	–	2.0
Amortisation (including acquired intangible assets)	2.1	1.3	–	–	3.4
Segment assets					
Reportable segment assets	148.8	124.4	25.2	0.3	298.7
Unallocated assets:					
Deferred tax					9.2
Cash and cash equivalents					148.5
Total assets					456.4

3 Operating segments continued

2014 (restated)	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £m
Expenditure on non-current assets					
Property, plant and equipment	5.1	0.2	–	–	5.3
Intangible assets	0.8	–	–	–	0.8
Segment liabilities					
Reportable segment liabilities	121.4	173.1	–	7.9	302.4
Unallocated liabilities:					
Retirement benefit obligations					41.7
Taxation					1.5
Total liabilities					345.6

Geographical information

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets and exclude deferred tax assets.

2015	**External revenue £m**	**Share of revenue of JVs and assocs £m**	**Total segment revenue £m**	**Non-current assets £m**
UK	**1,260.7**	**52.0**	**1,312.7**	**72.6**
Spain	**2.0**	**0.9**	**2.9**	**27.7**
Rest of the World	**0.9**	**–**	**0.9**	**0.1**
	1,263.6	**52.9**	**1,316.5**	**100.4**

2014	External revenue £m	Share of revenue of JVs and assocs £m	Total segment revenue £m	Non-current assets £m
UK	1,070.7	48.3	1,119.0	75.1
Spain	–	2.4	2.4	25.2
Rest of the World	1.1	–	1.1	–
	1,071.8	50.7	1,122.5	100.3

Customers accounting for more than 10% of revenue

Three customers (2014: two) in the Infrastructure segment accounted for revenue of £761.3 million (2014: £443.5 million).

4 Other operating expenses and income

	2015 £m	2014 £m
Profit before tax is stated after charging:		
Amortisation of intangible assets (Note 11)	3.9	3.4
Depreciation of property, plant and equipment (Note 12)	2.9	2.0
Hire of plant and machinery	64.5	45.1
Rent of land and buildings	4.4	5.3
and after crediting:		
Profit on sales of interests in joint ventures and associates	–	4.0
Income from sub-leases of land and buildings	0.5	0.5

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 (Note 20).

Auditor's remuneration

	2015 £m	2014 £m
Fees payable to the Group's auditor for the audit of the annual financial statements	0.1	0.1
Fees payable to the Group's auditor and its associates in respect of:		
– Audit of financial statements of subsidiaries of the Company	0.4	0.3
– Other tax advisory services	–	–
– Transaction related services not covered above	–	0.4
	0.5	0.8

Amounts paid to the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

5 Employee benefit expense

	2015 £m	2014 £m
Group		
Wages and salaries	190.6	162.1
Social security costs	20.9	17.4
Pension costs (Note 20)	7.7	7.8
Share-based payments expense (Note 20)	2.4	2.2
	221.6	189.5

	2015 Number	2014 Number
Average number of persons employed		
Natural Resources	1,438	1,123
Infrastructure	2,514	2,499
Alcaidesa	27	–
Central	26	24
	4,005	3,646

Of the above employees, 49 were employed overseas (2014: nine).

Company

The Company does not employ any personnel, except for the Directors considered in Note 6.

6 Remuneration of Directors

Details of the Directors' remuneration, pension entitlements, interest in the Long-Term Incentive Plans, Annual Incentive Plans, Deferred Share Bonus Plans and share options are included in the Directors' Remuneration report.

For the purpose of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the Directors in respect of 2015 and 2014 are detailed below.

	2015 £m	2014 £m
Remuneration	1.7	1.5
Post-employment benefi s	0.2	0.2
Gains made on the exercise of share-based plans	0.8	0.9
	2.7	2.6

7 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 (Note 20)	(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.

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8 Taxation

	2015 £m	2014 £m
On profit for the year		
UK 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 provisions 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 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 claims	0.3	0.6
Tax expense in the consolidated income statement	(3.8)	(1.6)
Effective rate of tax	14.6%	7.1%

The tax above does not include any amounts for equity accounted joint ventures and associates, whose results are disclosed in the consolidated income statement net of tax.

The current tax liabilities of £2.7 million (2014: £1.5 million) for the Group and £1.5 million (2014: £1.5 million) for the Company represent the amount of tax in respect of all outstanding periods.

Accumulated tax losses carried forward in the UK were £5.1 million (2014: £5.1 million).

Accumulated tax losses carried forward in Spain were £33.0 million (2014: £Nil); these losses have various expiry dates to 2030.

	2015 £m	2014 £m
Deferred tax asset recognised at 20.0% (2014: 20.0%)		
Accelerated capital allowances	1.6	1.8
Short-term temporary differences	(1.7)	(1.1)
Retirement benefit obligations	7.3	8.4
Tax losses	3.4	0.1
Deferred tax asset	10.6	9.2

The Company had no deferred tax asset at either year end.

8 Taxation continued

	2015 £m	2014 £m
Analysis of deferred tax movements		
At 01 January	9.2	9.8
Deferred tax relating to business combinations		
Transfer in respect of acquired intangible assets	(1.2)	–
Transfer in respect of acquired business combinations	3.6	–
Currency realignment	0.2	–
	2.6	–
Deferred tax in consolidated income statement		
Accelerated capital allowances	(0.2)	0.1
Short-term temporary differences	0.9	(0.5)
Trading tax losses	(0.4)	(0.2)
Retirement benefit obligations	(1.7)	(1.0)
	(1.4)	(1.6)
Deferred tax in other comprehensive income and expense statement		
Retirement benefit obligations	0.7	1.5
Deferred tax recognised directly in the consolidated statement of changes in equity		
Short-term temporary differences	(0.5)	(0.5)
At 31 December	10.6	9.2

Factors that may affect future tax charges

The rate of UK corporation tax reduces to 19% with effect from 01 April 2017 and to 18% with effect from 01 April 2020. If the deferred tax asset as at 31 December 2015 were reduced to reflect rates of 19% and 18%, the effect would be tax credits of £1.2 million and £2.5 million respectively through the income statement and charges of £1.8 million and £3.6 million respectively through the consolidated statement of comprehensive income and expense.

The Group and Company have potential deferred tax assets in their UK operations that have not been recognised at the year end on the basis that their future economic benefits were not assured at the statement of financial position date.

8 Taxation continued

Gross deferred tax assets not recognised at the statement of financial position date were as follows:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Accelerated capital allowances	2.7	3.3	–	–
Short-term temporary differences	20.6	22.6	–	–
Trading tax losses	5.1	4.4	–	–
Temporary differences	28.4	30.3	–	–
In addition to the above temporary differences, the following gross deferred tax assets are available.				
Management expenses and charges incurred by parent Company	55.6	56.9	55.6	56.9
Spanish tax losses carried forward	33.0	–	–	–
Capital losses	275.0	275.0	241.0	241.0

The current year tax effect, at 20.25%, of claiming short-term temporary differences and trading tax losses was £0.3 million (2014: £0.3 million) as shown in the tax reconciliation above.

There are no expiry dates associated with the deferred tax assets, recognised and not recognised, save for the various expiry dates relating to Spanish tax losses and tax relief will be obtained if suitable profits arise in the future.

9 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 (m)	2014 Number (m)
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

At 31 December 2015, 0.7 million options were excluded from the weighted average number of ordinary shares calculation as they were anti-dilutive (2014: 0.6 million options were excluded).

10 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	6.3	–
Interim dividend for the year ended 31 December 2015	3.75	3.9	–
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

A final dividend in respect of the year ended 31 December 2015 of 7.25 pence per share, amounting to a dividend of £7.4 million, is to be proposed at the Annual General Meeting. If approved, the dividend is expected to be paid on 20 May 2016 to shareholders registered at the close of business on 15 April 2016 and a scrip dividend alternative will be offered. These financial statements do not reflect the final dividend payable.

11 Intangible assets

Group	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 01 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 01 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 01 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 01 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 01 January 2014	22.3	6.0	3.7	1.0	33.0

The net book value of other acquired intangible assets includes £2.1 million (2014: £2.1 million) relating to order book.

Goodwill has been allocated to the applicable cash generating units identified within the Infrastructure (£2.5 million) and Natural Resources (£38.3 million) reporting segments, after a reallocation during the year to reflect the segment change described in Note 3.

As described in Note 2, the Group reviews the value of goodwill and in the absence of any identified impairment risks, tests are based on internal value in use calculations of the cash generating unit (CGU). The key assumptions for these calculations are: discount rates, growth rates and expected changes to revenue and direct costs during the period.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows for the CGU in Infrastructure was 10.8% and for the CGU in Natural Resources was 12.5%.

The Group prepares cash flow forecasts derived from the most recent financial forecasts for the following two years and extrapolates those cash flows based on the following internal assessments of the annual growth rates attributable to the CGUs:

Growth rates	Infrastructure %	Natural Resources %
Years 3-4	2.5	2.5
Year 5	1.5	2.5
Long-term average	1.5	1.5

As at 31 December 2015, based on these internal valuations, the recoverable value of goodwill exceeded the carrying amounts.

12 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Group			
Cost			
At 01 January 2014	0.9	22.4	23.3
Reclassifications to intangible assets	–	(0.6)	(0.6)
Additions	–	5.3	5.3
Disposals	–	(6.4)	(6.4)
At 31 December 2014	0.9	20.7	21.6
At 01 January 2015	0.9	20.7	21.6
Currency realignment	1.0	0.1	1.1
Additions	0.3	1.7	2.0
Acquired through business combinations (Note 25)	23.8	3.5	27.3
Disposals	–	(1.3)	(1.3)
At 31 December 2015	26.0	24.7	50.7
Depreciation			
At 01 January 2014	0.6	14.8	15.4
Provided in year	0.1	1.9	2.0
Disposals	–	(5.8)	(5.8)
At 31 December 2014	0.7	10.9	11.6
At 01 January 2015	0.7	10.9	11.6
Currency realignment	0.1	–	0.1
Provided in year	0.5	2.4	2.9
Disposals	–	(1.2)	(1.2)
At 31 December 2015	1.3	12.1	13.4
Net book value			
At 31 December 2015	24.7	12.6	37.3
At 31 December 2014	0.2	9.8	10.0
At 01 January 2014	0.3	7.6	7.9

13 Investments and loans in subsidiaries, equity accounted joint ventures and associates

	Investments		Loans	
	Joint ventures £m	Associates £m	Associates £m	Total £m
Group				
Cost or fair value				
At 01 January 2014	57.3	0.1	4.8	62.2
Currency realignment	(2.9)	–	–	(2.9)
Additions	1.7	–	–	1.7
Repayments	–	–	(0.1)	(0.1)
Disposal	–	–	(3.0)	(3.0)
At 31 December 2014	56.1	0.1	1.7	57.9
At 01 January 2015	56.1	0.1	1.7	57.9
Currency realignment	(3.7)	–	–	(3.7)
Additions	1.0	–	–	1.0
Disposal	(39.0)	–	–	(39.0)
At 31 December 2015	14.4	0.1	1.7	16.2
Share of post-acquisition reserves				
At 01 January 2014	(30.2)	0.1		(30.1)
Currency realignment	1.0	–		1.0
Disposals	–	0.1		0.1
Dividends	–	(0.1)		(0.1)
(Loss)/profi for the year	(1.4)	0.1		(1.3)
At 31 December 2014	(30.6)	0.2		(30.4)
At 01 January 2015	(30.6)	0.2		(30.4)
Currency realignment	1.4	–		1.4
Disposals	15.5	–		15.5
(Loss)/profi for the year	(0.3)	0.2		(0.1)
At 31 December 2015	(14.0)	0.4		(13.6)
Net book value				
At 31 December 2015	0.4	0.5	1.7	2.6
At 31 December 2014	25.5	0.3	1.7	27.5
At 01 January 2014	27.1	0.2	4.8	32.1

13 Investments and loans in subsidiaries, equity accounted joint ventures and associates continued

Analysis of Group share of joint ventures and associates revenue, income and assets and liabilities

	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)/profi before tax	(0.4)	0.1	0.2	(0.1)	(0.8)	(0.2)	0.2	(0.8)
Taxation	–	–	–	–	(0.5)	–	–	(0.5)
(Loss)/profi 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 liabilities	–	–	(1.3)	(1.3)	(7.7)	–	(1.4)	(9.1)
Investments in joint ventures and associates	–	0.4	0.5	0.9	25.2	0.3	0.3	25.8
Dividends received by Group	–	–	–	–	–	–	0.1	0.1

Net interest payable by joint ventures and associates in 2015 was £0.3 million (2014: £0.6 million). The applicable interest rates during the year are income of 0.2% to 6.5% per annum (2014: 0.2% to 6.5%) and expense of 6.0% to 11.5% per annum (2014: 1.7% to 11.5%).

Analysis of the total revenue, income, assets and liabilities of joint ventures and associates

	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	1.9	138.6	7.7	148.2	4.7	111.1	16.9	132.7
(Loss)/profi before tax	(0.9)	0.2	0.7	–	(1.6)	(0.4)	0.4	(1.6)
Taxation	–	–	(0.1)	(0.1)	(1.0)	–	(0.1)	(1.1)
(Loss)/profi for the year	(0.9)	0.2	0.6	(0.1)	(2.6)	(0.4)	0.3	(2.7)
Non-current assets	–	0.2	–	0.2	32.2	–	0.1	32.3
Current assets	–	37.9	6.9	44.8	37.2	29.6	8.6	75.4
Current liabilities	–	(37.2)	(2.4)	(39.6)	(3.7)	(28.9)	(4.5)	(37.1)
Non-current liabilities	–	–	(3.4)	(3.4)	(15.4)	–	(3.4)	(18.8)
Equity	–	0.9	1.1	2.0	50.3	0.7	0.8	51.8

Details of the subsidiary undertakings, joint ventures, joint operations and associates are shown in Note 24.

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 25).

13 Investments and loans in subsidiaries, equity accounted joint ventures and associates continued

The loss reported above is for period to disposal of the joint venture and includes depreciation and amortisation of £0.5 million (2014: £1.3 million) and interest expense of £0.3 million (2014: £1.2 million). There is no other comprehensive income/(expense). The current assets of Alcaidesa Holding SA at 31 December 2014 included cash and cash equivalents of £0.5 million, current financial liabilities (excluding trade and other payables and provisions) comprised borrowings of £1.6 million and non-current liabilities comprised borrowings.

There is no other comprehensive income/(expense) in respect of other joint ventures and the associates.

Company	
Investments in subsidiaries	£m
Cost	
At 01 January 2014	367.1
Additions	2.2
At 31 December 2014	369.3
At 01 January 2015	369.3
Additions	2.4
At 31 December 2015	371.7
Amounts written off	
At 01 January 2014	(269.2)
At 31 December 2014	(269.2)
At 01 January 2015	(269.2)
At 31 December 2015	(269.2)
Net book value	
At 31 December 2015	102.5
At 31 December 2014	100.1
At 01 January 2014	97.9

Additions relate to the increase in the cost of investments in subsidiaries by the equivalent amount of the equity settled share-based payment charge in relation to employees of subsidiaries included in the income statement.

Details of the subsidiaries in which the Company has an interest are set out in Note 24.

14 Trade and other receivables

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts included in current assets				
Trade receivables	83.5	95.5	–	–
Other receivables	36.3	16.8	–	–
Amounts due from customers for contract work	133.6	71.1	–	–
Prepayments and accrued income	16.9	12.9	1.1	1.4
Amounts owed by joint ventures and associates	1.5	0.8	–	–
Amounts owed by subsidiary undertakings	–	–	97.4	56.8
	271.8	197.1	98.5	58.2
Amounts included in non-current assets				
Other	8.2	31.8	–	–

14 Trade and other receivables continued

At 31 December 2015, amounts due from customers for contract work falling due within one year include retentions of £25.6 million (2014: £1.4 million) relating to long-term contracts in progress. Other receivables falling due after more than one year include retentions of £7.7 million (2014: £31.1 million) relating to long-term contracts in progress.

With respect to trade receivables that are neither impaired nor past due, there are no indications at the reporting date that the payment obligations will not be met. The Directors consider that the carrying amount of trade, other receivables and amounts owed by joint ventures and associates approximates to their fair value.

The average credit period within trade receivables on amounts billed for construction work and on sales of goods is 34 days (2014: 33 days). The analysis of the due dates of the trade receivables was £61.1 million (2014: £68.5 million) due within 30 days, £18.8 million (2014: £25.6 million) due between 30 and 60 days and £3.6 million (2014: £1.4 million) due after 60 days.

These balances include receivables, with a carrying amount of £5.3 million (2014: £4.3 million), which are past due at the reporting date and for which no provision has been made as there has been no significant change in credit quality and the amounts are considered recoverable. No collateral is held over these balances. The analysis of the overdue amounts was £1.7 million (2014: £2.9 million) overdue by less than 30 days, £1.0 million (2014: £0.3 million) overdue by between 30 and 60 days and £2.6 million (2014: £1.1 million) overdue by more than 60 days.

The provision for impairment of trade and other receivables is £7.1 million (2014: £7.4 million).

The aggregate amount of costs incurred plus recognised profits, less recognised losses, for all contracts in progress at the statement of financial position date was £3,103.1 million (2014: £2,927.6 million). Progress billings and advances received from customers under open construction contracts amounted to £2,997.7 million (2014: £2,863.4 million). Advances for which work has not started, and billings in excess of costs incurred and recognised profits are included in credit balances on long-term contracts.

15 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).

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and cash equivalents	146.7	148.5	0.1	10.2
Bank overdrafts	–	–	–	–
Cash, cash equivalents and overdrafts in the cash flow statement	146.7	148.5	0.1	10.2

16 Interest bearing loans and borrowings

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Revolving Credit Facility	38.5	–	38.5	–

The Group's borrowings facilities are described in Note 17.

17 Financial instruments – Fair values and risk management

a) Risk management

The Group's centralised treasury function manages financial risk, principally arising from liquidity and funding risks and movements in foreign currency rates, interest rates and inflation rates, in accordance with policies agreed by the Directors.

The Group does not enter into speculative transactions.

The Company does not have any forward foreign currency contracts or other derivatives.

i) Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and to provide resources to grow the business, in order to provide returns for shareholders and other stakeholders. The current capital base of the Group is driven by equity capital from shareholders and retained earnings. The Board of Directors (Board) continues to seek to strengthen the Group by growing the business and improving profitability; the Strategic report describes the Group's strategy and its operations. It is the Board's policy to progressively increase dividends paid to shareholders based on growth in underlying earnings per share after taking account of the investment and capital needs of the business. There were no changes in the Board's approach to capital management during the year.

ii) Liquidity and funding risk

Ultimate responsibility for liquidity and funding risk rests with the Board, which has put in place a monitoring and reporting framework to manage funding requirements.

Liquidity risk is managed by monitoring actual and forecast short and medium-term cash flows and the maturity profile of financial assets and liabilities and by maintaining adequate cash reserves. The nature and timing of the contract cash flows causes the cash balances to vary over the month with the balance usually highest at month end.

The average month end net cash balance during the year was £103.7 million (2014: £95.6 million).

Customers awarding long-term contracting work may, as a condition of the award, require the contractor to provide performance and other bonds. Consequently, the Group is reliant on its ability to secure bank and surety bonds. It has facilities in place to provide these bonds and monitors the usage and regularly updates the forecast usage of these facilities.

At 31 December 2015, the Group had banking and bonding facilities, including a £125.0 million (2014: £95.0 million) Revolving Credit Facility, extending to 25 June 2020. The facilities, which were increased and extended during the year, have financial covenants based on interest cover and leverage measured quarterly.

Unsecured bonding facilities

	Group and Company	
	2015 £m	2014 £m
Expiring between one and five years*	400.0	400.0
* Element of above facilities available for borrowings	2.5	2.5

At 31 December 2015, the utilisation of these bonding facilities amounted to £154.9 million (2014: £146.8 million).

iii) Credit risk

The Group focuses on major blue-chip private sector and large public sector customers. It uses an external credit scoring system to assess a potential customer's credit quality and will enter into a contract only if that assessment is satisfactory. Deposits in the United Kingdom are placed with the bank facility providers or, in joint operations, with banks agreed by the partners. Overseas deposits are placed with major banks operating in those countries. Transactions involving derivative financial instruments are with bank or insurance company counterparties with high credit ratings that are monitored regularly and with whom there are signed netting agreements. Given the high credit ratings of the banks and insurance companies used, management does not expect any counterparty will fail to meet its obligations.

At the year end date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amounts of each financial asset, including derivative financial instruments, and the individual constituents of amounts due from customers for contract work in the statement of financial position. Further information on the exposure to credit risk is set out in Note 14.

17 Financial instruments – Fair values and risk management continued

a) Risk management continued

iv) Interest rate risk

The Group has cash balances in the UK and overseas and bank borrowings in the UK in 2015 and overseas until late 2014. The largest constituents are UK balances denominated in pounds sterling. A 1% rise in interest rates would have increased the annual interest income on net cash balances by £1.0 million (2014: £1.0 million).

No interest rate hedging is currently undertaken by the Group.

v) Foreign currency risk

Transactional currency exposures arise from sales or purchases by operating companies in currencies other than their functional currency. The current strategy is to hedge both committed and forecast foreign currency exposures, where applicable, and where the transaction timing and amount can be determined reliably and no natural hedge exists. The Group only enters into forward contracts when a contractual commitment exists in respect of the foreign currency transaction and the Group's policy is to negotiate the terms of the hedge derivative to match the terms of the hedged item to maximise hedge effectiveness.

The Group's subsidiary, Alcaidesa Holding SA, a company based in Spain is denominated in euro. At the year end, the net carrying value of the assets was £23.4 million (2014: £25.2 million – investment in a joint venture). A 10% strengthening in the euro would have adversely impacted the results by £0.2 million (2014: £0.2 million – investment in joint venture). A 10% strengthening in the euro would have favourably impacted the statement of financial position by £2.6 million (2014: £2.8 million – investment in joint venture). However, the Group has forward sales contracts (see paragraph below) totalling €32.0 million (£23.6 million) held as a hedge against the net carrying value of the assets of Alcaidesa.

b) Cash flow hedges

Forward currency contracts that hedge forecast transactions are classified as cash flow hedges and stated at fair value based on a Level 2 valuation method, using quoted forward exchange rates. The terms of the foreign currency contracts match the terms of the commitments.

At 31 December 2015, the Group had foreign currency contracts (11 sale contracts (2014: five) and 51 purchase contracts (2014: none)) designated as hedges of future transactions and summarised below. The carrying value represents the fair value of the contract; the contractual cash flows represent the pounds sterling commitments. There were no ineffective hedges at the year end (2014: none).

Foreign exchange contracts

	2015				2014			
	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and five years £m	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and five years £m
Purchases	0.3	(21.7)	(4.1)	(17.6)	–	–	–	–
Sales	(0.3)	24.7	24.2	0.5	–	1.4	0.7	0.7
	–	3.0	20.1	(17.1)	–	1.4	0.7	0.7

The expected impact on the income statement of the foreign exchange contracts is £Nil in 2016.

c) Financial assets and liabilities

The Group has grouped its financial instruments into 'classes'. Although IFRS 7 does not define 'classes', as a minimum instruments measured at amortised cost should be distinguished from instruments measured at fair value.

17 Financial instruments – Fair values and risk management continued

c) Financial assets and liabilities continued

i) Currency and maturity of financial assets

Financial assets not measured at fair value

	2015				2014			
	Total £m	Within one year £m	Between one and five years £m	After five years £m	Total £m	Within one year £m	Between one and five years £m	After five years £m
Cash and cash equivalents:								
Pounds sterling	142.2	142.2	–	–	147.4	147.4	–	–
Other	4.5	4.5	–	–	1.1	1.1	–	–
	146.7	146.7	–	–	148.5	148.5	–	–
Loans to joint ventures and associates:								
Pounds sterling	1.7	0.1	0.3	1.3	1.7	0.1	0.3	1.3
Trade, other receivables and amounts owed by joint ventures and associates:								
Pounds sterling	127.8	119.6	8.2	–	143.9	112.1	31.8	–
Other	1.7	1.7	–	–	1.0	1.0	–	–
	129.5	121.3	8.2	–	144.9	113.1	31.8	–
Total fi ancial assets not measured at fair value	277.9	268.1	8.5	1.3	295.1	261.7	32.1	1.3

The Group has not disclosed the fair values for short-term trade receivables and amounts due from joint ventures and associates within financial assets, because their carrying amounts are a reasonable approximation of fair values. The fair values of loans carrying interest rates above 10% may be higher than their carrying values of £1.7 million (2014: £1.7 million), but not by a material amount.

17 Financial instruments – Fair values and risk management continued

c) Financial assets and liabilities continued

Financial assets measured at fair value

The Group does not have any financial assets measured at fair value.

ii) Currency and maturity of financial liabilities

Financial liabilities not measured at fair value

	2015			2014		
	Total £m	Within one year £m	Between one and five years £m	Total £m	Within one year £m	Between one and five years £m
Revolving Credit Facility:						
Pounds sterling	30.0	30.0	–	–	–	–
Euro	8.5	8.5	–	–	–	–
	38.5	38.5	–	–	–	–
Trade and other payables:						
Pounds sterling	152.2	150.1	2.1	133.0	129.8	3.2
Other	2.4	2.4	–	0.2	0.2	–
	154.6	152.5	2.1	133.2	130.0	3.2
Total financial liabilities not measured at fair value	193.1	191.0	2.1	133.2	130.0	3.2

The Group has not disclosed the fair values for short-term trade and other payables and bank overdrafts within financial liabilities, because their carrying amounts are a reasonable approximation of fair values.

Financial liabilities measured at fair value

	2015			2014		
	Total £m	Within one year £m	Between one and five years £m	Total £m	Within one year £m	Between one and five years £m
Deferred consideration – pounds sterling	1.8	1.1	0.7	6.5	5.2	1.3

The deferred consideration is valued at a Level 3 valuation method. The fair value is the same as the carrying value. See (d) 'Measurement of fair value' below.

iii) Reconciliation of trade and other receivables and trade and other payables to the statement of financial position

	2015		2014	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other receivables (as above)	121.3	8.2	113.1	31.8
Amounts due from customers	133.6	–	71.1	–
Prepayments and accrued income	16.9	–	12.9	–
	271.8	8.2	197.1	31.8

17 Financial instruments – Fair values and risk management continued

c) Financial assets and liabilities continued

	2015		2014	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other payables (as above)	152.5	2.1	130.0	3.2
Deferred consideration (as above)	1.1	0.7	5.2	1.3
Credit balances on long-term contracts	2.7	–	3.6	–
Accruals and deferred income	172.7	–	157.5	–
	329.0	2.8	296.3	4.5

iv) Effective interest rates of financial assets and liabilities

	2015	2014
Financial assets		
Cash and cash equivalents	0.0% to 0.5%	0.0% to 0.5%
Loans to joint ventures and associates	10.0% to 11.5%	10.0% to 11.5%

Financial liabilities

The Group has overdraft facilities and a Revolving Credit Facility (RCF), £38.5 million of the RCF was drawn at the year end (2014: both undrawn at the year end). These are unsecured and carry interest at floating rates at a margin over Base, LIBOR or EURIBOR.

The Company's financial assets comprised cash at bank of £0.1 million (2014: £10.2 million) and trade and other receivables of £97.4 million (2014: £56.8 million) denominated in pounds sterling and maturing within one year.

The Company's financial liabilities comprised trade and other payables of £26.2 million (2014: £27.5 million) denominated in pounds sterling and the RCF of £38.5 million (2014: £Nil) with £30.0 million denominated in pounds sterling and £8.5 million denominated in euro. All liabilities mature within one year.

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 and Level 2 fair values, as well as the significant unobservable inputs used. There are no financial instruments whose value could be determined under Level 1.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter relationship between significant unobservable inputs and fair value measurement
Deferred consideration	Discounted cash fl ws: The valuation models consider the present value of the contractual payments, discounted using a risk-adjusted discount rate.	Risk-adjusted discount rate (12.5%).	The estimated fair value would increase (decrease) if the risk-adjusted discount rate were lower (higher).
Cash flow hedges	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and quotes reflect the actual transactions in similar instruments.	Not applicable.	Not applicable.

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities (as above)	Discounted cash fl w.	Not applicable.
Revolving Credit Facility	Discounted cash fl w.	Not applicable.

17 Financial instruments – Fair values and risk management continued

d) Measurement of fair value

Level 3 fair values

The following table shows a reconciliation from the opening to closing balances for Level 3 fair values:

	Deferred consideration £m
At 1 January 2014	6.9
Addition charged to income statement (including unwind of discount)	2.9
Payments	(3.3)
At 31 December 2014	6.5
At 1 January 2015	**6.5**
Addition charged to income statement (including unwind of discount)	**0.7**
Payments	**(5.4)**
At 31 December 2015	**1.8**

There were no transfers out of Level 3 other than the payments made during the year.

Sensitivity analysis

For the fair value of the £0.7 million non-current deferred consideration, possible changes at the reporting date to the risk adjusted discount rate would have effects to profit or loss as set out in the table below. The amount payable is contractual and not dependent on performance.

	Profi /(Loss)	
	Increase £m	Decrease £m
Risk-adjusted discount rate (10.0% movement)	**0.1**	**(0.1)**

The fair value of the current deferred consideration will not change.

18 Trade and other payables

	Group		Company	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Current liabilities				
Trade payables	**128.8**	101.5	**–**	–
Other payables	**16.7**	16.7	**–**	–
Social security	**7.0**	5.5	**–**	–
Credit balances on long-term contracts	**2.7**	3.6	**–**	–
Accruals and deferred income	**172.7**	157.5	**–**	0.4
Deferred consideration	**1.1**	5.2	**–**	–
Amounts owed to joint ventures and associates	**–**	6.3	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**26.2**	27.5
	329.0	296.3	**26.2**	27.9
Non-current liabilities				
Other payables	**2.1**	3.2	**–**	–
Deferred consideration	**0.7**	1.3	**–**	–
	2.8	4.5	**–**	–

Accruals and deferred income include subcontract liabilities (not yet payable), subcontract retentions and other accruals and deferred income.

The Directors consider that the carrying amount of trade payables, other payables, social security and amounts owed to joint ventures and associates approximates to their fair value.

Financial risk management policies are in place that seek to ensure that all payables are paid within their credit timeframes.

19 Provisions for other liabilities and charges

Group	Property £m	Other £m	Total £m
Current			
At 01 January 2014	0.6	1.2	1.8
Provided	0.3	–	0.3
Utilised	(0.5)	(0.1)	(0.6)
Released	(0.1)	(0.1)	(0.2)
Reclassified from non-current	–	0.2	0.2
At 31 December 2014	0.3	1.2	1.5
At 01 January 2015	0.3	1.2	1.5
Provided	0.9	–	0.9
Utilised	–	(0.3)	(0.3)
Released	(0.1)	–	(0.1)
At 31 December 2015	1.1	0.9	2.0
Non-current			
At 01 January 2014	–	0.4	0.4
Utilised	–	(0.1)	(0.1)
Reclassified to current	–	(0.2)	(0.2)
At 31 December 2014	–	0.1	0.1
At 01 January 2015	–	0.1	0.1
At 31 December 2015	–	0.1	0.1

Company	Funding obligations £m
Current	
At 01 January 2014	0.1
Utilised	(0.1)
At 31 December 2014	–
At 01 January 2015	–
Reclassified from non-current	0.2
Utilised	(0.1)
At 31 December 2015	0.1
Non-current	
At 01 January 2014	1.3
At 31 December 2014	1.3
At 01 January 2015	1.3
Reclassified to current	(0.2)
At 31 December 2015	1.1

Group

Property provisions relate to costs of vacant properties and will be utilised over the next three years.

Other provisions, mainly comprise a provision for staff benefits payable to the staff of an overseas subsidiary, insurance provisions and remedial costs, most of which will be utilised over the next year.

Company

Provisions in the Company relate to funding obligations to a non-trading overseas subsidiary, which eliminates on consolidation.

20 Employee benefits

(a) 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 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).

The Company does not operate a pension scheme.

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 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 01 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 01 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

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

Expense recognised in the income statement

	2015 £m	2014 £m
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)

20 Employee benefits continued

(a) Pensions continued

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

The infrastructure holding includes the portfolio of 10 PFI investments transferred by the Group to The Costain Pension Scheme in 2010, 2012 and 2014.

The pension scheme does not have any assets invested in the Group's financial instruments or in property or other assets used by the Group.

Principal actuarial assumptions (expressed as weighted averages)

	2015 %	2014 %	2013 %
Discount rate	3.80	3.60	4.60
Future pension increases	2.95	2.85	3.20
Inflation assumption	3.00	2.90	3.30

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).

20 Employee benefits continued

(b) Share-based payments

The Company operates a number of share-based payment plans as described below.

Long-Term Incentive Plan (LTIP)
Shareholders approved a new Long-Term Incentive Plan at the 2014 AGM that allows for conditional awards with a maximum face value of up to 100% of base salary to be awarded. Performance conditions such as those based on earnings per share, are determined by the Remuneration Committee of the Board at the time of grant.

Annual Incentive Plan (AIP)
Executive Directors and other senior management are eligible to participate in the Company's Annual Incentive Plan, under which one third of the award is payable in shares. The total AIP award of up to 150% of base salary has performance conditions based on adjusted EBIT (Earnings before interest, tax and other items) (at least 50% of the award) and other measures. The share award element vests on the second anniversary of the date of grant and will be satisfied by shares purchased by a trust on behalf of the Group. It will not lead to any dilution of shareholder interest. Participants must be in employment with the Company and not under notice of termination (either given or received) on the date of vesting.

Deferred Share Bonus Plan (DSBP)
Prior to 2014, Executive Directors and other senior management were eligible to participate in the Company's Deferred Share Bonus Plan which allowed for conditional awards with a face value of up to 50% of base salary with a performance condition based on adjusted EBIT (Earnings before interest, tax and other items). The deferred bonus award vests on the second anniversary of the date of grant and is satisfied by shares purchased by a trust on behalf of the Group, so does not lead to any dilution of shareholder interest. Participants were required to be in employment with the Company and not under notice of termination (either given or received) on the date of vesting. The last grant under the DSBP was made in 2014 and will vest on 31 March 2016.

Save As You Earn Plans (SAYE)
The Company operates a SAYE scheme that is open to all eligible employees who pay a fixed amount from salary into a savings account each month and elect to save over three or five years. At the end of the savings period, employees have six months in which to exercise their options (after which the options expire) using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

Share-based payment expense
The amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £2.4 million (2014: £2.2 million); the entire charge relates to subsidiaries.

Options outstanding at the end of the year
The outstanding LTIPs (exercise price £1 per individual grant), AIP (Nil-cost option) and DSBPs (Nil-cost option), which arrange for the grant of shares to Executive Directors and senior management, and the outstanding SAYE schemes are shown below.

	LTIP	DSBP	AIP	SAYE	
	Number (m)	Number (m)	Number (m)	Number (m)	Weighted average exercise price (p)
Outstanding at 01 January 2014	2.3	1.4	–	2.0	207.6
Adjusted during the year	0.2	0.2	–	–	–
Forfeited during the year	(0.4)	(0.3)	–	(0.2)	208.8
Exercised during the year	(0.5)	(0.5)	–	(0.2)	203.7
Granted during the year	0.8	–	0.5	1.3	231.9
Outstanding at 31 December 2014	2.4	0.8	0.5	2.9	218.6
Forfeited during the year	–	–	–	(0.2)	224.8
Exercised during the year	(0.9)	(0.3)	(0.2)	(0.1)	201.8
Granted during the year	0.7	–	0.5	1.1	314.0
Outstanding at 31 December 2015	2.2	0.5	0.8	3.7	218.6
Exercisable at the end of the period	–	–	–	–	–

20 Employee benefits continued

(b) Share-based payments continued

Share options outstanding at the end of the year had a weighted average remaining contractual life of 6 years (2014: 5.8 years).

The fair value of options granted is calculated using the Black-Scholes option pricing model. The aggregate fair value of options granted during the year was £3.4 million (2014: £1.4 million). The assumptions used in valuing the grants were:

	2015	2014
Expected volatility	20%	20%
Expected life (years)	2.7 – 5.0	2.7 – 5.0
Risk-free interest rate	2.6%	2.1%
Expected dividend yield	2.8%	3.5%

The expected volatility is based on the historical share price volatility over a term matching the expected life. The expected life is based on management's best estimate having regard to the effect of non-transferability, exercise restrictions and behavioural considerations.

21 Share capital

	2015		2014	
	Number (m)	Nominal value £m	Number (m)	Nominal value £m
Issued share capital				
Shares in issue at beginning of year – ordinary shares of 50p each, fully paid	101.2	50.6	66.8	33.4
Issued in year (see below)	0.9	0.5	34.4	17.2
Shares in issue at end of year – ordinary shares of 50p each, fully paid	102.1	51.1	101.2	50.6

The Company's issued share capital comprised 102,100,417 ordinary shares of 50 pence each as at 31 December 2015.

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

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

On 11 May 2015, the Company issued 689,042 shares in respect of the exercise of options granted under the 2015 LTIP.

On 22 May 2015, pursuant to the Scrip Dividend Scheme, shareholders elected to receive 129,149 ordinary shares of 50 pence each in the Company in lieu of cash in respect of all or part of their final dividend for the year ended 31 December 2014, and shareholders elected to receive a further 72,299 ordinary shares on 23 October 2015 in lieu of cash in respect of all or part of their interim dividend for the year ended 31 December 2015.

During the year, the Company issued 7,234 shares on exercise of options granted under the 2011 3-year SAYE scheme.

All shares rank pari passu regarding entitlement to capital and dividends.

The share options outstanding at the year end are detailed in Note 20. Details of the performance conditions and the options granted to Executive Directors are given in the Directors' Remuneration report.

22 Contingent liabilities

Group

There are contingent liabilities in respect of:

- creditors of joint operations, which are less than the book value of their assets;
- performance bonds and other undertakings entered into in the ordinary course of business; and
- legal claims arising in the ordinary course of business.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for (Note 19).

Company

The Company has guaranteed the obligations of the subsidiary companies that are participating employers of The Costain Pension Scheme, the defined benefit pension scheme in the UK. At 31 December 2015, the potential liability was £36.7 million (2014: £41.7 million) on an IAS 19 basis and is included in these financial statements as disclosed in Note 20.

23 Other financial commitments

Group

Operating lease commitments

	2015		2014	
Leases as lessee	Land and buildings £m	Other operating leases £m	Land and buildings £m	Other operating leases £m
Future aggregate minimum lease payments under non-cancellable leases:				
Within one year	4.2	3.9	4.1	3.4
Between one and five years	12.4	4.5	11.6	4.1
Later than five years	5.8	–	7.0	–
	22.4	8.4	22.7	7.5

	Land and buildings	
Leases as lessor	2015 £m	2014 £m
Future aggregate minimum lease income under non-cancellable leases:		
Within one year	–	0.2

The Group has various offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles under non-cancellable operating leases. None of the leases include contingent rents.

Company

The Company does not have any other financial commitments (2014: £Nil).

24 Subsidiary undertakings, joint ventures, associates and joint operations

	Activity	Percentage of equity held	Country of incorporation
Principal subsidiary undertakings			
Alcaidesa Holding SA	Golf course and marina company	100	Spain
Costain Ltd	Engineering, Construction and Maintenance	100	UK
Costain Abu Dhabi Co WLL	Process Engineering	49	UAE
Costain Building & Civil Engineering Ltd	Engineering and Construction	100	UK
Costain Engineering & Construction Ltd	Holding and Service Company	100	UK
Costain Integrated Services Ltd	Professional services	100	UK
Costain Oil, Gas & Process Ltd	Process Engineering	100	UK
Costain Upstream Ltd	Engineering and Design Services	100	UK
Promanex (Total FM & Environmental Services) Ltd	Support Services	100	UK
Rhead Group Holdings Ltd	Holding company	100	UK
Richard Costain Ltd	Service Company	100	UK

	Activity	Issued share capital £m	Percentage of equity held	Country of incorporation	Reporting date
Principal joint ventures					
ABC Electrification Ltd	Rail Electrificatio	–	33.3	UK	31 March
Brighton & Hove 4Delivery Ltd	Civil Engineering	–	49	UK	31 March
4Delivery Ltd	Civil Engineering	–	40	UK	31 March
Principal associates					
Integrated Bradford LEP Ltd	Construction and Operation of Schools	–	40	UK	31 December
Lewisham Schools for the Future LEP Ltd	Construction and Operation of Schools	0.1	40	UK	31 March

The equity capital of the above are held by subsidiary undertakings with the exception of Richard Costain Limited and Costain Engineering & Construction Ltd.

Costain Abu Dhabi Co WLL has been treated as a subsidiary undertaking due to Costain having power to influence and control the composition of the Board of Directors and the beneficial right to all the net income.

All undertakings operate mainly in the country of incorporation.

All holdings are of ordinary shares except Richard Costain Ltd, where Costain Group PLC holds 100% of the ordinary and preference shares.

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Activity	Percentage interest	Country of business
Major joint operations			
Alstom-Babcock-Costain Joint Venture – Edinburgh to Glasgow Rail Improvement Programme	Rail Engineering	33.3	UK
Alstom-Costain C644 Joint Venture – Traction power – Crossrail	Rail Engineering	50	UK
Alstom-Costain C650 Joint Venture – HV power supply – Crossrail	Rail Engineering	50	UK
A-one+ Integrated Highway Services – MAC 12	Engineering & Maintenance	33.3	UK
A-one+ Integrated Highway Services – MAC 14	Engineering & Maintenance	33.3	UK
A-one+ Integrated Highway Services – MAC 7	Engineering & Maintenance	33.3	UK
A-one+ Joint Venture – ASC area 12 – Highways England	Engineering & Maintenance	33.3	UK
A-one+ Joint Venture – ASC area 4 – Highways England	Engineering & Maintenance	33.3	UK
ATC Joint Venture – C610 – Crossrail	Rail Engineering	32.5	UK
Balfour Beatty-BmJV-Carillion-Costain Joint Venture – National Major Projects – Highways England	Civil Engineering	22	UK
CH2M Hill-Costain Joint Venture – East Sussex highway maintenance	Engineering & Maintenance	50	UK
Costain-Atkins Joint Venture – Thames Water AMP6	Civil Engineering	88	UK
Costain-Carillion Joint Venture – M1 Widening and A5/M1 Link	Civil Engineering	50	UK
Costain-Dalekovod Joint Venture – National Grid HV Overhead Line System	Engineering	60	UK
Costain-Laing O'Rourke Joint Venture – Bond Street station	Civil Engineering	50	UK
Costain-MWH Joint Venture – Southern Water AMP6	Civil Engineering	50	UK
Costain-Skanska C360 Joint Venture – Eleanor Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska C405 Joint Venture – Paddington – Crossrail	Civil Engineering	50	UK
Costain-Skanska C412 Joint Venture – Bond Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A14 Cambridge to Huntingdon Improvement Scheme	Civil Engineering	50	UK
Costain-Skanska Joint Venture – NGT Tunnels, London	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Paddington Station Bakerloo Line Link Project	Civil Engineering	50	UK
Costain-Vinci Construction Joint Venture – Shieldhall	Civil Engineering	50	UK
Costain-Vinci Joint Venture – M4 corridor around Newport	Civil Engineering	50	UK
CVB Joint Venture – Thames Tideway Tunnel East	Civil Engineering	40	UK
Educo UK Joint Venture – Bradford Schools	Building	50	UK
Galliford-Costain-Atkins Joint Venture – United Utilities	Civil Engineering	42.5	UK
Lagan-Ferrovial-Costain – A8	Civil Engineering	45	UK
The e5 Joint Alliance Severn Trent Framework	Civil Engineering	25	UK

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates, joint ventures and joint arrangements is required:

	Status	Percentage of equity held	Country of incorporation
Other subsidiaries owned directly by Costain Group PLC			
C.G. Nominees Limited	Dormant	100	UK
Costain Civil Engineering Limited	Holding company	100	UK
Costain Investments Limited	Dormant	100	Bahamas
Costain USA Inc.	Holding company	100	USA
County & District Properties Limited	Trading	100	UK
Renown Investments (Holdings) Limited	Trading	100	UK
Lysander Services Limited	Trading	100	UK
Other subsidiaries owned indirectly by Costain Group PLC			
AB Rhead & Associates Limited	Trading	100	UK
Alcaidesa Golf SA	Trading	100	Spain
Alcaidesa Servicios SA	Trading	100	Spain
Alway Associates (International) Limited	Dormant	100	UK
Alway Associates (London) Limited	Trading	100	UK
Alway Associates Limited	Dormant	100	UK
Alway IT Limited	Dormant	100	UK
Brunswick Infrastructure Services Limited	Trading	100	UK
Calvert & Russell Limited	Trading	100	UK
C-in-A Limited	Trading	100	UK
CLM Engineering (Overseas) Limited	Dormant	100	UK
COGAP (Middle East) Limited	Holding company	100	UK
COGAP Limited	Dormant	100	UK
Construct Safe Limited	Dormant	100	UK
Construction Study Centre Limited	Trading	100	UK
Costain (Malaysia) Sdn Bhd	Dormant	100	Malaysia
Costain Alcaidesa Limited	Holding company	100	UK
Costain America Inc.	Holding company	100	USA
Costain Construction (Botswana) (Pty) Ltd	Dormant	100	Botswana
Costain Construction Limited	Dormant	100	UK
Costain de Venezuela CA	Dormant	100	Venezuela
Costain Energy Solutions Limited	Trading	100	UK
Costain Engineering & Construction (Overseas) Limited	Holding company	100	UK
Costain Engineering Services Inc	Dormant	100	USA
Costain Holdings (Botswana) (Pty) Limited	Holding company	100	Botswana
Costain Holdings (Malaysia) Sdn Bhd	Dormant	100	Malaysia
Costain International Limited	Dormant	100	UK
Costain Management Design Limited	Dormant	100	UK
Costain Minerals Inc.	Dormant	100	USA
Costain Mining Services Inc.	Dormant	100	USA
Costain Oil, Gas & Process (Malaysia) Sdn Bhd	Dormant	100	Malaysia
Costain Oil, Gas & Process (Nigeria) Limited	Dormant	95	Nigeria

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Status	Percentage of equity held	Country of incorporation
Other subsidiaries owned indirectly by Costain Group PLC continued			
Costain Oil, Gas & Process (Overseas) Limited	Dormant	100	UK
Costain Process Construction Limited	Dormant	100	UK
EPC Offshore Limited	Dormant	100	UK
F & P Consulting Limited	Dormant	100	UK
Integrated Care Solutions Limited	Dormant	100	UK
International Commercial and Project Solutions Pty Limited	Trading	100	Australia
JBCC Rhead PTE Limited	Trading	100	Singapore
L.R.R. Holdings Limited	Holding company	100	UK
National Road Operators Limited	Dormant	100	UK
Promanex (Civils & Industrial Services) Limited	Dormant	100	UK
Promanex (Construction & Maintenance Services) Limited	Dormant	100	UK
Promanex Group Holdings Limited	Holding company	100	UK
Promanex Group Limited	Dormant	100	UK
RG Bidco Limited	Holding company	100	UK
Rhead Group Holdings (Australia) Pty Limited	Holding company	100	Australia
Rhead Group Pty Limited	Trading	100	Australia
Rhead Holdings Limited	Holding company	100	UK
Southview Holdings (Private) Limited	Trading	100	Zimbabwe
Southview Investments (Private) Limited	Trading	100	Zimbabwe
Sunland Mining Corporation (II)	Dormant	100	USA
Westminster Plant Co. Limited	Dormant	100	UK
Other joint ventures or associates owned indirectly by Costain Group PLC			
ACM Health Solutions Limited	Dormant	33.3	UK
Budimex & Costain SP ZO.O	Dormant	50	Poland
China Harbour-Costain Mexico S de RL de CV	Dormant	50	Mexico
Costain Petrofac Limited	Dormant	50	UK
Gravitas Offshore Limited	Trading	45	UK
Integrated Bradford LEP FIN Co One Limited	Trading	40	UK
Integrated Bradford PSP Limited	Holding company	50	UK
Jalal Costain WLL	Dormant	49	Bahrain
L21 Lewisham PSP Limited	Holding company	50	UK
Nesma-Costain Process Co. Limited	Dormant	50	Saudi Arabia

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Activity	Percentage interest	Country of business
Other joint operations, including completed			
ACTUS Joint Venture – Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25	UK
Amec-Costain-Jacobs Joint Venture – Magnox ILW Management Programme	Civil Engineering	33.3	UK
A-one+ Integrated Highway Services – MAC 10	Civil Engineering	25	UK
Bachy Soletanche-Costain-Skanska Joint Venture – CTRL 240 – Stratford Box	Civil Engineering	33.3	UK
Black & Veatch-Costain Joint Venture – Margate & Broadstairs UWWTD Scheme – Southern Water	Civil Engineering	62	UK
Costain-Hochtief Joint Venture – Reading station	Civil Engineering	50	UK
Costain-John Mowlem-Skanska Joint Venture – A2/M2 widening (Cobham to Jct.2)	Civil Engineering	30	UK
Costain-Lafarge Joint venture – East and South East Framework	Civil Engineering	50	UK
Costain-Lafarge Joint venture – Midlands Framework	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – Farringdon station	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – King's Cross Eastern Range Refurbishment	Civil Engineering	50	UK
Costain-Skanska C411 Joint Venture – Bond Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A14 Ellington to Fen Ditton	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A43 Silverstone	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Crossrail Civils Framework Enabling Works	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Kings College Hospital, London	Building	50	UK
Costain-Skanska Joint Venture – Lower Precinct Shopping Centre, Coventry	Building	50	UK
Costain-Skanska Joint Venture – The new Met Office	Building	50	UK
Costain-Taylor Woodrow Joint venture – King's Cross re-development & Phase II Northern works	Civil Engineering	50	UK
Costain-VWS Joint Venture – Mersey Valley Processing Centre (Shell Green) Extension Project Stage 2	Civil Engineering	50	UK
The ASP Batch Joint Venture – Severn Trent – Large capital schemes outside AMP6	Civil Engineering	33.3	UK
TSIF-ILW Joint Venture – Trawsfynydd nuclear power station decommissioning	Civil Engineering	33.3	UK

25 Acquisitions

On 15 August 2015, the Group purchased the share capital of Rhead Group Holdings Limited (Rhead). The business, which is based primarily in the UK, 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 proforma figures as required by IFRS 3, assuming that the acquisition had been part of the Group throughout the year, were revenue of £47.3 million and operating profit before amortisation of acquired intangibles of £5.0 million.

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 acquisition is expected to be £18.5 million.

Costs of £0.5 million were incurred by the Group in relation to the acquisition and have been expensed in administrative expenses within the income statement.

25 Acquisitions continued

In July 2015, as described in Note 13, 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 2.

	£m
Carrying value of joint venture at disposal	23.5
Intangible assets – water concession	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.

The proforma figures as required by IFRS 3, assuming that the acquisition had been part of the Group throughout the year, were revenue of £3.8 million and operating loss of £1.0 million.

Costs of £0.2 million were incurred by the Group in relation to the acquisition and have been expensed in administrative expenses within the income statement.

There were no acquisitions in 2014.

26 Related party transactions

Group

A related party relationship exists with its major shareholders, subsidiaries, joint ventures and associates, joint operations, The Costain Pension Scheme and with its Directors and executive officers.

Sales of goods and services

	2015			2014		
	Joint ventures and associates £m	Joint operations £m	Total £m	Joint ventures and associates £m	Joint operations £m	Total £m
Services of Group employees	17.1	95.5	112.6	40.4	73.3	113.7
Construction services and materials	0.4	20.2	20.6	0.9	12.9	13.8
	17.5	115.7	133.2	41.3	86.2	127.5

There were no sales of goods and services to major shareholders during the year (2014: £Nil).

An amount due from a major shareholder has been fully provided against since 2006. It relates to work carried out under a subcontract. Discussions among all the parties continue but recovery is uncertain.

Balances with joint ventures and associates are disclosed in Notes 14 and 18. Balances with joint operations are eliminated on consolidation.

Major shareholders

Mohammed Abdulmohsin Al-Kharafi &   ons Co W.L.L. and UEM Group Berhad are regarded as related parties of the Company.

The Costain Pension Scheme

Details of transactions between the Group and The Costain Pension Scheme are included in Note 20 and, in respect of the transfer of two PFI investments in 2014, also Note 4.

26 Related party transactions continued

Transactions with key management personnel

Disclosures related to the remuneration of key personnel as defined in IAS 24 'Related Party Disclosures' are given in Note 6. Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board of Directors as the controls operated by the Group ensure that all key decisions are reserved for the Board.

The Directors of the Company and their immediate relatives control 652,138 ordinary shares in Costain Group PLC, which expressed as a percentage of the issued share capital is 0.64% (2014: 0.61%) of the voting shares of the Company.

In addition to their salaries, in respect of the Executive Directors and executive officers, the Group provides non-cash benefits and contributes to defined contribution pension plans. Executive Directors and executive officers also participate in the Group's LTIP, AIP, DSBP and SAYE plans, which are detailed in Note 20.

The compensation of key management personnel, including the Directors, is as follows:

	Group	
	2015 £m	2014 £m
Directors' emoluments	2.3	2.4
Executive officers' emoluments	1.8	1.7
Post-employment benefi s	0.3	0.1
Share-based payments	1.2	1.0
	5.6	5.2

The above amounts are included in employee benefit expense (Note 5).

Nigel Curry, Director of Costain Limited and Costain Integrated Services Limited (formerly known as Rhead Group Limited) and Andrew Ferguson, Director of Costain Integrated Services Limited (formerly known as Rhead Group Limited) are beneficiaries of a pension scheme that owns and leases a property to a Costain subsidiary under a lease dated 17 September 2012. The duration of the lease is 10 years with a break clause after five years. The rent is £0.2 million per annum.

Company

The Company has no transactions with related parties other than the charge in relation to share-based payments (Note 20) (2014: none).

FIVE-YEAR FINANCIAL SUMMARY

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Revenue and profit					
Revenue (Group and share of joint ventures and associates)	1,316.5	1,122.5	960.0	934.5	986.3
Less: Share of joint ventures and associates	(52.9)	(50.7)	(74.8)	(86.1)	(117.8)
Group revenue	1,263.6	1,071.8	885.2	848.4	868.5
Group operating profit before other items	33.2	28.7	27.4	21.7	24.1
Other items:					
Exceptional transaction costs	–	–	(3.7)	–	–
Amortisation of acquired intangible assets	(3.2)	(3.0)	(1.8)	(1.7)	(0.9)
Employment related and other deferred consideration	(0.4)	(2.2)	(2.8)	(1.7)	(0.7)
Group operating profit	29.6	23.5	19.1	18.3	22.5
Profit on sales of investments	–	–	–	–	0.5
Profit on sales of interests in joint ventures and associates	–	4.0	9.1	10.5	0.3
Share of results of joint ventures and associates	(0.1)	(1.3)	(11.3)	(1.4)	(1.3)
Profit from operations	29.5	26.2	16.9	27.4	22.0
Finance income	0.8	0.7	0.7	1.0	34.1
Finance expense	(4.3)	(4.3)	(4.7)	(3.7)	(32.2)
Net finance (expense)/income	(3.5)	(3.6)	(4.0)	(2.7)	1.9
Profit before tax	26.0	22.6	12.9	24.7	23.9
Taxation	(3.8)	(1.6)	(0.4)	(1.6)	(5.2)
Profit for the year attributable to equity holders of the parent	22.2	21.0	12.5	23.1	18.7
Earnings per share – basic *	21.8p	22.2p	17.6p	32.9p	27.2p
Earnings per share – diluted *	21.2p	21.7p	16.9p	31.8p	26.2p
Dividends per ordinary share					
Final	7.25p	6.25p	7.75p	7.25p	6.75p
Interim	3.75p	3.25p	3.75p	3.50p	3.25p
Summarised consolidated statement of financial position					
Intangible assets	52.3	31.0	33.0	18.7	20.3
Property, plant and equipment	37.3	10.0	7.9	9.1	11.4
Investments in equity accounted joint ventures and associates	2.6	27.5	32.1	40.4	42.9
Other non-current assets	18.8	41.0	31.8	34.9	33.8
Total non-current assets	111.0	109.5	104.8	103.1	108.4
Current assets	421.4	346.9	276.5	290.6	332.0
Total assets	532.4	456.4	381.3	393.7	440.4
Current liabilities	372.2	299.3	296.1	303.1	348.3
Retirement benefit obligations	36.7	41.7	37.2	51.9	52.9
Other non-current liabilities	2.9	4.6	4.7	6.9	8.4
Total liabilities	411.8	345.6	338.0	361.9	409.6
Equity attributable to equity holders of the parent	120.6	110.8	43.3	31.8	30.8

* The earnings per share figures for 2011 to 2013 have been restated for the bonus element in the 2014 capital raise.

FINANCIAL CALENDAR AND OTHER SHAREHOLDER INFORMATION

Financial calendar[1]

Full year results	02 March 2016
Annual Report mailing	18 March 2016
Ex-dividend date for final dividend	14 April 2016
Final dividend record date	15 April 2016
Annual General Meeting	05 May 2016
Final dividend payment date[2]	20 May 2016
Half-year end	30 June 2016
Half-year results 2016	24 August 2016
Ex-dividend date for interim dividend	15 September 2016
Interim dividend record date	16 September 2016
Interim dividend payment date	21 October 2016
Financial year end	31 December 2016

1 The financial calendar may be updated from time to time throughout the year. Please refer to our website **costain.com** for up-to-date details.

2 Subject to shareholder approval at the Annual General Meeting to be held on 05 May 2016.

Scrip dividend scheme

A scrip dividend scheme will be offered in respect of the final dividend. Those shareholders who have already elected to join the scheme will automatically have their dividend sent to them in this form.

Shareholders wishing to join the scheme for the final dividend (and all future dividends) should return a completed mandate form to the Registrar, Equiniti, by 28 April 2016. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website at **costain.com** or obtained from Equiniti by telephoning 0371 384 2268* or +44 (0)121 415 7173 if calling from outside the UK.

Analysis of shareholders

as at 01 March 2016

	Accounts	Shares	%
Institutions, companies, individuals and nominees:			
Shareholdings 100,000 and more	111	90,624,366	88.76
Shareholdings 50,000-99,999	40	2,739,331	2.68
Shareholdings 25,000-49,999	52	1,859,011	1.82
Shareholdings 5,000-24,999	329	3,354,622	3.29
Shareholdings 1-4,999	8,932	3,523,087	3.45
Totals	9,464	102,100,417	100.00

Secretary

Tracey Wood

Registered Office

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Telephone 01628 842 444
costain.com
info@costain.com
Company Number 1393773

Registrar

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

Telephone 0371 384 2250* or +44 (0)121 415 7047 if calling from outside the UK.

* Lines are open Monday to Friday 08.30am to 05.30pm, excluding UK bank holidays.

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account, by completing a bank mandate form. The advantages of using this service are:

- the payment is more secure as you can avoid the risk of cheques getting lost in the post;
- it avoids the hassle of paying in a cheque; and
- there is no risk of lost, stolen or out-of-date cheques.

A mandate form can be obtained from the Company's website, or by contacting Equiniti on 0371 384 2250* (+44 (0) 121 415 7047 if calling from outside the UK) who will be pleased to assist you and can also be obtained via the shareholder website at **shareview.co.uk** (see below for further details). Alternatively, you will find one attached to the 'dividend tax confirmation' of your last dividend payment. Overseas shareholders can arrange for their dividends to be paid in their local currency and more information can be obtained from **shareview.com/overseas**

Shareview service

The Shareview service from our Registrar, Equiniti, allows shareholders to manage their shareholding online, giving:

- direct access to data held on their behalf on the share register including recent share movements and dividend details; and
- the ability to change their address or dividend payment instructions online.

To sign up for Shareview you need the 'shareholder reference' printed on your proxy form or dividend stationery. There is no charge to register.

When you register with the site, you can register your preferred format (post or email) for shareholder communications. If you select email as your mailing preference, you will be notified of various shareholder communications, such as annual results, by email instead of post.

If you have your dividends paid straight to your bank account, and you have selected email as your mailing preference, you can also collect your 'dividend tax confirmation' electronically. Instead of receiving the paper 'dividend tax confirmation', you will be notified by email with details of how to download your electronic version. Visit the website at **shareview.co.uk** for more details.

Details of software and equipment requirements are given on the website.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. Shareholders who wish to limit the amount of unsolicited mail they receive can contact:

The Mailing Preference Service
Freepost 29
LON20771
London W1E OZT

Further guidance on this issue can also be found on the Company's website at **costain.com**

ShareGift

The Orr Macintosh Foundation ('ShareGift') operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available on the ShareGift website at **sharegift.org**. Equiniti can provide stock transfer forms on request. Donating shares to charity in this way gives rise neither to a gain nor a loss for Capital Gains Tax purposes. This service is completely free of charge.

* Lines are open Monday to Friday 08.30am to 05.30pm, excluding UK bank holidays.

CONTACT US

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For investor relations and corporate responsibility, please contact:

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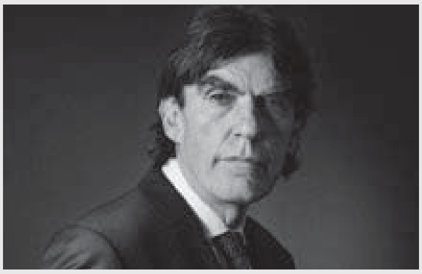

For corporate communications, please contact:

Graham Read
Communications Director
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We welcome your views

Costain is committed to engaging in dialogue with all its stakeholders. We are actively encouraging feedback on our Annual Report and would welcome any views you may have.

Useful links

costain.com

costain.com/investors

costain.com/our-culture

costain.com/annual-report-2015

costain.com/news

Disclaimer

The purpose of this document is to provide information to the members of Costain Group PLC. This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and unless otherwise required by applicable law the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its Directors accept no liability to third parties in respect of this document save as would arise under English law.

Printing
This report has been printed on Cocoon Silk recycled papers. By using this material rather than non-recycled papers, we have reduced the environmental impact by:

626 kg of landfil
84 kg CO_2 and greenhouse gases
841 km travel in the average European car
17,357 litres of water
1,599 kWh of energy
1,017 kg of wood

Source: Carbon footprint data evaluated by Labelia Conseil in accordance with the Bilan Carbone® methodology. Calculations are based on a comparison between the recycled paper used versus a virgin fibre paper according to the latest European BREF data (virgin fibre paper) available.

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Radley Yeldar | ry.com

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