Costain Group PLC

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

Results for the year ended 31 December 2017

1 March 2018

Costain, the smart infrastructure solutions company, announces another strong performance with an 18% increase in underlying[1] operating profit and a recommended 10% increase in the dividend for 2017.

	2017	2016
Revenue		
• including share of JVs and associates	**£1,728.9m**	**£1,658.0m**
• reported	**£1,684.0m**	**£1,573.7m**
Operating profit		
• underlying[1]	**£48.7m**	**£41.1m**
• reported	**£44.3m**	**£34.9m**
Profit before tax		
• underlying[1]	**£43.4m**	**£37.5m**
• reported	**£38.9m**	**£30.9m**
Basic earnings per share		
• underlying[1]	**34.8p**	**31.5p**
• reported	**31.1p**	**25.7p**
Net cash balance[2]	**£177.7m**	**£140.2m**
Dividend per share	**14.0p**	**12.7p**

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

Highlights

- **Another strong performance**
  - revenue, including share of joint ventures and associates, increased to £1,728.9 million (2016: £1,658.0 million)
  - underlying[1] operating profit up 18% to £ 48.7 million (2016: £41.1 million)
  - net cash[2] position increased to £177.7 million (2016: £140.2 million). Average month-end net cash[2] for the year increased to £96.7 million (2016: £69.1 million).

- **Clear purpose and strategy**
  - proactively aligning the Group with the fast changing market environment and rapidly evolving client requirements in energy, water and transportation infrastructures
  - transforming Costain into the UK's leading smart infrastructure solutions company
  - providing an integrated offering of technology, consultancy, asset optimisation and delivery services to meet increasingly complex and urgent national needs.

- **Positive outlook**
  - maintained forward order book at £3.9 billion, with over £1.1 billion of revenue secured for 2018
  - well positioned, through long-term strategic client relationships and an increase to over 1,300 people in consultancy and technology roles, to deliver multi-billion pound programmes
  - recommended final dividend of 9.25 pence per share (2016: 8.4 pence), increasing the total dividend for the year by 10% to 14.0 pence per share (2016: 12.7 pence).

Dr Paul Golby CBE, chairman, commented:

"Costain had another strong year with increases in revenue, profit and cash.

"Our performance is a direct consequence of our ongoing transformation and differentiation into the UK's leading smart infrastructure solutions company. This transformation keeps Costain relevant to our clients who are faced with ever greater urgency and complexity in meeting the UK's infrastructure needs, and who require our technology-led offering to help deliver their multi-billion pound programmes and service enhancements.

"As a result of our strong performance and our confidence for the future, I am pleased to announce the Board's recommendation to increase the total dividend for the year by 10% and I look forward to reporting on future progress."

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There will be a presentation to analysts today at 09:00 at Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ. To register your attendance please contact christine.galloway@instinctif.com

The Costain 2017 results film is available at www.costain.com

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

As a smart infrastructure solutions company, Costain helps to improve people's lives by deploying technology-led programmes to meet urgent national needs across the UK's energy, water and transportation sectors. We have been shaping the world in which we live for over 150 years.

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

Costain's 4,000 people, who are committed to high performance and safe delivery, are working on many high-profile contracts in the UK incorporating a broad range of innovative services across the whole life-cycle of our customers' assets and does so through the delivery of integrated consultancy, asset optimisation, technology and complex delivery services.

CHAIRMAN'S STATEMENT

I am pleased to report that Costain has delivered another strong performance in the year, with continued growth in both revenue and profit.

I have previously commented on Costain's position as a great British engineering success story with an outstanding brand and leading market positions. This has been reinforced further during the year by the ongoing strategic transformation of the business to establish a clearly differentiated position as the UK's leading smart infrastructure solutions company.

This transformation keeps Costain relevant to our clients, who are faced with ever greater urgency and complexity in meeting the UK's infrastructure needs, and who require our technology-led offering to help deliver their multi-billion pound programmes and service enhancements.

To maintain our competitive advantage, we are placing greater focus on smart thinking across everything we do, both internally and externally. We are always asking how we can do things better, quicker, faster, safer and more effectively. Above all, how we can add and deliver further value to our clients. A critical element of this will be our relentless pursuit of new skills and capabilities to ensure that we have the brightest people and the broadest range of services to meet our clients' increasingly urgent and complex needs.

Dividend

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

Our performance this year, and our confidence in the opportunities for future growth, have resulted in the Board recommending a final dividend of 9.25 pence per share (2016: 8.4 pence) which, if approved, will be paid on 18 May 2018 to shareholders on the register as at the close of business on 13 April 2018. This represents an increase of 10% in the total dividend for the year to 14.0 pence per share (2016: 12.7 pence).

Governance

We measure the Board's effectiveness by holding an externally facilitated evaluation of Board performance every three years and take appropriate action where required.

In 2017, an external evaluation concluded that the Board is well-functioning and effective, and recommended agreed actions to help ensure the speed of transformation and organisational development is maintained. I am pleased that the evaluation also confirmed that we have a Board committed to the highest standards of governance.

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

Board and people

I was pleased to welcome Jacqueline de Rojas CBE to the Board as a non-executive director with effect from 20 November 2017. Jacqueline is a recognised and highly regarded technology leader in the UK and has brought an additional perspective to our Board as we continue to transform into the UK's leading smart infrastructure solutions company.

As part of our planned Board succession, James Morley will retire as a non-executive director of the Company, and as senior independent director, on 8 May 2018 after the conclusion of the Group's Annual General Meeting (AGM). Jane Lodge has been appointed to act as the Company's senior independent director with effect from the conclusion of the 2018 AGM. I would like to thank James for more than 10 years of dedicated service to Costain, during which time he has made a significant contribution, and wish him well for the future.

The success of any company is down to the quality of its leadership and the depth of talented and skilled people throughout the organisation. On behalf of the Board, I would also like to thank all Costain's people for their commitment, dedication and hard work. The strong result we have achieved this year would not be possible without them.

Corporate citizenship

Driven by our values, Costain takes seriously our 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 clients who increasingly place a demonstrable commitment to corporate responsibility high on their selection criteria for preferred suppliers.

Outlook

Our major clients, who are committed to spending billions of pounds to improve people's lives by enhancing the UK's energy, water and transportation infrastructures, are facing increasingly complex and urgent challenges. In response, and to help them meet those challenges better, we are transforming the business into the UK's leading smart infrastructure solutions company.

This transformation is an ongoing process and will ensure that our integrated offering of technology, consultancy, asset optimisation and complex delivery services, keeping Costain relevant to our clients as they deliver their multi-billion pound programmes and service enhancements.

The rapidly changing environment in which we operate presents new and attractive opportunities for Costain and we are well-positioned to take advantage of these. This, along with the good visibility we have over the medium-term, reinforces our confidence for the future and I look forward to reporting on further progress.

Dr Paul Golby CBE
Chairman

CHIEF EXECUTIVE'S REVIEW

I am pleased to report that Costain had another very good year.

We are fulfilling our purpose by improving millions of people's lives across the UK by deploying technology-based engineering solutions to address urgent national infrastructure needs in energy, water and transportation.

We have benefited from proactively aligning the business in a rapidly changing market environment and evolving client requirements, allowing us to differentiate Costain and deliver another strong trading result.

There is a revolution taking place in the use of technology and innovation across infrastructure which is having a profound impact on the market, and creating a wide range of exciting new opportunities for Costain. We are transforming Costain into the UK's leading smart infrastructure solutions company and are looking to the future with confidence.

Another strong trading performance

Results

Our performance reflects the rigorous implementation of the Costain Way business management system that sets out our policies and procedures which are applied consistently across the Group. This also governs our robust approach to assessing opportunities, as well as a continual monitoring of contract and operational performance.

Revenue, including the Group's share of joint ventures and associates, for the year increased 4% to £1,728.9 million (2016: £1,658.0 million).

Group underlying operating profit increased 18% to £48.7 million (2016: £41.1 million). The reported operating profit increased 27% to £44.3 million (2016: £34.9 million). The term 'underlying' throughout this document excludes other items; amortisation of acquired intangible assets and employment related and other deferred consideration.

Underlying profit before tax was £43.4 million (2016: £37.5 million), and underlying basic earnings per share increased to 34.8 pence (2016: 31.5 pence). Reported profit before tax was £38.9 million (2016: £30.9 million) and reported earnings per share were 31.1 pence (2016: 25.7 pence).

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

Order book

Costain's strong market positions, reputation for innovation and wide range of integrated services enabled us to secure over £2 billion of new contract awards and extensions to existing contracts during the year. As announced in August, we were unable to agree final terms and conditions for the completion of the marine works contract at Hinkley Point C, and therefore £350 million was removed from the order book at that time.

Consequently, the Group's high-quality order book at 31 December 2017 was maintained at £3.9 billion (31 December 2016: £3.9 billion), providing good visibility for the Group's future performance.

The strategic nature of Costain's long-term client relationships has once again ensured that over 90% of the order book comprises repeat business.

As at 31 December 2017, the Group had secured over £1.1 billion of revenue for 2018 (31 December 2016: over £1.2 billion secured for 2017). In addition, the Group has a preferred bidder position of circa £400 million (2016: £500 million).

Cash and banking facilities

Costain finished the year with an increased strong net cash position of £177.7 million (2016: £140.2 million) reflecting very good cash collection towards the end of the period. As previously, some of this increase will reverse during the year ahead. The average month-end net cash during the year also increased to £96.7 million (2016: £69.1 million).

During the year the Group increased total banking debt facilities, in place to support its future growth, from £155.0 million to £191.0 million and extended the term to June 2022.

A dynamic and rapidly changing market environment

Costain is playing a major role in meeting urgent national infrastructure needs, which are being driven by significant demographic, economic and social trends, across the UK's energy, water and transportation sectors.

We must deliver solutions, in highly regulated and legislated environments, that increase network capacity, improve customer service and ensure security of supply. Our solutions must also demonstrate value-for-money and be deliverable within clients' budgets.

In response to some of the challenges of the 21st century - including global warming, the impact of pollution on human health, the need for improved productivity, and the requirement to stimulate regional economic development - there is rapidly-building momentum across both central and local government to take the bold decisions which will improve both the country and peoples' lives.

Examples of some of the policy decisions taken in 2017 include:

- the proposal by the UK Government for a complete ban on the sale of all new petrol and diesel-engine cars and vans from 2040 and a subsequent pledge by the Scottish Government to ban such vehicles from 2032

- Oxford City Council announced that it plans to start phasing out polluting vehicles including taxis, cars and buses from the city-centre area in only two years' time by 2020, in what officials believe would be the world's first zero-emissions zone

- the announcement of the final route of the second phase of HS2 linking London and Birmingham with Manchester and Leeds, with services running from 2032

- a proposal from The National Infrastructure Commission to develop the arc spanning Cambridge, Milton Keynes and Oxford, an area which attracts and links cutting-edge industries with world-leading academia, which would deliver new integrated transport infrastructure, helping to provide over one million homes and jobs by 2050, including the country's first new towns in 50 years

- the further roll-out of contactless payment across the UK transport infrastructure, following on from Transport for London's announcement that over a billion journeys have now been made by contactless payment methods, to ensure that customers automatically pay the lowest fare

- the commencement of retail competition for non-domestic users in the water market.

This rapidly-changing environment is having a profound impact on all market participants, not least our clients and the demands they, in turn, are placing on Costain. This is creating a wide range of tremendous new opportunities for us as we look to deliver ever more innovative solutions to meet the challenges ahead.

Transforming Costain into the UK's leading smart infrastructure solutions company

As the pace of change continues to build, we are seeing an acceleration in the rate at which new opportunities are being created. The single biggest factor in our continuing success will be our ability further to embrace the revolution taking place in the use and deployment of technology. We have therefore been transforming Costain into the UK's leading smart infrastructure solutions company, embedding technology across everything we do and, while this transformation is ongoing, we are looking to the future with confidence.

This differentiation is making sure that Costain remains an essential choice for the strategic relationships required by our clients on their long-term collaborative multi-billion pound investment programmes. Our offering, comprising integrated technology, consultancy, asset optimisation and complex delivery services, keeps Costain relevant to our clients, and their rapidly changing requirements.

Our clients are required, often by consequence of a regulatory determination or enhanced legislation, to improve significantly the performance, capacity and service provided by the UK's energy, water and transportation infrastructure. Although billions of pounds are being invested, there is also a finite amount of money available, and therefore the heightened infrastructure performance also needs to be achieved through materially improved financial efficiency.

We believe that the only way that these potentially conflicting objectives can be achieved effectively is through the deployment of innovation and the revolution that is taking place in the use of technology is in every aspect of our service delivery. Examples of our recent activity include the Group's involvement in the operational trials of HGV platooning vehicles, the development of testbeds for connected and autonomous vehicles and asset optimisation for a number of water utilities.

Our clients are also developing long-term strategic relationships with suppliers who can mobilise the required range of innovative integrated services. These dynamic market trends are having a profound impact on the competitive environment and are driving supply-side consolidation.

That is why we are continuing to invest in our skills, services and capabilities both organically and by targeted acquisition to embed these across our entire contract portfolio and, consequently, why we are successfully developing and strengthening our long-term strategic supply chain relationships.

Smart people

The success of Costain is built on the strength and experience of our team.

During the year, we increased the number of people in the business working across consultancy and technology roles to 1,300 (2016: 1,200), representing over 30% of the total head count. Additionally, we now have over 800 chartered professionals across a wide range of disciplines, over 250 graduates working towards becoming chartered and over 120 apprentices on a structured development programme undergoing training across the business.

To ensure we continue to generate thought leadership on key issues, we have increased the number of PhD students we are sponsoring to 21. They are undertaking leading-edge research at renowned universities including Cambridge, Imperial College and Edinburgh.

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

Across the Group, there have been over 78,000 hours of training and development in the year, a significant increase year on year following the roll-out of several new e-learning programmes. A number of the members of the senior leadership team have participated in executive education programmes during the year at leading business schools including Stanford and INSEAD.

We continue to enhance our performance and service delivery by improving the diversity within our teams, including an increase to 18% of the number of women now in senior leadership roles.

Smart thinking

To keep differentiating Costain and develop our competitive advantage, we are ensuring that we deploy smart thinking across every aspect of the organisation and the way in which we do business, both internally and externally.

The Costain ethos is always to ask how we can do things better, quicker, faster, safer and more effectively, deploying innovation and technology at every appropriate opportunity.

Just some examples of the result of smart thinking deployed across the seven elements of our business model include:

- Unique client focus

  Over 50% of the Group's order book growth derives from contract extensions and enhancements where we have increased our service offering to clients.

  Strong market positions with a range of clients including becoming the largest supplier to Network Rail.

- Skills and experience of the team

  Increasing the number of employees in consultancy and technology roles to 1,300, up 300% in the last three years.

  The appointment of Jacqueline de Rojas CBE as a non-executive director. Jacqueline is a leader in the UK technology sector and an experienced non-executive director.

- Technology integration capability

  HGV platooning trial: working on the first real-world operational trial of platooning vehicles on UK roads.

  Connected autonomous vehicles: participation in the development of testbeds for connected and autonomous vehicles.

- Range of integrated innovative services

  The introduction of Intelligent Asset Optimisation to address efficiency and resilience in the water sector through data, analytics and in-built responses.

  The appointment by the Crown Commercial Service (CCS) to provide consulting services as part of its Management Consultancy Framework.

- Financial strength

  A robust balance sheet with an average month end net cash balance of £96.7 million up 40% from last year.

  We have also increased our debt facilities to £191.0 million and extended their term to 2022.

- Proven track record

  90% repeat business.

  On time completion of a significant capacity enhancement at London Bridge station.

- Reputation, values and responsibility

  Demonstrating our commitment to change the way we all think and act about mental health in the workplace by signing the Time to Change employer pledge.

  Being named top of our sector in Management Today magazine's annual Britain's Most Admired Companies assessment, improving our ranking to 27 overall, up from 69 in the previous year.

Operational review

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

Infrastructure

The division, which operates in the highways, rail and nuclear markets, delivered another solid performance in the year. The full year revenue (including share of joint ventures and associations) increased to £1,379.7 million (2016: £1,276.1 million and underlying operating profit was £52.2 million (2016: £56.6 million). The margin in the year was 3.8% (2016: 4.4%), which is just below our 4% - 5% target range, reflecting a high level of bid costs and the timing of returns on contracts. We expect the division's margin to return to the target range in 2018.

The forward order book for the division has increased to £3.0 billion (2016: £2.9 billion) and the level of tendering activity remains high.

Highways

Costain is a leading player in the highways market and has again delivered a wide range of strategic highway programmes in the year which have made a considerable contribution increasing network capacity, reducing congestion, and improving the movement of people and goods across the UK.

We are providing a range of consultancy services for Highways England including commissions to support the roll out of their Building Information Modelling programme, customer experience enhancement, HGV platooning studies and several strategic impact studies.

During the year we have continued to provide asset management services to Highways England through their Asset Support Contracts on Area 4 (Kent and Sussex) and Area 12 (Yorkshire and Humberside) in addition to our maintenance and response contract for Area 14 (the North East). Our first local authority integrated services contract for East Sussex County Council continues to perform well, achieving efficiency savings and record customer feedback through our digitalised approach and award-winning customer experience centre.

We have successfully completed a number of capital schemes on programme and within budget including the A556 Knutsford to Bowden Link, the A5-M1 Link and the A160/A180 Port of Immingham. We are leading Highway England's largest ever contract, the A14 upgrade, and we continue to provide innovative solutions across the Smart Motorway Programme, currently delivering four schemes on the M1 corridor.

We continue to progress the technically-complex A465 Heads of the Valleys road upgrade for the Welsh Government. We are in a process with our client to resolve the impact from additional scope on the cost and programme, which we anticipate being agreed in line with our estimated outcome on the project.

In addition, for the Welsh Government, we are delivering the refurbishment and technology system fit out on the critical M4 Brynglas Tunnel, the All Wales Technology contract and continue to provide professional services in support of the M4 Corridor around Newport which is currently going through public inquiry.

Rail

Costain has continued to contribute to improving the UK's rail infrastructure providing much needed capacity enhancement at London Bridge Station for Network Rail. Over one million passengers a week now experience the enlarged concourse and benefit from an enhanced service experience.

In Scotland's central belt, the first electrified rail link between Edinburgh and Glasgow has been successfully commissioned allowing new faster passenger trains to meet the growing transport needs in the region. We are pleased to have secured the extension contract that will see the electrification of the Stirling, Dunblane and Alloa route.

Good progress has been made in the year on Crossrail, Europe's largest infrastructure programme, where Costain is playing a leading part in delivering this much-needed boost to London's rail capacity. Track construction is now complete and on our railway systems contract we are focusing on delivering the remaining power and ventilation works to support the planned commissioning of the Elizabeth Line in 2018. Our contracts at Paddington and Bond Street station continue to progress well. Costain is also supporting Network Rail through the Crossrail Anglia contract which connects Crossrail to the existing mainline between Liverpool Street and Shenfield.

On HS2 we have been awarded further contracts including two of the main civil engineering works contracts on the Southern section of this high-speed railway. This includes section 1 and 2 main works contracts taking the railway from Euston out to the edge of Greater London. This complements the enabling works contract, previously secured, for the same sections which are also progressing well.

The upgraded Bond Street underground station was opened as planned in time for the Oxford Street Christmas shopping season.

Nuclear

Costain continues to play an important role in nuclear new-build and decommissioning, ensuring security of supply of new nuclear power, a vital component of the UK's commitment to delivering sustainable low carbon energy sources.

We have secured a range of significant consultancy contracts during the year including the major construction and programme management appointment for the development of one of AWE's nuclear facilities. In addition, we have deployed a team of experienced nuclear professionals across EDF's UK reactor fleet to support their project control capabilities.

The final commissioning phase on the complex Evaporator D at Sellafield was completed, and the new facility was handed over to the operations team and is now providing a long-term solution for the reduction in Highly Active Liquor stocks. This facility is a key component in the UK's nuclear waste reduction and decommissioning programme and its successful completion has enhanced Costain's reputation in the market. We continue to support this client through our Decommissioning Delivery Partnership Framework contract across several decommissioning, engineering and construction contracts.

For EDF NNB at Hinkley Point C we concluded our obligations on the Marine Cooling Water contract at the year end. We have also completed the infrastructure works on Junction 23 and 24 of the M5 for this project. We continue to deliver the large temporary aggregate jetty on the site which has been impacted by a number of technical issues and is due to be completed in 2018.

Natural Resources

The Natural Resources division, which operates in the water, power and oil and gas markets, returned to profitability with an underlying operating profit of £4.8 million (2016: £8.6 million loss). Revenue (including share of joint ventures and associations) was £343.9 million (2016: £377.3 million).

The significant improvement in the performance reflects growth in the water sector and the successful consensual termination of the legacy Greater Manchester Waste PFI contract. However, the margin was impacted by the timing and quantum of returns across a number of contracts and a lower contribution from oil and gas operations, where we have retained skills and capabilities in anticipation of an expected improvement in market conditions. The division is progressing towards a medium term underlying target margin of 4%-5%.

The division has a forward order book of £0.9 billion (2016: £1.0 billion).

Water

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

Costain is improving water quality and resilience of supply through the delivery of the Shieldhall Tunnel for Scottish Water in Glasgow, reducing flooding issues in the city's wastewater network. This is one of the largest infrastructure investments in Scotland and the main tunnel drive was successfully completed in October and the associated works are progressing well. Commercial discussions continue with the client regarding some programme, scope and cost changes on the contract.

The Thames Tideway project, on which the Group is delivering the east section, is progressing well and will form an integral part of the modernisation of London's Victorian sewerage system and significantly improve water quality in the River Thames, providing capacity to cope with the demands of the city well into the 22nd century.

Bid activity for AMP7 is well underway, with several clients seeking contracts with early engagement from the supply chain to help develop robust business plans ahead of AMP7 formally commencing in 2020.

Power

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

The contract for the upgrade of National Grid's Peterborough and Huntingdon compressor stations is progressing well. This programme of work is part of National Grid's Emissions Reduction Project to ensure that both compressor stations comply with the Industrial Emissions Directive and Pollution Prevention and Control regulations. The project will also increase system resilience and reduce overall risk on the National Transmission System by replacing ageing assets with modern, efficient equipment.

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

Oil and Gas

The Hydrochloric Acid Dosing Plant Construction Contract and Condensate Mercury Removal System for Total's Edradour-Glenlivet facility continue to progress to programme with key shut down activities completed to plan.

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

In the period, we have secured new contracts for our gas process technology service offering, together with our first decarbonisation contract, and several strategic development consultancy services.

The ongoing market conditions continue to be uncertain, recognising an increase in new business opportunities during 2017 as clients restructure their operations and investment projects to accommodate prevailing market conditions. However, several clients continue to defer investment decisions for key programmes.

Greater Manchester Waste PFI

We announced in September 2017 that all the conditions to the consensual termination of the legacy Greater Manchester Waste contract were satisfied. In accordance with the terms of the consensual termination, Costain fully demobilised its remaining activities and settled all of its obligations under the contract within the provisions we have previously taken for the project.

Alcaidesa

Costain owns the Alcaidesa group, which incorporates the operating assets of two golf courses, an associated consented parcel of land and the 624-berth marina concession, adjacent to Gibraltar.

Revenue in the year was £5.3 million (2016: £4.6 million). While there has been an improvement in the trading returns from the operations and some early improvement in market conditions in Spain for this non-core activity, the overall result has been impacted by a foreign exchange loss arising from an adjustment to the Group's hedging position. The loss before tax was £1.4 million (2016: £0.7 million loss).

Costain Cares

The management of Safety, Health and Environment is a core value at Costain. The Group's Accident Frequency Rate (AFR) in the year was 0.07, which is our best-ever performance and compares well with our industry peer group.

We also received a total of 18 RoSPA awards in 2017 including one Patron's Award, one President's Award and two Gold Medals.

Notwithstanding this industry leading safety performance, the Group still had a number of serious safety incidents in the year, including high-potential near-miss events, which reinforced the need for continuous learning, vigilance and improvement in our safety performance.

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

Our clients place great emphasis on the good citizen credentials of their strategic supply chain partners. Given the profile of their businesses and the nature of the activities we undertake, how we deliver our services is as important to them as what we do. Increasingly, clients insist that their tier-one providers share their corporate and social responsibility values and failure to do this would mean a failure to pre-qualify for future work.

During the year we have been placing an increased emphasis on the health and wellbeing of the Costain team. Initiatives include recognising and supporting improved mental health, encouraging flexible working and fundamentally re-evaluating traditional working practices.

From April 2017, the government has introduced gender pay gap reporting for all companies with more than 250 employees. We fully support this legislation as we believe it will help businesses to tackle gender equality in the workplace.

We have conducted an in-depth review into our employee remuneration and are confident that men and women are paid equally for doing equivalent roles across our business. Our gender pay gap however is 23.8% as a result of having fewer women in senior leadership positions. We are working hard to address this and are confident that as we make progress in our gender balance, our gender pay gap will decrease. For more information please download our report from our website www.costain.com.

The Costain Charitable Foundation is the focus of the range of charitable and community work we undertake, both individually and as a Group. I am pleased to report that we raised over £200,000 for charitable causes in 2017.

Outlook

Costain delivered a strong performance in a dynamic and rapidly changing market environment. Our clients are facing increasingly complex challenges and we have transformed our business to ensure that we remain relevant to them in meeting those challenges.

We have an exciting opportunity ahead to grow our business. To realise it, we will continue to invest in our people and innovative technologies to ensure that we maintain our offering comprising integrated technology, consultancy, asset optimisation and complex delivery services.

The current year has started well and we continue to look forward to the future with confidence.

Andrew Wyllie CBE
Chief Executive

CHIEF FINANCIAL OFFICER'S REVIEW

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

Overview

In 2017, the Group had another year of strong financial performance with increases in revenue and profit and finished the year with an excellent net cash position. This performance reflects the effective implementation of the Group's focused strategy which has continued to deliver good financial results over several years.

In addition, the Group continues to attract good support from its banking partners and has enhanced and extended its debt facilities during the year.

Revenue, including share of joint ventures and associates, was £1,728.9 million for the year to 31 December 2017 (2016: £1,658.0 million). Reported revenue, excluding share of joint ventures and associates, was £1,684.0 million for the year to 31 December 2017 (2016: £1,573.7 million).

The Group generated an 18% increase in underlying operating profit to £48.7 million (2016: £41.1 million). The increased profit reflects the Group's focus on long-term repeat orders with blue-chip clients.

Profit before tax, before other items, for the year was £43.4 million (2016: £37.5 million). Basic earnings per share, before other items, amounted to 34.8 pence (2016: 31.5 pence).

Reported profit before tax for the year was £38.9 million (2016: £30.9 million). Reported basic earnings per share were 31.1 pence (2016: 25.7 pence).

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

Other items

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

Net Finance Expense

Net finance expense amounted to £5.7 million (2016: £4.2 million). The interest payable on bank overdrafts, loans and other similar charges was £4.2 million (2016: £3.3 million) and the interest income from bank deposits and other loans and receivables amounted to £0.4 million (2016: £0.6 million). In addition, the net finance expense includes the interest cost on the net liabilities of the pension scheme of £1.8 million (2016: £1.1 million) and £0.1 million (2016: £0.4 million) unwind of discount on deferred consideration. The interest payable element of the net finance expense includes £2.3 million (2016: £2.1 million) for the cost associated with the arrangement of the Group's banking facilities and the fees for the committed bonding facilities.

Tax

The Group's effective rate of tax was 16.2% of the profit before tax (2016: 14.6%). The lower than normal rate of tax arose owing to prior year adjustments in respect of 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 9.25 pence per share (2016: 8.4 pence per share) to bring the total for the year to 14.0 pence per share (2016: 12.7 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 £154.0 million (2016: £99.6 million). The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements. The increase in the year includes a positive movement following the re-measurement of the Group's legacy pension scheme defined benefit obligations to reflect current market-based assumptions.

New accounting standard – IFRS15

The new accounting standard, IFRS15 revenue recognition, will be applicable to Costain's financial statements in 2018. Full details of the impact of the standard are included in a note to the 2017 financial statements. In summary, the main impact arises from the Group having a small number of long-term frameworks which have separate performance obligations within them and under IFRS15 must be accounted for as separate contracts rather than one long-term framework contract. Application of IFRS15, which has no impact on the Group's cash flow, will reduce the net assets of the Group by £4.6 million on 1 January 2018. As the frameworks complete, which is anticipated to be by 2020, it is forecast that this amount will be generated and therefore reverse this impact on net assets.

Pensions

As at 31 December 2017, the Group's pension scheme deficit in accordance with IAS19, was £23.9 million (2016: £73.5 million). The scheme deficit position has reduced significantly in the year due to returns on assets greater than assumed, a fall in liabilities arising from favourable experience over the period since the last triennial valuation and company contributions.

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

	2017 **£m**	2016 £m
Present value of defined benefit obligations	(803.4)	(827.5)
Fair value of scheme assets	779.5	754.0
Recognised liability for defined benefit obligations	(23.9)	(73.5)

Principal actuarial assumptions (expressed as weighted averages)	**%**	**%**
Discount rate	2.50	2.70
Future pension increases	2.90	3.10
Inflation assumption	3.10	3.20

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

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

Cash flow and borrowings

The Group has a positive cash balance, which was £248.7 million as at 31 December 2017 (2016: £210.2 million) which included cash held by joint operations of £87.8 million (2016: £68.1 million). The Group had borrowings of £71.0 million (2016: £70.0 million).

The increase in the net cash position reflects positive operating cash flow and working capital, in particular benefiting from the timing of substantial contract receipts at the year-end. These positive movements have been partially offset by dividend payments and pension deficit contributions made during the year. The average month-end net cash balance during 2017 was £96.7 million (2016: £69.1 million).

Order Book

During the year, the Group secured several new contracts and extensions and the Group's order book was maintained at £3.9 billion (31 December 2016: £3.9 billion). The new accounting standard, IFRS15 revenue recognition, sets out a basis for reporting a company's 'backlog' which is a form of order book although different to the Group's reported order book figures. In 2018, the backlog in accordance with IFRS15 will be reported as part of the Group's overall order book.

Contract bonding and banking facilities

The Group has in place banking and bonding facilities from banks and surety bond providers to meet the current and projected usage requirements. In December, the Group increased its banking facilities to £191.0 million and extended the maturity date to 25 June 2022 with its relationship banks. These facilities are made up of a £131 million revolving credit facility and a £60.0 million term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £320.0 million. In December, the committed element of the bonding facility was reduced to £45.0 million from £125.0 million lowering the carrying cost of the facilities and reflecting the low level of utilisation, which on the 31 December 2017 was only £5.0 million. Utilisation of the total bonding facilities on the 31 December 2017 was £108.0 million and has not been higher than £161.0 million in the last three years.

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 and not to engage in speculative transactions. Group Treasury operates as a service centre within clearly defined objectives and controls and is subject to periodic review by internal audit.

Liquidity risk

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

Foreign currency exposure

Translation exposure: the results of the Group's overseas activities, mainly non-core activities in Spain, are translated into sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The balance sheets of overseas subsidiaries and investments are translated at foreign exchange rates ruling at the balance sheet date. The Group holds a currency hedge against the assets held in its Spanish subsidiary.

Transaction exposure: the Group has transactional currency exposures arising from overseas supply purchases for business in the UK and from subsidiaries' commercial activities overseas. 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 against which the Group holds the appropriate hedging arrangements.

Anthony Bickerstaff
Chief Financial Officer

Principal Risks and Uncertainties

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 Framework

During 2017 we continued to take steps to evolve and enhance our risk management processes, further embedding into business as usual activity and leading to a better understanding of the principal risks and opportunities we face. Focus has been placed on consistent assessment of risk, ensuring measures are in place to monitor risks and to facilitate informed decision making.

The Group Risk and Assurance team oversee and provide practical guidance on the implementation of risk management across the company. Processes are incorporated into day to day activity and governance systems. This team also leads the process to review and assess risk, focusing on the strategic objectives of the Group which supplements the processes already established at contract level, providing a consistent approach to risk management across the company.

Principal Risks

The Board has undertaken a robust assessment of the principal risks facing the Group, including the controls in place to manage these risks and mitigation plans to further reduce the impact to within our risk appetite.
The principal risks and uncertainties facing the Group and its ability to achieve its strategic objectives are set out below.

Overall the Board has assessed that the risk profile of the Group is broadly in line with the 2016 position with some small movements in individual risks. The number of principal risks considered by the Board to be those which would have the greatest impact on the achievement of strategy remains nine. However, to better recognise and monitor these risks there have been some changes to how they are reported:

- A new risk ‘Failure to deliver the business strategy’ replaces the previous ‘Acquisitions’ risk to reflect our broader strategic objectives
- ‘Failure to respond to changes in client circumstances’ has been redefined from ‘Political, economic and market conditions’ to better reflect the nature of the risk in responding to changing buying behaviours because of different market, regulatory or political conditions.

Title	Strategic assumption	What is the Risk?	How we manage it	How we further mitigate it
Failure to prevent a major accident or incident for which Costain is held primarily accountable.	Costain has an Accident Frequency Rate of 0.07, a record low, and is the result of continuous improvement in our approach to safety, health and environment (SHE).	Costain operates in complex and hazardous environments, which have the potential to result in significant loss including the loss of life, widespread acute ill health or damage to the environment. Failure to manage these risks has the potential to result in personal or environmental harm, or operational loss. Significant SHE events could also have regulatory, legal, financial and reputational impacts with all stakeholders.	SHE policies & procedures SHE strategy and plans. Costain behavioural safety programme (CBS). SHE monitoring and assurance.	Ongoing evaluation and improvement of assurance processes. Review of performance against SHE targets. Proactive monitoring of SHE standards at site and offices including regular visits by senior leaders. Ongoing roll-out and certification of CBS strategy and behavioural approach.
Failure to deliver the business strategy.	The delivery of the future strategy involves growth in many business areas. Specifically, transforming our integrated service offering of consultancy, technology, complex delivery and asset optimisation which is fundamental to our future success and incorporates both controllable and uncontrollable risk elements which require monitoring. We must do this with pace to meet our strategic objectives. Organic growth alone may not be sufficient to deliver on the 2020 plan, and therefore we may need to identify suitable acquisition targets.	Failure to manage this risk could result in the transformation and diversification of the business being unsuccessful, new market opportunities may be missed, work in diversified markets may not be won and/or loss of stakeholder confidence.	Technology & Consultancy strategy and implementation plans. Strengthening of our leadership team to deliver in growth areas. A pipeline of acquisition opportunities which are robustly evaluated at Board and Executive level. Rapid integration plans for acquired businesses.	Implementation of Technology and Consultancy operating model and organisation. Allocating additional work winning spend to Technology and Consultancy opportunities. Define and implement annual corporate and internal communication plans. Appointing account directors for all major clients (and potential clients).

Title	Strategic assumption	What is the Risk?	How we manage it	How we further mitigate it
Failure to maintain a strong balance sheet may limit our ability to grow.	Events and activities can have a direct impact on our credit ratings and liquidity which could increase the cost of, and access to, financing. In a changing external environment, we need to respond to macro-economic or political influences. Fraud or other financial loss may impact our ability to meet our financial commitments.	We may fail to win work due to an inability to demonstrate the required level of financial resource. We may not be able to maintain a competitive scale in a consolidating market. We may fail to maintain adequate working capital to operate the business.	Treasury function experienced in the management and oversight of investments. Bank and surety bonding facilities to deliver finance requirements. Strategic collaborations with joint venture partners to help achieve the required financial and operational strength. Joint venture partner selection criteria; all partnerships and alliances signed off by the PLC Board. Zero tolerance to fraud or bribery, supported by online training.	We may utilise banking and bonding facilities if required. We continue to maintain robust cash control and forecasting processes.
Failure to identify and secure new work.	Costain's business strategy depends on winning work in both current, changing and diversified markets, to maintain, grow and diversify a profitable future business which delivers stakeholder value. We have secured approximately 73% of our contract profit planned for 2018, broadly in line with the previous year. The risk is that we fail to secure the balance of 27%.	Failure to manage this risk could mean that we do not win work from current clients, new clients/markets and may therefore fail to demonstrate our capabilities to diversify. We may miss our profit targets if we are unable to secure sufficient new work.	Focus on key, blue-chip clients, and understanding their needs. Monitoring our pipeline of opportunities. Bid compliance and governance processes. Centralised allocation of resources to the most advantageous business development activities. Broadening the skills and breadth of our capability organically and by acquisition.	Appointing account directors for all major clients (and potential clients). Developing pursuit plans for every opportunity. Allocating a greater proportion of our work winning expenditure to technology and consultancy opportunities. Delivery of consultancy and technology services via strategic acquisitions. Increased work winning expenditure planned for 2018.

Title	Strategic assumption	What is the Risk?	How we manage it	How we further mitigate it
Failure to attract and transform the skills, capabilities and competence of our resources.	The attraction, retention and succession of the right people with the right skills in the right role at the right time, underpins the achievement of the Costain business strategy. The development and motivation of our people and leaders are critical factors in the successful execution of our strategy. In addition, we require the right behaviours from our leaders and employees to deliver our business strategy in accordance with our values. Where appropriate, we seek to supplement our internal skills with those of selected partners, and ensuring that our supply chain have the correct competencies and share our values is important to our delivery.	Failure to manage our skills and capabilities risk may result in an inability to grow the business as anticipated and consequently in a short-term impact on performance.	An attractive and fair remuneration policy. High staff retention rate and engaged workforce. Comprehensive induction process for new staff. A defined people strategy based on culture, equality, wellbeing, training, reward and recognition. Active liaison with employees through the Costain Ground Force employee committee and engagement surveys. An ongoing process of competency identification and management, linked this to our resource planning. Careful selection of partners and suppliers, with robust monitoring of their performance against criteria.	Recruitment strategy to hire from a broad range of backgrounds and experience. Develop our team through internal and external programmes designed to support the future activities of the Group. Continue to drive our equality, diversity and inclusivity strategy. Evolve and drive our wellbeing strategy. We will undertake a company-wide engagement survey in 2018.

Title	Strategic assumption	What is the Risk?	How we manage it	How we further mitigate it
Failure to deliver projects effectively.	Costain has a strong reputation for project delivery, with 90% repeat orders. We believe we have robust processes, skilled employees and carefully selected supply chain partners to support our continued delivery of projects in line with expectations. Entering new business areas may involve new ways of working, in which we have less expertise.	Failure to maintain discipline in delivering projects could result in: • contract disputes • design faults that result in additional works to rectify • failure of our supply chain to complete the works • refusal of claims by insurers following a loss • compensation events or increase in scope not being fully reimbursed by our clients. Failure to deliver projects in line with the judgements and estimates made.	Work winning Gate process, Executive Investment Panel (EIP) and Board approval of projects. Partner selection aligned to capability criteria. Project controls framework, as part of a robust programme management process. Supply Chain Management processes and utilisation of performance bonds where appropriate. Consistence of approach through application of The Costain Way. Regular detailed review meetings at Sector, Divisional and Group level. Risk-based assurance and audit activities.	Further enhancements to process standardisation though upgrades to The Costain Way. Standardisation of our online timesheet and expense system. Further definition of Joint Venture Board members roles and responsibilities. Implementation of standardised and consistent project performance reviews. Further roll out of in-depth Commercial reviews on key projects. Continued review of strategic partners to ensure alignment.
Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to its capital base.	The pension scheme has a deficit of £23.9m on an accounting basis at 31 December 2017. The defined benefit pension scheme was closed to new members from 1 June 2005 and to future accrual on 30 September 2009.	Failure to manage this exposure adequately could lead to Costain being exposed to significant additional liabilities under the legacy defined benefit pension scheme and hence significantly higher deficit contributions adversely impacting the Group's operational results.	Funding arrangement agreed with Trustees. Regular reviews of funding position are undertaken. Investment performance is monitored and the Company provides input into the scheme's investment strategy. A third-party pensions expert provides independent advice.	Embed regular reviews to identify further opportunities to mitigate long term risks. Providing input to current investment strategy review being undertaken by Pension Scheme Trustees.

Title	Strategic assumption	What is the Risk?	How we manage it	How we further mitigate it
Failure to ensure that our technology is robust, our systems are secure and our data protected.	Costain's strategic requirement to be at the forefront of technology development means that it is critical that our technology is robust, our systems are secure and our data protected. Effectiveness, availability, integrity and security of IT systems and data are essential for Costain's operations. Sensitive data faces the threat of misappropriation from hackers, viruses and other sources, including disaffected employees. The risk has increased in 2017 reflecting the continued rise in cyber threats.	Failure to manage our technology and data risks could result in: • loss of confidential client or personal data. • breaches of legislation and subsequent fines. • breach of contract. • inappropriate release of commercially sensitive data. • business systems suffer a cyber attack.	An information security strategy which integrates information systems, personnel and physical aspects in order to prevent, detect and investigate threats and incidents. Engaging with key technology partners and suppliers, to ensure potential vulnerabilities are identified. Annual penetration tests and 24 hour threat monitoring by an external security company. Business continuity systems and procedures, routinely tested and developed, to ensure rapid recovery and data retrieval. Accreditation to ISO 27001:2013 Information Security Management System. Up to date information security procedures including regular password changes for system access. A major upgrade of hardware and software in 2017, migrating most of our key systems to the Cloud.	Full implementation of a behavioural training course for information security, with further testing of employees' understanding. Development of a data classification model. Successful completion of the GDPR Compliance program. Continued improvement of physical access controls on site. Migration to the Cloud for remaining key systems. Attain full Cyber Essentials Plus certification.

Title	Strategic assumption	What is the Risk?	How we manage it	How we further mitigate it
Failure to respond to changes in client circumstances resulting from different market, regulatory or political conditions.	This risk would arise if we failed to recognise or understand clients' and prospects' changing buying behaviours, particularly where we have new clients. Failure to understand and respond to the changing marketplace might result in a loss of market share as existing clients move to competitors and future client needs are not met by our service offering. Clients may implement new contract conditions which might adversely impact our business and financial results.	Failure to adequately understand and respond to our clients' needs may result in a reduction in work won, loss of repeat clients, an inability to win work in diversified markets and/or a reduction in profitability and cash flow.	A track record of strong client relationships in target markets. Executive Board members actively engage in discussions with regulatory authorities. Actively monitoring policy development via industry groups.	Appointing account directors for all major clients (and potential clients). Greater Board engagement with clients. Focus on major clients in key UK markets.

Going concern

The Group's business activities and the factors likely to affect its future development, performance and position will be set out in the Strategic Report of the Annual Report and Accounts for the year ended 31 December 2017. 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 will be described in the Financial review section of the financial statements and in Note 18 to the financial statements.

The directors have acknowledged the guidance in respect of going concern published by the Financial Reporting Council. 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. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Board have assessed the viability of the Group over a three-year period taking into account its current financial position and the principal risks.

The period of three years has been considered appropriate and relevant as the Group has reasonable visibility of secured work and pipeline of opportunities over this period and also aligns with the period reviewed by the Board in the normal business planning process.

The Risk Management Framework described above outlines the approach the Board has taken to identifying and managing risk. As detailed above the Board has carried out an assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. The assessment of viability has been made taking into account these principal risks and testing a number of plausible, but severe scenarios which are not included in the corporate plan.

The scenarios include various combinations of the following:

- a major health and safety incident, leading to a fine and loss of future work
- project delivery issues, leading to a downward revision to profit and loss of future work
- failure to achieve the speed of transformation of the Group's service offering, leading to lower future profits
- a major IT data breach, leading to increased operational costs and loss of future work
- working capital issues experienced on a number of key contracts or unforeseen increase in pension contributions, leading to a loss of balance sheet strength
- reduction in the level of new work secured, leading to lower future profits
- loss of key people leading to a reduction in future work
- failure of the Group to respond to changing client buying circumstances, leading to a reduction in current and future work

Based on an assessment of the financial impact of the scenarios on the corporate plan, the Board confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2020.

Costain Group PLC

Results for the year ended 31 December 2017

Consolidated income statement

Year ended 31 December	Notes	**2017** Before other items	**2017** Other items	**2017** Total	2016 Before other items	2016 Other items	2016 Total
		£m	**£m**	**£m**	£m	£m	£m
Continuing operations							
Revenue including share of revenue of joint ventures and associates		**1,728.9**	**-**	**1,728.9**	1,658.0	-	1,658.0
Less: Share of revenue of joint ventures and associates		**(44.9)**	**-**	**(44.9)**	(84.3)	-	(84.3)
Group revenue		**1,684.0**	**-**	**1,684.0**	1,573.7	-	1,573.7
Cost of sales		**(1,596.2)**	**-**	**(1,596.2)**	(1,497.7)	-	(1,497.7)
Gross profit		**87.8**	**-**	**87.8**	76.0	-	76.0
Administrative expenses before other items		**(39.1)**	**-**	**(39.1)**	(34.9)	-	(34.9)
Amortisation of acquired intangible assets		**-**	**(3.2)**	**(3.2)**	-	(4.6)	(4.6)
Employment related and other deferred consideration		**-**	**(1.2)**	**(1.2)**	-	(1.6)	(1.6)
Group operating profit		**48.7**	**(4.4)**	**44.3**	41.1	(6.2)	34.9
Share of results of joint ventures and associates		**0.3**	**-**	**0.3**	0.2	-	0.2
Profit from operations	2	**49.0**	**(4.4)**	**44.6**	41.3	(6.2)	35.1
Finance income	3	**0.4**	**-**	**0.4**	0.6	-	0.6
Finance expense	3	**(6.0)**	**(0.1)**	**(6.1)**	(4.4)	(0.4)	(4.8)
Net finance expense		**(5.6)**	**(0.1)**	**(5.7)**	(3.8)	(0.4)	(4.2)
Profit before tax		**43.4**	**(4.5)**	**38.9**	37.5	(6.6)	30.9
Taxation	4	**(6.9)**	**0.6**	**(6.3)**	(5.1)	0.6	(4.5)
Profit for the year attributable to equity holders of the parent		**36.5**	**(3.9)**	**32.6**	32.4	(6.0)	26.4
Earnings per share							
Basic	5	**34.8p**	**(3.7)p**	**31.1p**	31.5p	(5.8)p	25.7p
Diluted	5	**34.2p**	**(3.6)p**	**30.6p**	30.7p	(5.7)p	25.0p

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

	2017 £m	2016 £m
Profit for the year	**32.6**	26.4
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**0.5**	4.2
Net investment hedge:		
Effective portion of changes in fair value during year	**(0.7)**	(3.7)
Net changes in fair value transferred to the income statement	**0.2**	-
Cash flow hedges :		
Effective portion of changes in fair value during year	**(1.4)**	1.9
Net changes in fair value transferred to the income statement	**0.3**	-
Total items that may be reclassified subsequently to profit or loss	**(1.1)**	2.4
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	**39.2**	(49.8)
Tax recognised on remeasurement of defined benefit obligations	**(7.4)**	7.6
Total items that will not be reclassified to profit or loss	**31.8**	(42.2)
Other comprehensive income/(expense) for the year	**30.7**	(39.8)
Total comprehensive income/(expense) for the year attributable to equity holders of the parent	**63.3**	(13.4)

Consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
At 1 January 2016	51.1	6.2	1.8	-	61.5	120.6
Profit for the year	-	-	-	-	26.4	26.4
Other comprehensive income/(expense)	-	-	0.5	1.9	(42.2)	(39.8)
Issue of ordinary shares under employee share option plans	0.9	1.9	-	-	(0.3)	2.5
Shares purchased to satisfy employee share schemes	-	-	-	-	(1.4)	(1.4)
Equity settled share-based payments	-	-	-	-	2.3	2.3
Dividends paid	0.1	0.7	-	-	(11.8)	(11.0)
At 31 December 2016	52.1	8.8	2.3	1.9	34.5	99.6
At 1 January 2017	**52.1**	**8.8**	**2.3**	**1.9**	**34.5**	**99.6**
Profit for the year	**-**	**-**	**-**	**-**	**32.6**	**32.6**
Other comprehensive income/(expense)	**-**	**-**	**-**	**(1.1)**	**31.8**	**30.7**
Issue of ordinary shares under employee share option plans	**0.6**	**1.6**	**-**	**-**	**-**	**2.2**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**(1.4)**	**(1.4)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**2.2**	**2.2**
Dividends paid	**0.1**	**1.7**	**-**	**-**	**(13.7)**	**(11.9)**
At 31 December 2017	**52.8**	**12.1**	**2.3**	**0.8**	**86.0**	**154.0**

Consolidated statement of financial position

As at 31 December

	Notes	2017	2016
		£m	£m
Assets			
Non-current assets			
Intangible assets	7	**62.5**	65.9
Property, plant and equipment		**43.0**	42.2
Investments in equity accounted joint ventures		**0.3**	0.3
Investments in equity accounted associates		**0.8**	0.6
Loans to equity accounted associates		**1.6**	1.7
Other		**4.9**	7.7
Deferred tax		**10.1**	14.9
Total non-current assets		**123.2**	133.3
Current assets			
Inventories		**1.4**	3.6
Trade and other receivables		**287.8**	299.1
Cash and cash equivalents	8	**248.7**	210.2
Total current assets		**537.9**	512.9
Total assets		**661.1**	646.2
Equity			
Share capital		**52.8**	52.1
Share premium		**12.1**	8.8
Foreign currency translation reserve		**2.3**	2.3
Hedging reserve		**0.8**	1.9
Retained earnings		**86.0**	34.5
Total equity attributable to equity holders of the parent		**154.0**	99.6
Liabilities			
Non-current liabilities			
Retirement benefit obligations	9	**23.9**	73.5
Other payables		**1.3**	1.0
Interest bearing loans and borrowings		**60.6**	30.1
Provisions for other liabilities and charges		**-**	0.4
Total non-current liabilities		**85.8**	105.0
Current liabilities			
Trade and other payables		**402.5**	397.2
Taxation		**7.4**	3.4
Interest bearing loans and borrowings		**10.4**	39.9
Provisions for other liabilities and charges		**1.3**	1.1
Total current liabilities		**421.3**	441.6
Total liabilities		**507.1**	546.6
Total equity and liabilities		**661.1**	646.2

Consolidated cash flow statement

Year ended 31 December

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year		**32.6**	26.4
Adjustments for:			
Share of results of joint ventures and associates		**(0.3)**	(0.2)
Finance income	3	**(0.4)**	(0.6)
Finance expense	3	**6.1**	4.8
Taxation	4	**6.3**	4.5
Depreciation of property, plant and equipment		**3.9**	6.4
Amortisation of intangible assets		**3.7**	5.2
Employment related and other deferred consideration		**1.2**	1.6
Shares purchased to satisfy employee share schemes		**(1.4)**	(1.4)
Share-based payments expense		**2.7**	2.9
Cash from operations before changes in working capital and provisions		**54.4**	49.6
Decrease/(increase) in inventories		**0.2**	(0.7)
Decrease/(increase) in receivables		**14.2**	(24.0)
Increase in payables		**3.4**	61.1
Movement in provisions and employee benefits		**(12.4)**	(14.7)
Cash from operations		**59.8**	71.3
Interest received		**0.3**	0.4
Interest paid		**(3.2)**	(2.4)
Taxation paid		**(5.3)**	(2.2)
Net cash from operating activities		**51.6**	67.1
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		**0.1**	0.2
Additions to property, plant and equipment		**(1.8)**	(7.0)
Additions to intangible assets		**(0.3)**	(0.1)
Proceeds of disposal of property, plant and equipment		**0.2**	0.1
Repayment of loans to joint ventures and associates		**0.1**	-
Acquisition related deferred consideration		**(2.4)**	(2.0)
Acquisition of subsidiaries (net of acquired cash and cash equivalents)		**-**	(16.3)
Net cash used by investing activities		**(4.1)**	(25.1)
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		**2.2**	2.5
Ordinary dividends paid		**(11.9)**	(11.0)
Drawdown of loans		**70.7**	90.1
Repayment of loans		**(70.0)**	(60.0)
Net cash (used by)/from financing activities		**(9.0)**	21.6
Net increase in cash, cash equivalents and overdrafts		**38.5**	63.6
Cash, cash equivalents and overdrafts at beginning of the year	8	**210.2**	146.7
Effect of foreign exchange rate changes		**-**	(0.1)
Cash, cash equivalents and overdrafts at end of the year	8	**248.7**	210.2

Notes to the financial statements

1 Basis of preparation

Costain Group PLC ("the Company") is a public limited company incorporated in the UK. The consolidated financial statements of the Company for the year ended 31 December 2017 comprise the Group and the Group's interests in associates, joint ventures and joint operations and have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS') and their related interpretations.

The financial information set out herein (which was authorised for issue by the directors on 28 February 2018) does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies, and those for 2017 will be delivered in advance of the Company's Annual General Meeting. The Auditors have reported on those accounts; their reports were unqualified and did not include reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

Accounting policies have been consistently applied in 2017 and the comparative period.

The directors have acknowledged the guidance in respect of going concern published by the Financial Reporting Council. 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. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Significant areas of judgment and estimation

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of judgement and estimation arise from the accounting for long-term contracts under IAS 11 'Construction Contracts', the carrying value of goodwill and acquired intangible assets and the assumptions used in the accounting for defined benefit pension schemes under IAS 19 Employee benefits.

Long-term contracts
The majority of the Group's activities are undertaken via long-term contracts and these contracts are accounted for in accordance with IAS 11, which requires estimates to be made for contract costs and revenues. In many cases, these contractual obligations span more than one financial period. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims to the extent that the amounts the Group expects to recover can be reliably estimated and the receipt is probable.

Management bases its judgements of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations, progress on discussions over compensation events, variations and claims with clients and forecasts of the costs to complete and, in certain limited cases, assessments of recoveries from insurers. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates is then reflected in the financial statements.

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

Carrying value of goodwill and intangible assets
Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires judgements, principally, in respect of growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values are set out in Note 7.

Defined benefit pension schemes
Defined benefit pension schemes require significant judgements in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in Note 9.

2 Operating segments

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

2017	**Natural Resources £m**	**Infrastructure £m**	**Alcaidesa £m**	**Central costs £m**	**Total £m**
Segment revenue					
External revenue	**333.5**	**1,345.2**	**5.3**	**-**	**1,684.0**
Share of revenue of joint ventures and associates	**10.4**	**34.5**	**-**	**-**	**44.9**
Total segment revenue	**343.9**	**1,379.7**	**5.3**	**-**	**1,728.9**
Segment profit/(loss)					
Operating profit/(loss)	**4.8**	**52.2**	**(1.4)**	**(6.9)**	**48.7**
Share of results of joint ventures and associates	**0.3**	**-**	**-**	**-**	**0.3**
Profit/(loss) from operations before other items	**5.1**	**52.2**	**(1.4)**	**(6.9)**	**49.0**
Other items:					
Amortisation of acquired intangible assets	**(1.1)**	**(2.1)**	**-**	**-**	**(3.2)**
Employment related and other deferred consideration	**(1.2)**	**-**	**-**	**-**	**(1.2)**
Profit/(loss) from operations	**2.8**	**50.1**	**(1.4)**	**(6.9)**	**44.6**
Net finance expense					**(5.7)**
Profit before tax					**38.9**

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

Profit/(loss) from operations	(12.6)	54.6	(0.7)	(6.2)	35.1
Net finance expense					(4.2)
Profit before tax					30.9

3 Net finance expense

	2017 £m	2016 £m
Interest income from bank deposits	**0.2**	0.3
Interest income on loans to related parties	**0.2**	0.3
Finance income	**0.4**	0.6
Interest payable on bank overdrafts, interest bearing loans, borrowings and other similar charges	**(4.2)**	(3.3)
Unwind of discount on deferred consideration	**(0.1)**	(0.4)
Interest cost on the net liabilities of the defined benefit pension scheme	**(1.8)**	(1.1)
Finance expense	**(6.1)**	(4.8)
Net finance expense	**(5.7)**	(4.2)

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

4 Taxation

	2017 £m	2016 £m
On profit for the year		
UK corporation tax at 19.25% (2016: 20.0%)	**(10.7)**	(2.8)
Adjustment in respect of prior years	**1.8**	-
Current tax expense for the year	**(8.9)**	(2.8)
Deferred tax expense for current year	**2.5**	(1.7)
Adjustment in respect of prior years	**0.1**	-
Deferred tax credit/(expense) for the year	**2.6**	(1.7)
Tax expense in the consolidated income statement	**(6.3)**	(4.5)

	2017 £m	2016 £m
Tax reconciliation		
Profit before tax	**38.9**	30.9
Taxation at 19.25% (2016: 20.0%)	**(7.5)**	(6.2)
Share of results of joint ventures and associates	**0.1**	0.1
Disallowed expenses and amounts qualifying for tax relief	**(1.9)**	(0.3)
Utilisation of previously unrecognised temporary differences	**0.9**	0.1
Research and Development tax relief for the current year	**0.4**	0.5
Rate adjustment relating to deferred taxation and overseas profits and losses	**(0.2)**	1.3
Adjustments in respect of prior years, mainly Research and Development tax relief claims	**1.9**	-
Tax expense in the consolidated income statement	**(6.3)**	(4.5)

5 Earnings per share

The calculation of earnings per share is based on profit of £32.6 million (2016: £26.4 million) and the number of shares set out below.

	2017 Number (millions)	2016 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**104.7**	102.8
Dilutive potential ordinary shares arising from employee share schemes	**2.0**	2.6
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**106.7**	105.4

6 Dividends

	Dividend per share pence	**2017 £m**	2016 £m
Final dividend for the year ended 31 December 2015	7.25	**-**	7.4
Interim dividend for the year ended 31 December 2016	4.30	**-**	4.4
Final dividend for the year ended 31 December 2016	8.40	**8.7**	-
Interim dividend for the year ended 31 December 2017	4.75	**5.0**	-
Amount recognised as distributions to equity holders in the year		**13.7**	11.8
Dividends settled in shares		**(1.8)**	(0.8)
Dividends settled in cash		**11.9**	11.0

7 Intangible assets

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2016	40.8	12.6	7.2	8.6	69.2
Currency realignment	-	-	-	0.1	0.1
Acquired through business combinations	13.3	2.8	2.5	-	18.6
Additions	-	-	-	0.1	0.1
Disposals	-	-	-	(0.7)	(0.7)
At 31 December 2016	54.1	15.4	9.7	8.1	87.3
At 1 January 2017	**54.1**	**15.4**	**9.7**	**8.1**	**87.3**
Additions	**-**	**-**	**-**	**0.3**	**0.3**
At 31 December 2017	**54.1**	**15.4**	**9.7**	**8.4**	**87.6**
Amortisation					
At 1 January 2016	-	5.6	5.0	6.3	16.9
Provided in year	-	2.3	2.3	0.6	5.2
Disposals	-	-	-	(0.7)	(0.7)
At 31 December 2016	-	7.9	7.3	6.2	21.4
At 1 January 2017	**-**	**7.9**	**7.3**	**6.2**	**21.4**
Provided in year	**-**	**2.3**	**0.9**	**0.5**	**3.7**
At 31 December 2017	**-**	**10.2**	**8.2**	**6.7**	**25.1**
Net book value					
At 31 December 2017	**54.1**	**5.2**	**1.5**	**1.7**	**62.5**
At 31 December 2016	54.1	7.5	2.4	1.9	65.9
At 1 January 2016	40.8	7.0	2.2	2.3	52.3

8 Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by joint operations of £87.8 million (2016: £68.1 million).

	2017 £m	2016 £m
Cash and cash equivalents	**248.7**	210.2
Borrowings – current	**(10.4)**	(39.9)
Borrowings – non-current	**(60.6)**	(30.1)
Cash, cash equivalents and overdrafts in the cash flow statement	**177.7**	140.2

9 Pensions

A defined benefit pension scheme is operated in the UK and a number of defined contribution pension schemes are in place in the UK and overseas. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension charge in the income statement was £12.9 million comprising £11.1 million included in operating costs plus £1.8 million included in net finance expense (2016: £12.1 million, comprising £11.0 million in operating costs plus £1.1 million in net finance expense).

Defined benefit scheme
The defined benefit scheme was closed to new members on 31 May 2005 and from 01 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2016 and this was updated to 31 December 2017 by a qualified independent actuary. At 31 December 2017, there were 2,829 retirees and 3,100 deferred members. The weighted average duration of the obligations is 17.3 years.

	2017	2016	2015
	£m	£m	£m
Present value of defined benefit obligations	**(803.4)**	(827.5)	(687.4)
Fair value of scheme assets	**779.5**	754.0	650.7
Recognised liability for defined benefit obligations	**(23.9)**	(73.5)	(36.7)

Movements in present value of defined benefit obligations

	2017	2016
	£m	£m
At 1 January	**827.5**	687.4
Interest cost	**21.9**	25.5
Remeasurements – demographic assumptions	**16.8**	-
Remeasurements – financial assumptions	**6.9**	153.0
Remeasurements – experience adjustments	**(34.5)**	(6.8)
Benefits paid	**(35.2)**	(31.6)
At 31 December	**803.4**	827.5

Movements in fair value of scheme assets

	2017	2016
	£m	£m
At 1 January	**754.0**	650.7
Interest income	**20.1**	24.4
Remeasurements	**28.4**	96.4
Contributions by employer	**12.5**	14.3
Administrative expenses	**(0.3)**	(0.2)
Benefits paid	**(35.2)**	(31.6)
At 31 December	**779.5**	754.0

Expense recognised in the income statement

	2017	2016
	£m	£m
Administrative expenses paid by the pension scheme	**(0.3)**	(0.2)
Administrative expenses paid directly by the Group	**(1.9)**	(2.3)
Interest cost on the net liabilities of the defined benefit pension scheme	**(1.8)**	(1.1)
	(4.0)	(3.6)

Fair value of scheme assets

	2017 £m	2016 £m
UK equities	**128.5**	116.2
Overseas equities	**104.2**	95.9
Multi-credit fund	**90.7**	87.1
Index linked gilts	**319.4**	311.0
PFI Investments	**52.2**	51.6
Property	**22.1**	22.3
Absolute return fund	**52.8**	68.4
Cash	**9.6**	1.5
	779.5	754.0

Principal actuarial assumption (expressed as weighted averages)

	2017 %	2016 %
Discount rate	**2.50**	2.70
Future pension increases	**2.90**	3.10
Inflation assumption	**3.10**	3.20

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2017 and 31 December 2016 is:

	2017		2016	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	**22.8**	**24.8**	22.2	24.7
Non-retirees currently aged 45	**24.5**	**26.7**	24.1	26.7

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

	Pension liability £m	Pension cost £m
Increase discount rate by 0.25%, decreases pension liability and reduces pension cost by	34.7	0.9
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	29.9	0.7
Increase life expectancy by one year, increases pension liability and increases pension cost by	15.0	0.4

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

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

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

Defined contribution schemes
Several defined contribution pensions are operated. The total expense relating to these plans was £8.9 million (2016: £8.5 million).

10 Acquisitions

There were no acquisitions during the year and there were no changes to the acquisition fair values of Costain Integrated Technology Solutions Limited (formerly Simulation Systems Limited) disclosed in the 2016 financial statements.

11 Related party transactions
The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and joint operations, in relation to the sales of construction services and materials and the provision of staff, with The Costain Pension Scheme and with two directors of a subsidiary in relation to an office lease acquired. The total value of these services in 2017 was £211.0 million (2016: £195.1 million) and transactions with The Costain Pension Scheme are included in Note 9.

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

13 Responsibility statements
The responsibility statement set out below has been prepared in connection with (and will be set out in) the Annual Report and Accounts for the year ended 31 December 2017.

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

- The Group accounts, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profits/losses of the Company (and of the Group taken as a whole); and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company (and of the Group taken as a whole), together with a description of the principal risks and uncertainties that they face."

The directors of the Company are Paul Golby (Non-Executive Chairman), Andrew Wyllie (Chief Executive), Tony Bickerstaff (Chief Financial Officer), James Morley (Senior Independent Director), Jane Lodge (Independent Non-Executive Director), Alison Wood (Independent Non-Executive Director), David McManus (Independent Non-Executive Director) and Jacqueline de Rojas (Independent Non-Executive Director).

On behalf of the Board:

PAUL GOLBY
Chairman

ANDREW WYLLIE
Chief Executive

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