COSTAIN

RESULTS FOR THE TWELVE MONTHS
ENDED 31 DECEMBER 2021
9 MARCH 2022

Strong performance in 2021; well positioned to deliver further progress this year

Alex Vaughan, chief executive officer, commented:

"We have delivered an improved operating performance and results in line with market expectations, including significant growth in adjusted operating profit and margin, and good free cash flow generation.

"Infrastructure is facing enormous change, underpinned by significant committed investment and generating huge opportunities for us and, in my mind, addressing these changes requires a different approach. We have aligned our services to meet the changing needs of our clients, allowing us to shape, create and deliver pioneering solutions that transform the performance of the infrastructure ecosystem.

"Looking ahead, while we are mindful of the macro-economic backdrop, we have already secured more than £1bn of Group revenue for 2022 and have entered the new year with good momentum. We expect to deliver further progress in 2022 and remain confident in the Group's strategy and longer-term prospects."

Financial summary

£m	FY21 adjusted[1]	FY21 adjustments[1]	FY21 reported	FY20 adjusted[1]	FY20 reported	Adjusted[1] change
Group revenue	1,178.6	(43.4)	1,135.2	1,070.5	978.4	10.1%
Operating profit / (loss)	30.1	(39.6)	(9.5)	18.0	(92.0)	67.2%
Operating margin	2.6%	(3.4)%	(0.8)%	1.7%	(9.4)%	0.9pp
Profit/(loss) before tax	26.3	(39.6)	(13.3)	13.9	(96.1)	189.2%
Basic earnings/(loss) per share	9.6p	(11.7)p	(2.1)p	5.8p	(36.7)p	65.5%
Dividend per share			-		-	
Free cash flow[2]	38.9			31.6		23.1%
Net cash balance[3]			119.4		102.9	

1. Before impact of significant contract provisions and other items of £39.6m (FY20: £110.0m) (see note 3).
2. Free cash flow is defined as cash flow from operating activities, excluding adjusting items, less capital expenditure.
3. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings (before arrangement fees of £0.6m in FY21 (£1.2m in FY20)).

Highlights

Financial performance

- **Adjusted[1] Group revenue up 10%** reflecting strong growth in Transportation from National Highways and HS2.
- **Improved profitability** with adjusted operating profit[1] up 67% to £30.1m and an adjusted operating margin of 2.6%. Reported operating loss of £9.5m (FY20: £92.0m), the difference to FY21 adjusted profits reflecting £39.6m of adjusting items mainly related to legacy contract issues.
- **Strong cash generation** with a year end net cash position of £119.4m and £38.9m free cash flow, driven by strong cash collection.
- **The Board does not consider it appropriate** to recommend a final dividend this year.

Operating performance

- **Strong safety performance** with LTIR of 0.15 in line with pre-COVID levels.
- **Transportation building good momentum** with a strong pipeline and £764m of revenue secured for FY22.
- **Natural Resources impacted by slower than expected investment in water and energy** in H1. Trading improved in H2 and we expect this momentum to continue into FY22.
- **Good visibility for FY22** with more than £1bn of Group revenue already secured[2] for 2022 at year end, incorporating our broadening mix of construction, consulting and digital services.
- **Solid order book[2] position**:
    - £3.4bn at end of FY21 (FY20: £4.3bn), reflecting the market cycles.
    - Preferred bidder book of £0.9bn (FY20: £1.2bn).
    - Around 50 further frameworks for higher margin consulting and digital services that will yield meaningful revenues in the year.
- **Pipeline remains strong** driven by significant committed infrastructure investment and structural growth drivers from Levelling Up, net zero, climate resilience and customer service needs and underpinned by our secured framework positions.
- **Peterborough & Huntington (P&H) contract** settlement concluded post year end, impacting reported operating profitability in FY21, with cash payment made in FY22.

1. Before impact of significant contract provisions and other items of £39.6m (FY20: £110.0m) (see financial statements note 3).
2. Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Additional business information

	FY21	FY20	Change
Transportation adjusted[1] revenue (£m)	**864.2**	**724.2**	**19.3%**
Road	408.9	315.2	29.7%
Rail	356.4	306.3	16.3%
Integrated transport	99.0	102.6	-3.6%
Natural Resources adjusted[1] revenue (£m)	**314.4**	**345.1**	**-8.9%**
Water	200.0	223.0	-10.3%
Energy	72.0	87.5	-17.7%
Defence	42.4	34.6	22.3%
Non-financial			
Order book[2] at 31 December (£bn)	3.4	4.3	-20.9%
Revenue secured[2] for following year (£m)	1,034	1,039	-0.5%
Lost time injury rate (LTIR)	0.15	0.09	0.06
Community investment (£k)	200	211	-5.2%
Absolute GHG emissions (scope 1-3) tCO_2e	49,000	32,165	52%

[1]Before impact of significant contract provisions and other items of £39.6m (FY20: £110.0m) (see financial statements note 3).
[2]Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Enquiries

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Analyst & investor presentation

A presentation of our results by Alex Vaughan (CEO) and Helen Willis (CFO) will be at 10.00am.

Please go to https://webcasting.brrmedia.co.uk/broadcast/6203df0c636d105baf47a75d to register for the event.

To register a question please call 0800 279 6877 or +44 (0)330 336 9601 with confirmation code: 7995124.

Board changes

Tony Quinlan joined the Board as a non-executive director on 1 February 2021. Jane Lodge, who was senior independent director and chair of the audit committee, stepped down from the Board after nine years' service on 6 May 2021. Alison Wood became senior independent director and Tony Quinlan was appointed chair of the audit committee on 6 May 2021. Neil Crockett joined the Board as a non-executive director on 6 October 2021.

On 12 January 2022, Tony Quinlan also became the Company's senior independent director and Jacqueline de Rojas became remuneration committee chair on an interim basis, following the announcement that Alison Wood would step down as a non-executive director. A search for an additional non-executive director to become Remuneration Committee chair on appointment is well advanced and we will update the market in due course.

As announced separately today, Paul Golby has indicated his intention to step down as chair and from the Board within the next 12 months. Paul joined the Board as chair and non-executive director in 2016. The Nomination Committee, led by Tony Quinlan as senior independent director, will begin a search for Paul's successor.

Use of alternative performance measures

Throughout this release we use a number of 'adjusted' measures to provide users with a clearer picture of the underlying performance of the business. To aid understanding of the underlying and overall performance of the Group, certain amounts that the Board considers to be material or non-recurring in size or nature, or related to the accounting treatment of acquisitions, are adjusted because they are not long term in nature and will not reflect the long-term performance of the Group. This is in line with how management monitors and manages the business on a day-to-day basis. These adjustments are discussed in further detail in Note 1 on page 24.

GROUP TRADING PERFORMANCE

We report both our statutory results, 'reported', and results excluding adjusting items, 'adjusted'. Key adjusting items for FY21 include the Peterborough & Huntingdon settlement payment, partially offset by a provision release relating to the A465 contract. Reported Group revenue was up 16.0%, while the reported operating loss reduced significantly from £92.0m to £9.5m.

Adjusted group revenue was up 10.1% to £1,178.6m (FY20: £1,070.5m). This was driven by Transportation where additional work from National Highways and HS2 resulted in divisional revenue growth of 19.3%. This more than offset an 8.9% decline in Natural Resources revenue, reflecting delays in AMP7 water investment and slower than anticipated investment in the energy market, particularly in H1.

Group adjusted operating profit grew strongly, up 67.2% to £30.1m (FY20: £18.0m), in line with market expectations. The adjusted operating margin was 2.6% (FY20: 1.7%), driven by improvements across Transportation, partly offset by the weaker performance in Natural Resources. The improvement reflects the conclusion of lower margin work and an increased proportion of consulting and digital services.

Adjusted profit before tax was up 189.2% to £26.3m (FY20: £13.9m), while adjusted basic earnings per share (EPS) was up 65.5% to 9.6p (FY20: 5.8p), due to improved profitability, partially offset by the annualised impact on the weighted average number of shares due to the equity raise in FY20. Reported loss before tax was £13.3m (FY20: £96.1m loss) and diluted basic loss per share (EPS) was 2.1p (FY20: 36.7p loss).

Our secured revenue for FY22 at year-end is more than £1bn. Our order book stood at £3.4bn at the year-end (FY20: £4.3bn), reflecting our clients five year investment programmes, greater discipline in contract selection and the shorter lead time of consulting and digital work. The order book evolves as contracts wind down and new contracts are added, therefore it does not provide a complete picture of potential future revenue. In addition to the contracted order book, we have a further £0.9bn of contracts where we are preferred bidder and around 50 further secured frameworks for higher margin consulting and digital services that will yield meaningful revenue each year.

Adjustments to reported items

A significant contract provision was made in the year, with the net charge to the income statement amounting to £39.2m. Within this, £43.4m was taken in relation to the settlement of the Peterborough & Huntingdon contract, which was offset by other movements including a provision release in relation to the A465 contract. Payment of £43.4m in settlement of the Peterborough & Huntingdon contract was made after the financial year-end, please see below for more details.

Cashflow and liquidity

Cash generated from operations was £29.5m (FY20: £47.0m outflow) driven by an improvement in operating profit and efficient working capital management. This has resulted in a £38.9m free cash inflow for the year (FY20: £31.6m). Net cash at the year-end was £119.4m (FY20: £102.9m).

Payment in respect of the settlement of the Peterborough & Huntingdon contract was made after the FY21 year-end and amounted to £43.4m.

The Group continues to maintain sufficient committed facilities to meet its funding requirements over the medium term and, as at 31 December 2021, these committed facilities totalled £310m in contract bonding and bank bonding facilities.

Capital structure and dividends

The objective of our strategy is to deliver long-term value to shareholders while maintaining a strong balance sheet that underpins our financial position. Costain has targeted a dividend cover of around three times adjusted earnings, taking into account the free cash flow generated in the period.

It is important that we maintain a strong balance sheet that will support investment in the business to drive growth. Given the final settlement payment made after the close of the financial year in respect of the Peterborough & Huntingdon contract, the Board does not consider it appropriate to recommend a final dividend this year, despite the Group's improved operating and adjusted cash performance.

We recognise the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Outlook

Looking ahead, we have already secured more than £1bn of Group revenue for 2022 and have entered the new year with good momentum. We are mindful of the macro-economic and geopolitical backdrop, and we continue to monitor and work to mitigate headwinds in commodity and energy costs, as well as challenges in the supply chain. We expect to deliver further progress in 2022 and remain confident in the Group's strategy and longer-term prospects.

STRATEGY UPDATE

Infrastructure is facing enormous change with challenges such as climate change, resource scarcity, increasing performance obligations and our economic and environmental resilience are more urgent than ever. At the start of 2021, we completed a comprehensive strategy update that tested the size and scale of our addressable markets in Transport, Water, Energy and Defence, and which confirmed the significant growth opportunity for the Group. There is £650bn of infrastructure investment planned over the next 10 years, underpinned by legislative and regulatory commitments, as the government addresses issues such as inequality and decarbonisation.

We believe that our strategic positioning in our four chosen markets, combined with our differentiated offering, is well aligned with these long-term investment plans, giving us significant opportunities for growth. Our core strengths are in transport, water, defence, and energy, all of which have major planned investment programmes, with investment cycles of between four to fifteen years. These programmes include:

Transport	Water	Energy	Defence
• £27bn RIS2 investment in strategic road network • £72bn+ for HS2 • £96bn Integrated Rail Plan • £20bn Devolved and local authority investment • £53bn CP6 rail investment	• £51bn AMP7 Ofwat approved investment	• £30bn RIIO-2 investment in clean energy • £12bn 10-point plan for a green industrial revolution • £42bn private investment stimulated by the green industrial revolution	• £42bn defence budget • £17bn increase in defence spending

Clients are looking for partners to help them deliver their investment programmes and navigate the challenges to doing so, and we believe that our differentiated and unique approach positions us strongly to support them. Our expertise and focus on key sectors allows us to understand the broad needs of our clients across their strategy, and operational and capital expenditure requirements, and by broadening our offer, we will be able to address more of the market going forwards. We work as construction, consulting and digital partners, solving problems and delivering engineered solutions across the full client ecosystem. Our vision is to create connected, sustainable infrastructure to help people and the planet thrive.

We are focused on three strategic priorities that will drive our strategic ambition.

People

In delivering our vision, we are increasingly building high-performing, diverse teams and are continually focused on upskilling our people and enhancing our leadership capability. In the year, to deliver on our ambitions and take advantage of the market opportunities, we

have further strengthened our Executive leadership team with Sam White joining from Babcock as Managing Director for Natural Resources, Matthew Higham joining from Microsoft UK as Chief Digital Officer, and Louise Bryant joining as Group Communications and Investor Relations Director. These additions have now enhanced the expertise and diversity of our executive management team, supporting the delivery of our strategy.

The safety of our people and our stakeholders is a core value for Costain and it has been our long-term strategy to improve our performance. In FY21, our Lost Time Injury Rate (LTIR) was 0.15, in line with the pre-COVID level, the best comparator given the reduced number of people on site and strict control measures in place during the pandemic. The long-term strategies we have been implementing since 2016 have seen LTIR halve and we expect to deliver further improvements and maintain our industry leading performance in FY22.

We have continued to operate effectively throughout 2021, despite the challenges to our business operations from the pandemic. We continue to listen to the views of our people regarding our COVID-19 safety measures, which we kept in place on all our sites and offices throughout the year. This approach has enabled us to maintain effective operations in all parts of our business, as well as prioritise the safety of our people.

Planet

Protecting nature and the environment to safeguard our planet for future generations is fundamental. While we have made some progress, there is much more to do, and we have recently committed to achieve Science Based Target accreditation in climate and nature. We are also undertaking a wider review of our sustainability strategy to see what more we can do.

We continue to implement our Climate Change Action Plan, with a 20% reduction in plant idling achieved and continued decarbonisation of our vehicle fleet. This includes mandating hydrotreated vegetable oil (HVO) fuels and the transition to fully electric and hydrogen construction plant, with performance monitored using digital technology including telematics. We are already making substantial progress to transition the whole car fleet (more than 3,000 vehicles) to a 100% zero emission fleet, comprising 100% electric and hydrogen vehicles by 2030. Progress of all targets is measured and monitored on every relevant contract and reported monthly through the Group and divisional SHE dashboards.

Since 2020 we have been accredited PAS2080 compliant and in 2021 we joined the COP26 Race to Zero campaign and the signed 'The Climate Pledge', an initiative with the ambition to beat the Paris Agreement 2050 target by achieving net zero by 2035 at the latest.

Performance

Infrastructure increasingly needs to deliver more and cost less, both economically and environmentally. We are investing in our digital and consulting capabilities to help our clients with a broadened offering, to optimise existing networks and future proof new ones.

As a result of the significant commercial issues faced on the legacy Peterborough & Huntingdon and A465 contracts, a key focus area has been a root cause review and upgrade of the Group's contract risk management and delivery assurance processes.

Based on the findings and conclusions of the root cause review, we have implemented a programme of significant improvements during the past two years including:

Work winning

- Contract selection – an updated contract bidding process to ensure contracts will not be pursued where the risk apportionment is considered inappropriate.
- Independent risk review – comprehensive expert risk review of all potential new material contracts by specialist teams outside the contract bidding team.
- Enhanced legal process - the legal team has been restructured and strengthened to ensure that contracts being entered into are rigorously assessed and assumptions and terms documented to the highest standards and clarity in the event of future legal challenge.

Operational contract delivery

- Operational Excellence Model (OEM) – developed a root and branch OEM, which is implemented across the whole construction contract portfolio. The OEM ensures rigorous process management and consistent practices are applied across the Group, including sharing of best practice and lessons learned. Compliance with the OEM is assessed and reviewed monthly.

Financial performance

- Financial Oversight – the financial performance of every contract is comprehensively reviewed monthly, including a holistic assessment of the risks and range of potential outcomes, to ensure timely action is taken where financial performance is potentially deviating from that assumed in the bidding process.

Senior management ownership

- Review process – rigorous and clear process guidelines are in place to ensure timely, proactive and appropriate communication of on the ground delivery issues to the executive management team and, if necessary, to the Board.

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Operating profit growth

The strategy will deliver a transformation in the business over the next few years, with a step change in business performance in four key areas which will support the ambition to deliver a future group operating margin of 5-6%. These key margin enhancement levers are:

1. Improving margins on complex programme delivery (CPD) contracts - our OEM programme is delivering CPD contracts in line with our target margin range of 3-5% and we are trading out the proportion of revenue from historic lower margin contracts.

2. Growing our consulting services - this is developing well, with contract margins growing to more than 5% as we increasingly build our reputation and expertise, together with continuing to secure consultancy frameworks with our clients.

3. Growing digital services – building on our digital expertise, we are helping our clients shape and develop their plans and we see a considerable opportunity as infrastructure markets move to greater digital infrastructure to enhance business performance. We expect contract margins in this area of more than 5%. We have new leadership in this area and are investing in a clear and focused plan.

While our complex programme delivery services include the benefits of our consulting and digital expertise, and will therefore increase margins, we are also growing our standalone consulting and digital services. Taken together, we expect to deliver a progressive increase in operating profit and operating margin as we implement our strategy.

At present our work within Energy and Defence, for example, is purely consulting with no construction contracts for our clients. We expect consulting and digital as a standalone service to be an increasing proportion of Group profits in the future.

To support our investment in transforming the business we remain focused on increased business efficiency – this commenced in 2020 with the strategic update, and continues to develop as we look at data, systems and process improvements.

Corporate positioning

Following the strategy update in early 2021 we have introduced a vision, 'To create connected, sustainable infrastructure enabling people and the planet to thrive'. We are rolling this out externally and across the Group to ensure that our people understand how it relates to them in their everyday roles. We have also introduced our mission, which is the shorter-term articulation of our vision: 'We shape, create and deliver pioneering solutions that transform the performance of the infrastructure ecosystem'. This reflects the new positioning and feedback so far has been very positive.

DIVISIONAL REVIEW

TRANSPORTATION

£m	FY21 adjusted[1]	FY21 reported	FY20 adjusted[1]	FY20 reported	Adjusted[1] change
Road	*408.9*	*408.9*	*315.2*	*265.1*	*29.7%*
Rail	*356.4*	*356.4*	*306.3*	*306.3*	*16.3%*
Integrated transport	*99.0*	*99.0*	*102.6*	*102.6*	*-3.6%*
Total revenue	864.2	864.2	724.2	674.1	19.3%
Operating profit/(loss)	41.4	49.8	20.1	(30.6)	106.0%
Operating margin	4.8%	5.8%	2.8%	-4.5%	2.0pp

1. Please see notes 3 and 4.

- Adjusted revenue up 19.3% driven by National Highways and HS2.
- Adjusted operating margin was 4.8%, up 2.0 percentage points due to more effective contract management and outperformance.
- Contract wins of £248m in the year, with FY22 secured revenue of £764m.
- Conclusion reached on the A465 contract.

Adjusted revenue was up 19.3% driven by work for National Highways, High Speed 2 (HS2) Main Works and Network Rail, which represent the majority of our divisional revenue. This also drove a significant improvement in operating margin, together with better contract management, outperformance and a change in mix as lower margin contracts come to an end. Reported operating profit of £49.8m includes a provision release of £8.4m following settlement of the A465 contract.

Adjusted revenue for **Road** increased by 29.7% in FY21 on the prior year. As a strategic partner for National Highways, we are working with our client on two of their ten-year key investment programmes; the Regional Delivery Partnerships (RDP) major projects framework and the SMP Alliance, delivering smart motorway upgrades. We work on a number of projects across our capabilities of complex programme delivery, consulting and digital services. We successfully delivered the A19 Testo's scheme in Tyneside and the adjacent A19 Down Hill Lane Junction improvement scheme, providing a safer, more accessible and fluid road network with extra capacity to support economic growth. We have also been upgrading parts of the A1 around Newcastle under the RDP framework and during the year we commenced construction on the A30 in Cornwall. Pre-construction and design activities have been progressing well on the A12 Chelmsford to A120 scheme. While the response to the Transport Select Committee Report into the rollout and safety of smart motorways has paused elements of the smart motorways programme, our work delivering the upgrade to the M6 Junctions 21a/26 continues, and we have been supporting National Highways to upgrade stopped vehicle detection and deliver more emergency areas.

Adjusted revenue for **Rail** increased by 16.3% in FY21 on the prior year, principally as a result of HS2 which increased in the year as a substantial completion of the enabling works was achieved and the full year impact of the construction phase of the main works programme. We will commence the main tunnel bores this summer, and in total we will operate seven tunnel boring machines providing HS2 with 26 miles of running tunnel between Euston and West Ruislip with scheduled contract completion in 2027. We have been providing consulting services to support the Hybrid Bill for the route from Birmingham to Crewe and Manchester, connecting the HS2 network with the North, which are a key part of the Rebalancing Britain initiative. Our work on the Gatwick Airport Station Project for Network Rail was augmented by the client in the year, and being on site also enabled us to unlock a significant consulting opportunity to upgrade the Brighton mainline, improving travel times. During the year we also completed the handover of the Paddington Elizabeth line station.

Adjusted revenue for **Integrated Transport** declined by 3.6% in FY21 on the prior year, due to a reduction in a maintenance contract and plant hire revenue more than offsetting increases elsewhere. Integrated Transport includes work for devolved and local governments, and aviation. Work we undertook in the year includes Newquay Airport for the G7 Summit and commencing the revitalisation of the A40 Westway for Transport for London (TfL). We have continued to grow our consulting services to central and local government in support of accelerating progress to net zero carbon, green economic recovery and levelling up the UK and have secured places on all our targeted frameworks. In February 2021 we reached a settlement agreement with the Welsh Government in relation to the A465 contract and completed the works in November 2021.

Looking ahead, we continue to see multi-year revenue growth in our work for HS2 and Network Rail, alongside further local government and integrated transport opportunities.

During the year we secured £248m of new work. Revenue secured for FY22 for Transportation is £764m (Prior year: £762m).

NATURAL RESOURCES

£m	FY21 adjusted[1]	FY21 reported	FY20 adjusted[1]	FY20 reported	Adjusted[1] change
Water	*200.0*	*200.0*	*223.0*	*223.0*	*-10.3%*
Energy	*72.0*	*28.6*	*87.5*	*45.5*	*-17.7%*
Defence	*42.4*	*42.4*	*34.6*	*34.6*	*22.3%*
Total revenue	314.4	271.0	345.1	303.1	-8.9%
Operating profit/(loss)	(2.6)	(50.6)	5.7	(51.7)	-145.6%
Operating margin	-0.8%	-18.7%	1.7%	-17.1%	-2.5pp

1. Please see notes 3 and 4.

- Adjusted revenue was down 8.9% and operating profit was down 145.6% driven by lower activity levels in Water and Energy.
- Adjusted operating margin was -0.8%, down 2.5 percentage points on an adjusted basis.
- Contract wins of £185m in the year, with 2022 secured revenue of £271m.
- Full and final settlement on legacy Peterborough & Huntingdon contract of £43.4m see adjustments to reported items on page 3 for further details.
- Sam White appointed as Managing Director for Natural Resources.

Adjusted revenue for the year was down 8.9% driven by lower activity levels across AMP7 water programmes and slower than anticipated investment in the energy market. The operating margin for Natural Resources on an adjusted basis was down 2.1 percentage points, reflecting the lower revenue and increased costs, particularly in the water sector. Included within the adjusted results, and in line with IFRS 15 requirements, we have recognised a £6.2m provision in respect of a defect in a subcontractor's works for a contract in the water sector. We expect the majority of the rectification costs will be recoverable.

Adjusted revenue for **Water** declined by 10.3% on the prior year. This was driven by lower volumes of activity in the AMP7 water programmes as clients adjusted their year-one projects due to COVID-19. As the year progressed, volumes improved as the year-two programmes commenced, and we are now undertaking work with key clients including Severn Trent Water, Southern Water, Thames Water and United Utilities under their five-year programmes through to 2025. We have made good progress on the Thames Tideway project, where in a joint venture, we are responsible for the eastern section. We are also working with Anglian Water on its eight-year Strategic Pipeline Alliance to develop an enterprise-ready digital twin, which will replicate all activity and interactions across the operational system allowing Anglian Water to create predictive "what-if" scenarios and their impact on operations. In addition, we are providing bespoke consulting services to Yorkshire Water, South Staffs Water and Welsh Water.

Adjusted revenue for **Energy** declined by 17.7% on the prior year. In H1, we saw a number of contract awards deferred into H2 which had a high demand for our engineering and

consultancy services. We are one year into a 10-year consultancy project for Cadent, managing the mains replacement programme across the East of England. We have also been successful in gaining a further two-year extension to our EDF Project Controls framework contract where we are supporting them in the safe, efficient operation and decommissioning of their eight UK nuclear power stations.

We continue to build a portfolio of project and consultancy assignments in key areas of the energy transition agenda. We have established positions in a number of projects to enable the wide scale deployment of hydrogen and carbon capture, utilisation and storage (CCUS) technologies, including as deployment lead on the £38m South Wales Industrial Cluster deployment project; the Front End Engineering Design (FEED) for the Acorn carbon capture and storage scheme in St Fergus, Scotland; and a first-of-a-kind hydrogen storage facility in Cheshire.

Adjusted revenue for Defence increased by 22.3% on the prior year. We saw good growth in the year, albeit from a small base, as we grow our footprint in this area. We are well positioned in the Ministry of Defence Continuous and Sea Defence programme, and our ambition is to be the delivery partner of choice across the Ministry of Defence's (MoD) strategic infrastructure needs. Revenue in the year was driven by our contract with AWE on a major infrastructure project, where we are providing expertise in design and construction management, and coordinating the work of several subcontractors. We have been awarded a place on a number of Crown Commercial Service Frameworks and through these we secured two contracts with the Defence Nuclear Organisation, one of which is the provision of a Programme Management Office to support the infrastructure division. In addition, we are pleased to have won a significant consultancy contract for the rebuilding of facilities at Devonport Dockyard, which will mobilise in 2022.

Looking ahead, we see further opportunities for growth across Energy, supporting decarbonisation, and in Defence where we are broadening our market position to cover all strategic defence and security infrastructure.

During the year we secured £185m of new work. Revenue secured for FY22 for Natural Resources is £271m (Prior year: £278m).

FINANCIAL REVIEW

Adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	2021	2020	Change	**2021**	2020	Change	**2021**	2020	Change
Revenue £m									
Adjusted	**864.2**	724.2	19.3%	**314.4**	345.1	-8.9%	**1,178.6**	1.070.5	10.9%
Adjusting items	**-**	(50.1)		**(43.4)**	(42.0)		**(43.4)**	(92.1)	
Reported	**864.2**	674.1	28.2%	**271.0**	303.1	-10.6%	**1,135.2**	978.4	16.0%
Operating profit £m									
Adjusted	**41.4**	20.1	106.0%	**(2.6)**	5.7	n/m	**30.1**	18.0	67.2%
Adjusting items	**8.4**	(50.7)		**(48.0)**	(57.4)		**(39.6)**	(110.0)	
Reported	**49.8**	(30.6)	n/m	**(50.6)**	(51.7)	2.1%	**(9.5)**	(92.0)	89.7%

Adjusting items

Significant contract provisions were taken in the year, amounting to £39.2m. A provision of £43.4m was taken in relation to the settlement of the Peterborough & Huntingdon contract, along with £4.2m of other costs associated with the dispute. We also released a provision of £8.4m on lower than provided final costs relating to the A465, and incurred £0.4m on amortisation of acquired intangible assets.

Net financial expense

Net finance expense amounted to £3.8m (FY20: £4.3m). The interest payable on bank overdrafts, loans and other similar charges was £3.0m (FY20: £4.1m) and the interest income from bank deposits and other loans and receivables amounted to £0.1m (FY20: £0.6m). In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £nil (FY20: £0.2m income) and the interest expense on lease liabilities of £0.9m (FY20: £1.0m) under IFRS16.

Tax

The Group has a tax credit of £7.5m (FY20: £18.1m credit) giving an effective tax rate of 56.4%. The 2021 net tax credit arose primarily from the £7.8m impact of the rate change (from 19% to 25% in 2023, which has now been substantively enacted) on deferred tax recognised in respect of losses and pensions. The adjusted effective tax rate was -5.7% (FY20: 10.8%) and we expect the effective tax rate to remain close to the statutory tax rate of 19% until 2023.

Cashflow

The Group generated a £38.9m free cash inflow for the year (FY20: £32.4m).

£m	FY21	FY20
Cash flow from operating activities	29.5	(47.0)
Add back adjusting items	11.6	82.7
Less capital expenditure	(2.2)	(4.1)
Free cash flow	**38.9**	**31.6**

The Group had a positive net cash balance of £119.4m as of 31 December 2021 (HY21: £113.0m, FY20: £102.9m) comprising Costain cash balances of £101.3m (HY21: £100.0m, FY20: £89.8m), cash held by joint operations of £58.1m (HY21: £57.0m, FY20: £61.1m) and borrowings of £40.0m (before arrangement fees of £0.6m (FY20: £1.2m)) (HY21: £44.0m, FY20: £48.0m). During the year, the Group's average month-end net cash balance was £106.5m (HY20: £102.9m, FY20: £73.8m).

£m	FY21	FY20
Cash and cash equivalents at the beginning of period	150.9	180.9
Net cash flow	8.5	(29.4)
FX	0.0	(0.6)
Cash and cash equivalents at the end of period	159.4	150.9
Borrowings	(40.0)	(48.0)
Net cash	**119.4**	**102.9**

Note: Borrowings are stated excluding associated arrangement fees of £0.6m (2020: £1.2m), which are being amortised over the period of the facility.

We remain in a positive net cash position, with positive Costain cash balances, following the final settlement payment made after the end of the financial year in respect of the Peterborough & Huntingdon contract.

Financial resources

The Group has in place banking and bonding facilities from banks and surety bond providers to meet the current and projected usage requirements. The Group has banking facilities of £171.0m with its relationship banks with a maturity date of 24 September 2023. These facilities are made up of a £131.0m revolving credit facility and a £40.0m term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £310m. Utilisation of the total bonding facilities as at 31 December 2021 was £100.7m (HY20: £103.2m, FY20: £112.3m).

Capital allocation

We understand the importance of delivering long-term sustainable value for shareholders and are committed to maintaining a balanced approach between investment in the business, maintaining a strong balance sheet and returns to shareholders. We look to prioritise investment as follows:

1. Investing for growth – disciplined investment in key areas such as digital to help accelerate our business transformation
2. Progressive dividend – committed to reinstating the dividend and we target divided cover of around three times underlying earnings taking into account the free cash flow generated in the period
3. Selective M&A – retaining optionality to pursue strategic investments in technology, skills and capabilities to enhance our ability to support clients in the face of significant change
4. Returning surplus capital – ensuring surplus capital is identified and returned to shareholders through share buy backs of additional dividends.

The Board have discussed the appropriate time to reinstate the payment of a dividend. Despite the Group's improved cash performance, given the £43.4m payment to National Grid and the need to retain a strong balance sheet, the Board does not consider it appropriate to recommend a final dividend this year.

Pensions

As at 31 December 2021, the Group's pension scheme surplus in accordance with IAS 19, was £67.1m (HY21: £29.0m surplus, FY20: £5.6m liability).

The movement in the IAS 19 valuation from a deficit at 31 December 2020 to a surplus at 31 December 2021 was due to the impact of growth in scheme assets and a reduction in scheme liabilities, primarily driven by a higher discount rate of 1.80% used in the IAS 19 valuation as at 31 December 2021 compared to the discount rate at 31 December 2020 of 1.35%.

Cash contributions were made to the scheme during the year amounting to £10.4m (FY20: £10.6m) and the charge to operating profit in respect of the administration cost of the UK Pension Scheme in the period was £0.3m (FY20: £0.3m).

DIRECTORS REPORT

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2021, the Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements. Please see note 1 for more details.

Cautionary statement

This report contains forward-looking statements. These have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. The Directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Shareholder information

There is a large amount of information about our business on our website, www.costain.com. This includes copies of recent investor presentations as well as London Stock Exchange announcements.

For and on behalf of the Board

Alex Vaughan
Chief Executive Officer
9 March 2022

Helen Willis
Chief Financial Officer

GROUP INCOME STATEMENT

For the year ended 31 December 2021

£m	Notes	2021	2020
Group revenue	4	1,135.2	978.4
Cost of Sales		(1,095.0)	(1,027.0)
Gross profit/(loss)		40.2	(48.6)
Administrative expenses		(49.7)	(43.4)
Group operating loss		(9.5)	(92.0)
Share of results of joint ventures and associates		-	0.2
Loss from operations	4	(9.5)	(91.8)
Finance income	5	0.1	0.8
Finance expense	5	(3.9)	(5.1)
Net finance expense		(3.8)	(4.3)
Loss before tax		(13.3)	(96.1)
Taxation	6	7.5	18.1
Loss for the year attributable to equity holders of the parent		(5.8)	(78.0)
Earnings/(loss) per share			
Basic	7	(2.1)p	(36.7)p
Diluted	7	(2.1)p	(36.7)p

GROUP STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

For the year ended 31 December 2021

£m	2021	2020
Loss for the year	(5.8)	(78.0)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	-	0.2
Exchange differences on translation transferred to the income statement	-	(1.2)
Net investment hedge:		
Effective portion of changes in fair value during year	-	0.1
Net changes in fair value transferred to the income statement	-	0.4
Cash flow hedges :		
Effective portion of changes in fair value during year	0.3	(0.3)
Net changes in fair value transferred to the income statement	-	0.5
Total items that may be reclassified subsequently to profit or loss	0.3	(0.3)
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset/(obligations)	62.7	(19.9)
Tax recognised on remeasurement of retirement benefit asset/(obligations)	(15.6)	3.8
Total items that will not be reclassified to profit or loss	47.1	(16.1)
Other comprehensive income/(expense) for the year	47.4	(16.4)
Total comprehensive income/(expense) for the year attributable to equity holders of the parent	41.6	(94.4)

GROUP BALANCE SHEET

As at 31 December 2021

£m	Notes	2021	2020
Assets			
Non-current assets			
Intangible assets	9	52.5	52.1
Property, plant and equipment	10	32.0	39.9
Equity accounted investments		0.4	0.4
Retirement benefit asset		67.1	-
Trade and other receivables		5.5	3.5
Deferred tax		15.4	23.6
Total non-current assets		172.9	119.5
Current assets			
Inventories		0.3	0.6
Trade and other receivables		199.6	218.7
Taxation		0.2	0.2
Cash and cash equivalents	11	159.4	150.9
Total current assets		359.5	370.4
Total assets		532.4	489.9
Liabilities			
Non-current liabilities			
Retirement benefit obligations	12	-	5.6
Other payables		1.8	1.1
Interest bearing loans and borrowings		32.0	39.6
Lease liabilities		18.2	20.8
Total non-current liabilities		52.0	67.1
Current liabilities			
Trade and other payables		215.1	246.0
Interest bearing loans and borrowings		7.4	7.2
Lease liabilities		8.6	12.5
Provisions for other liabilities and charges		50.3	0.6
Total current liabilities		281.4	266.3
Total liabilities		333.4	333.4
Net assets		199.0	156.5
Equity			
Share capital	13	137.5	137.5
Share premium		16.4	16.4
Translation reserve		0.6	0.6
Hedging reserve		-	(0.3)
Retained earnings		44.5	2.3
Total equity		199.0	156.5

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

£m	Share capital	Share premium	Translation reserve	Hedging reserve	Merger reserve	Retained earnings	Total equity
At 1 January 2020	54.1	16.4	1.1	(0.5)	-	86.6	157.7
Loss for the year	-	-	-	-	-	(78.0)	(78.0)
Other comprehensive (expense)/ income	-	-	(0.5)	0.2	-	(16.1)	(16.4)
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.2)	(0.2)
Equity-settled share-based payments	-	-	-	-	-	0.9	0.9
Capital raise (note 13)	83.4	-	-	-	9.1	-	92.5
Transfer	-	-	-	-	(9.1)	9.1	-
At 31 December 2020	137.5	16.4	0.6	(0.3)	-	2.3	156.5
At 1 January 2021	137.5	16.4	0.6	(0.3)	-	2.3	156.5
Loss for the year	-	-	-	-	-	(5.8)	(5.8)
Other comprehensive income	-	-	-	0.3	-	47.1	47.4
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.2)	(0.2)
Equity-settled share-based payments	-	-	-	-	-	1.1	1.1
At 31 December 2021	137.5	16.4	0.6	-	-	44.5	199.0

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2021

£m	Notes	2021	2020
Cash flows from/(used by) operating activities			
Loss for the year		(5.8)	(78.0)
Adjustments for:			
Share of results of joint ventures and associates		-	(0.2)
Finance income	5	(0.1)	(0.8)
Finance expense	5	3.9	5.1
Taxation	6	(7.5)	(18.1)
Impairment of Alcaidesa marina		-	0.6
Impairment of other investment		-	0.6
Profit on sales of interests in joint ventures and associates		-	(1.6)
Profit on disposal of subsidiary undertakings		-	(1.4)
Pension GMP equalisation charge		-	0.9
Depreciation of property, plant and equipment	10	12.9	15.0
Amortisation and impairment of intangible assets	9	1.1	10.5
Shares purchased to satisfy employee share schemes		(0.2)	(0.2)
Share-based payments expense		1.1	0.9
Cash from/(used by) operations before changes in working capital and provisions		5.4	(66.7)
Decrease in inventories		0.3	0.7
Decrease in receivables		17.7	25.5
Decrease in payables		(29.9)	(0.1)
Movement in provisions and employee benefits		39.7	(10.4)
Cash from/(used by) operations		33.2	(51.0)
Interest received		0.1	0.8
Interest paid		(3.9)	(5.1)
Taxation received		0.1	8.3
Net cash from/(used by) operating activities		29.5	(47.0)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		-	0.2
Additions to property, plant and equipment		(0.7)	(0.5)
Additions to intangible assets		(1.5)	(3.6)
Proceeds of disposals of property, plant and equipment and intangible assets		-	0.3
Proceeds of sales of interests in joint ventures and associates		-	3.7
Proceeds of sales of subsidiary undertakings		-	4.6
Net cash (used by)/from investing activities		(2.2)	4.7
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		-	92.5
Repayments of lease liabilities		(10.8)	(12.1)
Drawdown of loans		-	71.5
Repayment of loans		(8.0)	(139.0)
Net cash (used by)/from financing activities		(18.8)	12.9
Net increase/(decrease) in cash and cash equivalents		8.5	(29.4)
Cash and cash equivalents at beginning of the year	11	150.9	180.9
Effect of foreign exchange rate changes		-	(0.6)
Cash and cash equivalents at end of the year	11	159.4	150.9

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Costain Group PLC ("the Company") is a public limited company domiciled in England and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 31 December 2021 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 UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. In preparing the financial statements of the Group we performed an assessment of the impact of climate change, with reference to the disclosures made in the Strategic report. There has been no material impact on the financial statements for the current year from the Group's assessment of the impact of climate change, including estimates and judgements made, specifically in relation to long-term contract accounting.

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 8 March 2022. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2021 and 2020 but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered in due course.

The auditor has reported on these accounts. Their report for 2021 was (i) unqualified and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Their report for the accounts of 2020 was (i) unqualified, and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

While 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.

The accounting policies have been applied consistently by the Group to each period presented in these financial statements.

Going concern

The Group's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities. These borrowing facilities give the Group access to an RCF cash drawdown component of £131m and a £40m five-year Term Loan, which reduces by £4m every six months on 30 June and 31 December.

These facilities have a liquidity covenant of net debt / EBITDA ≤1.5 times and an interest covenant of EBITA / net interest payable covenant of ≥4.0 times and these financial covenants are tested quarterly. As at 31 December 2021, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of

11.0 times. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its £35m bank bonding and £275m surety company bonding facilities.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2021, the Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group and the Company have adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis in the preparation of the financial statements.

In assessing the going concern assumption, the Board reviewed the base case plans and also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The base case assumes delivery of the Board approved strategic and financial plans. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, future contractual issues, higher working capital requirements and adverse contract settlements.

These forecasts show significant headroom and support that the Group will be able to operate within its available banking facilities and covenants throughout this period. Covenants are calculated on a rolling 12-month basis each quarter and therefore for all quarters until Q4 of FY22, and Q1 and Q2 of FY23, a portion of the EBITDA/EBITA has already been earned, reducing the risk of a potential breach. Taking this into account along with the forecasts reviewed, it is considered that the EBITA/net interest covenant for the rolling 12 months to Q4 of FY22 and Q1 of FY23 is the limiting factor, given the Group's net cash position. The Board concluded that there is liquidity headroom in severe but plausible downside scenarios, as well as headroom on the committed facilities and on the associated financial covenants.

Alternative performance measures

Income statement presentation - Adjusting items

To aid understanding of the underlying and overall performance of the Group, certain amounts that the Board considers to be material or non-recurring in size or nature or related to the accounting treatment of acquisitions are adjusted because they are not long term in nature and will not reflect the long-term performance of the Group. Presenting results on this adjusted basis is consistent with the internal reporting presented to the Board.

The Directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the Directors give consideration, both individually and collectively, as to an item's size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items.

The separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items. The tax impact of the above is shown in note 3 to the financial statements on the taxation line.

Consequently, the Group is disclosing as supplementary information 'Adjusted revenue, Adjusted profit and Adjusted earnings per share' alternative performance measurements. These are reconciled to statutory numbers in note 3 to the financial statements and reported in the presentation of segmental reporting in note 4.

The Group also presents net cash/ bank debt as an alternative performance measure. The Directors consider that this provides useful information about the Group's liquidity position.

2. SIGNIFICANT AREAS OF JUDGEMENT AND ESTIMATION

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

The most critical accounting policies and significant areas of estimation and judgement arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers', the carrying value of goodwill and acquired intangible assets, the assumptions used in the accounting for defined benefit pension schemes under IAS 19 'Employee benefits', the recognition of deferred tax assets in relation to tax losses and the items classified as other items and contract adjustments.

Long-term contracts

The majority of the Group's activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted individually. The most common type of contracts undertaken by the Group with multiple performance obligations are framework contracts. In most cases, the obligations are satisfied over time and estimates are made of the total contract costs and revenues. In many cases, these 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 and assessments of the impact of pain/gain arrangements to the extent that the amounts the Group expects to recover or incur can be reliably estimated and are highly probable not to reverse.

Management bases its estimates 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 customers, progress against the latest programme for completing the works, forecasts of the costs to complete and, in certain limited cases,

assessments of recoveries from insurers where virtually certain. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered in management's judgement highly probable to be agreed.

During the course of the contract, there is often significant change to the scope of the works and this has an impact on the programme and costs on the contract. The amount of resulting compensation events can be substantial and at any time these are often not fully agreed with the customer due to the timing and requirements of the contractual process. Also many will relate to work yet to be undertaken or completed. Therefore, assessments are based on an estimate of the potential cost impact of the compensation events.

The Group's five largest compensation events positions included in contract assets at the year-end are summarised in aggregate below. The Peterborough & Huntingdon contract is not included in the table and is discussed separately below.

£m	2021	2020
Overall contract value	1,501.9	1,135.6
Revenue in year	146.3	176.9
Total estimated end of contract compensation events	135.4	83.1
Total estimated unagreed end of contract compensation events (included in the above)	96.1	51.3
Total unagreed compensation events valued at year-end and included in contract assets	22.9	22.5

The financial impact of changes to the value of compensation events finally agreed will depend on the precise terms of the contract and the interaction with incentive arrangements, such pain/gain mechanisms and bonus or KPI arrangements, and any assessments made about costs disallowed under the contract. If the estimated value of the unagreed end of contract compensation events in relation to the currently estimated change in these contracts was increased or decreased by 10%, the impact on the financial results over the life of the contract could be an increase or decrease of up to £9.6m (2020: up to £7.0m). Additional compensation events for further change may also arise over the remaining contract period.

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 both positive and negative is then reflected in the financial statements.

While management believes it has recorded positions that are highly probable not to reverse on the basis of existing knowledge, there are a number of factors affecting the positions and some possible outcomes could require material adjustment within the next financial year. 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. However, a sensitivity analysis of the potential impact is included above.

Peterborough & Huntingdon

On 24 February 2022, Costain announced that it had reached a final settlement with National Grid regarding the Peterborough & Huntingdon contract. The settlement agreement brings an end to the dispute after the contract was mutually terminated in June 2020 and prevents any further claims under the contract. Costain made a full and final payment of £43.4m to National Grid, after the end of the financial year 2021. See note 3 for further details.

Carrying value of goodwill and intangible assets

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires an estimation of the value in use of cash generating unit to which the goodwill has been allocated. These valuations involve estimation and judgement, principally, in respect of the levels of operating margins, growth rates and future cash flows of the cash generating units and also include a consideration of potential sensitivities around those figures. The useful lives of intangible assets and the selection of discount rates used to calculate present values are set out in note 9.

Defined benefit pension schemes

Defined benefit pension schemes require significant estimates in relation to the assumptions for the discount rate, inflation 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 12.

Deferred tax

Included in deferred tax assets is an asset for tax losses recorded in current and prior years. The asset is recognised on the basis that the losses will be used against future taxable profits of the Group over the next six years. The critical judgements in assessing the recoverability relate to the ability of the Group to achieve its taxable profit forecasts and the ability of these estimated numbers to withstand the application of what the Board considers appropriate sensitivities.

Adjusting items

Management has used judgement to determine the items classified as adjusting items and set out in note 3.

3. RECONCILIATION OF REPORTED REVENUE AND OPERATING (LOSS)/PROFIT TO ADJUSTED REVENUE AND OPERATING PROFIT

Adjusted revenue, operating profit and earnings per share are being used as non-GAAP alternative performance measurements. These measurements were introduced in 2020 and exclude the impact of significant one-off re-measurements of three contracts, Peterborough & Huntingdon (P&H), the A465 Heads of the Valley road (A465) and the ASF South contracts, as described below, as well as the other items that the Board considers to be of a one-off and unusual nature or related to the accounting treatment of acquisitions. The Board considers the adjusted measures better reflect the underlying trading performance of the Group.

The profit adjustments represent the amounts included in the income statement. The revenue adjustments represent the reversal of the contract asset recorded in the statement of financial position immediately prior to the initial write down and any subsequent adjustment to overall contract revenue.

On 29 June 2020, Costain announced that a termination and settlement agreement (the "Agreement") had been reached with National Grid to cease work on the Peterborough & Huntingdon ("P&H") gas compressor project (the "Contract") following a significant change in scope. The Agreement included the parties entering into a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs incurred and eliminate potential liability to National Grid for completing the works.

Under the terms of the Agreement, the aggregate potential outcome for Costain of these adjudications ranged from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect the Group's banking arrangements) of up to a maximum of £57.3m. As outlined in the Agreement, Costain and National Grid had until 28 December 2021, to agree the quantum of these compensation events. After this, in accordance with the contractual mechanism, any remaining unagreed change items would require a cash payment to be paid to National Grid in the interim. Should such a cash payment be required, this would be required to be made in the first quarter of 2022.

Subsequent to reaching this agreement, in its interim results for the six months ended 30 June 2020, Costain recorded a charge to the income statement of £49.3m, reflecting the cash position at termination. See below for further details.

At 31 December 2020, the Group, supported by extensive input from third party quantum, delay and disruption experts and independent legal advice, determined that it had a strong entitlement to retain, at a minimum, the reported position. No asset or liability was recorded on the balance sheet at this time.

On 10 December 2021, Costain received the outcome of a material combined adjudication where the adjudicator found in Costain's favour on principle in respect of three out of four compensation events under consideration. However, the adjudicator unexpectedly declined to make a quantum assessment and noted that had he been able to determine quantum, this would only be in respect of non-productive time-related costs. In doing so

the adjudicator therefore indicated that he would have sought to apply a methodology that was not envisaged nor widely used within the construction industry, nor was it in accordance with or defined within the contract. The impact of this would have been to allow recovery of only a small proportion of the additional costs incurred and claimed. This left the matter undecided and, in respect of certain matters, the subject of further adjudication.

Accordingly, in the absence of a quantified resolution via adjudication by 28 December 2021, Costain would have been required to make a payment to National Grid of £53.5m in January 2022. This payment was required notwithstanding any potential subsequent recoveries from National Grid which might become due as a result of further actions to recover costs, including in respect of those compensation events that had been ruled in Costain's favour.

In assessing and determining the most appropriate steps to conclude this matter, Costain considered the risks associated with pursuing further recoveries via a potentially protracted process of further adjudication and litigation, the residual future latent defect risks and the opportunity for the release of retention bonds and parent company guarantees held by National Grid, in addition to the ongoing and significant management time this would require. On balance, Costain concluded in light of these changes in events, that it was appropriate to enter into discussions with National Grid with a view to reaching a settlement.

On 24 February 2022, Costain announced that it had reached a full and final settlement with National Grid. The settlement agreement brings an end to the dispute and prevents any further claims under the contract. Costain made a full and final payment of £43.4m to National Grid in the first quarter of 2022. Related legal and other costs of £4.2m were also incurred and expensed during the period ending 31 December 2021.

After careful consideration including obtaining legal advice, it is the Board's clear view that there have been specific and unexpected changes in circumstance that have occurred during 2021. These were not envisaged by the Board or its external advisors nor could they reasonably have been foreseen when reaching the conclusion in the December 2020 financial statements that it was highly probable that Costain would be awarded compensation events consistent with the cash neutral balance sheet position adopted. That position had been the subject of detailed focus by independent experts and legal advisors who had confirmed and supported the position taken.

After due consideration of the unexpected outcome of the adjudication process during 2021, the Board concluded that it was appropriate to record the £43.4m adjustment in the period ending 31 December 2021 as a charge to the income statement. As disclosed in Note 3 this charge has been treated as an adjusting item, consistent with the treatment adopted in respect of the P&H contract in the prior year.

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. In 2020, an arbitration decided that Costain was responsible for design

information for a specific retaining wall and that the additional building cost associated with the wall was not a compensation event under the contract. As a consequence of the decision, at 30 June 2020, the Group adjusted the revenue recognised based on the level of cash received to that date and reflected a write down of the £45.4m contract asset. The Group continued to fulfil its obligations under the contract, which was completed during the current year. The final costs to complete were lower than forecast at the end of 2020 and a profit of £8.4m is recognised in the year. 2020 adjusted Group revenue includes £18.0m of revenue on the A465 contract.

The ASF South contract was in respect of works undertaken for Highways England that were completed in 2016. Following an extensive contract review in 2020, the Group took a one-off charge of £5.0m to close out this legacy contract in the 2020 results.

Year ended 31 December 2021	Adjusted £m	P&H £m	A465 £m	ASF South £m	Other items £m	Total £m
Revenue before contract adjustments	1,178.6	-	-	-	-	1,178.6
Contract adjustments	-	(43.4)	-	-	-	(43.4)
Group revenue	1,178.6	(43.4)	-	-	-	1,135.2
Cost of sales	(1,099.2)	(4.2)	8.4	-	-	(1,095.0)
Gross profit/(loss)	79.4	(47.6)	8.4	-	-	40.2
Administrative expenses before other items	(49.3)	-	-	-	-	(49.3)
Other items	-	-	-	-	(0.4)	(0.4)
Administrative expenses	(49.3)	-	-	-	(0.4)	(49.7)
Group operating profit/(loss)	30.1	(47.6)	8.4	-	(0.4)	(9.5)
Share of results of joint ventures and associates	-	-	-	-	-	-
Profit/(loss) from operations	30.1	(47.6)	8.4	-	(0.4)	(9.5)
Net finance expense	(3.8)	-	-	-	-	(3.8)
Profit/(loss) before tax	26.3	(47.6)	8.4	-	(0.4)	(13.3)
Taxation	0.1	9.0	(1.6)	-	-	7.5
Profit/(loss) for the period attributable to equity holders of the parent	26.4	(38.6)	6.8	-	(0.4)	(5.8)
Basic earnings/(loss) per share	9.6p					(2.1)p

Year ended 31 December 2020	Adjusted £m	P&H £m	A465 £m	ASF South £m	Other items £m	Total £m
Revenue before contract adjustments	1,070.5	-	-	-	-	1,070.5
Contract adjustments	-	(42.0)	(45.4)	(4.7)	-	(92.1)
Group revenue	**1,070.5**	**(42.0)**	**(45.4)**	**(4.7)**	**-**	**978.4**
Cost of sales	(1,019.4)	(7.3)	-	(0.3)	-	(1,027.0)
Gross profit/(loss)	51.1	(49.3)	(45.4)	(5.0)	-	(48.6)
Administrative expenses before other items	(33.1)	-	-	-	-	(33.1)
Other items	-	-	-	-	(10.3)	(10.3)
Administrative expenses	(33.1)	-	-	-	(10.3)	(43.4)
Group operating profit/(loss)	**18.0**	**(49.3)**	**(45.4)**	**(5.0)**	**(10.3)**	**(92.0)**
Share of results of joint ventures and associates	0.2	-	-	-	-	0.2
Profit/(loss) from operations	**18.2**	**(49.3)**	**(45.4)**	**(5.0)**	**(10.3)**	**(91.8)**
Net finance expense	(4.3)	-	-	-	-	(4.3)
Profit/(loss) before tax	**13.9**	**(49.3)**	**(45.4)**	**(5.0)**	**(10.3)**	**(96.1)**
Taxation	(1.5)	9.4	8.6	1.0	0.6	18.1
Profit/(loss) for the period attributable to equity holders of the parent	**12.4**	**(39.9)**	**(36.8)**	**(4.0)**	**(9.7)**	**(78.0)**
Basic earnings/(loss) per share	5.8p					(36.7)p

4. OPERATING SEGMENTS

The Group has two core business segments: Transportation and Natural Resources. The core segments are strategic business units with separate management and have different core customers or offer different services. This information is provided to the Chief Executive who is the chief operating decision maker. The segments are discussed in the Strategic Report section of these financial statements.

The Group evaluates segment performance on the basis of profit or loss from operations before interest and tax expense before and after other items and contract adjustments. The segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other items are allocated to the operating segments where appropriate, but otherwise are viewed as Central items.

2021	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Adjusted revenue	314.4	864.2	-	1,178.6
Contract adjustments	(43.4)	-	-	(43.4)
Group revenue	271.0	864.2	-	1,135.2
Segment profit/(loss)				
Adjusted operating profit	(2.6)	41.4	(8.7)	30.1
Contract adjustments	(47.6)	8.4	-	(39.2)
Operating loss before other items	(50.2)	49.8	(8.7)	(9.1)
Share of results of joint ventures and associates	-	-	-	-
Profit/(loss) from operations before other items	(50.2)	49.8	(8.7)	(9.1)
Other items:				
Amortisation of acquired intangible assets	(0.4)	-	-	(0.4)
Profit/(loss) from operations	(50.6)	49.8	(8.7)	(9.5)
Net finance expense				(3.8)
Loss before tax				(13.3)

2020	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Adjusted revenue	345.1	724.2	1.2	-	1,070.5
Contract adjustments	(42.0)	(50.1)	-	-	(92.1)
Group revenue	**303.1**	**674.1**	**1.2**	**-**	**978.4**
Segment profit/(loss)					
Adjusted operating profit	5.7	20.1	(0.1)	(7.7)	18.0
Contract adjustments	(49.3)	(50.4)	-	-	(99.7)
Operating loss before other items	(43.6)	(30.3)	(0.1)	(7.7)	(81.7)
Share of results of joint ventures and associates	0.2	-	-	-	0.2
Loss from operations before other items	**(43.4)**	**(30.3)**	**(0.1)**	**(7.7)**	**(81.5)**
Other items:					
Impairment of Alcaidesa marina	-	-	(0.6)	-	(0.6)
Impairment of other investment	-	-	-	(0.6)	(0.6)
Profit on sales of interests in joint ventures and associates	1.6	-	-	-	1.6
Profit on disposal of subsidiary undertakings	-	-	0.4	1.0	1.4
Refinancing advisory fees	-	-	-	(1.2)	(1.2)
Pension GMP equalisation charge	-	-	-	(0.9)	(0.9)
Amortisation of acquired intangible assets	(0.7)	(0.3)	-	-	(1.0)
Impairment of goodwill	(9.0)	-	-	-	(9.0)
Loss from operations	**(51.5)**	**(30.6)**	**(0.3)**	**(9.4)**	**(91.8)**
Net finance expense					(4.3)
Loss before tax					**(96.1)**

5. NET FINANCE EXPENSE

£m	2021	2020
Interest income from bank deposits	0.1	0.5
Interest income on loans to related parties	-	0.1
Interest income on the net assets of the defined benefit pension scheme	-	0.2
Finance income	0.1	0.8
Interest payable on interest bearing bank loans, borrowings and other similar charges	(3.0)	(4.1)
Interest expense on lease liabilities	(0.9)	(1.0)
Finance expense	(3.9)	(5.1)
Net finance expense	(3.8)	(4.3)

Other similar charges includes arrangement and commitment fees payable. Interest income on loans to related parties relates to shareholder loan interest receivable from investments in equity accounted joint ventures and associates.

6. TAXATION

£m	2021	2020
On loss for the year		
UK corporation tax at 19.0% (2020: 19.0%)	-	(1.9)
Adjustment in respect of prior years	0.1	3.0
Current tax credit for the year	0.1	1.1
Deferred tax credit for the current year	8.4	19.7
Adjustment in respect of prior years	(1.0)	(2.7)
Deferred tax credit for the year	7.4	17.0
Tax credit in the consolidated income statement	7.5	18.1

£m Tax reconciliation	2021	2020
Loss before tax	(13.3)	(96.1)
Taxation at 19.0% (2020: 19.0%)	2.5	18.3
Amounts qualifying for tax relief and disallowed expenses	(0.3)	(1.3)
Tax decrease from other tax effects	-	0.6
Rate adjustment relating to deferred taxation and overseas profits and losses	6.2	0.2
Adjustments in respect of prior years	(0.9)	0.3
Tax credit in the consolidated income statement	7.5	18.1

7. LOSS PER SHARE

The calculation of earnings per share is based on a loss of £5.8m (2020: loss £78.0m) and the number of shares set out below.

	2021 Number (millions)	2020 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	274.9	212.8
Dilutive potential ordinary shares arising from employee share schemes	5.1	2.9
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	280.0	215.7

8. DIVIDENDS

No dividends were paid or proposed in respect of the year ended 31 December 2021.

9. INTANGIBLE ASSETS

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2020	54.1	15.4	9.7	10.8	90.0
Additions	-	-	-	3.6	3.6
At 31 December 2020	54.1	15.4	9.7	14.4	93.6
At 1 January 2021	54.1	15.4	9.7	14.4	93.6
Additions	-	-	-	1.5	1.5
At 31 December 2021	54.1	15.4	9.7	15.9	95.1
Accumulated amortisation					
At 1 January 2020	-	14.3	9.4	7.3	31.0
Charge in year	-	0.7	0.3	0.5	1.5
Impairment	9.0	-	-	-	9.0
At 31 December 2020	9.0	15.0	9.7	7.8	41.5
At 1 January 2021	9.0	15.0	9.7	7.8	41.5
Charge in year	-	0.4	-	0.7	1.1
At 31 December 2021	9.0	15.4	9.7	8.5	42.6
Net book value					
At 31 December 2021	45.1	-	-	7.4	52.5
At 31 December 2020	45.1	0.4	-	6.6	52.1
At 1 January 2020	54.1	1.1	0.3	3.5	59.0

Goodwill has been allocated to the applicable cash generating units of the transportation segment (£15.5 million (2020: £15.5 million)) and the natural resources segment (£29.6 million (2020: £29.6 million)).

As described in note 2, the Group reviews the value of goodwill and in the absence of any identified impairment risks, tests are based on internal value in use calculations of the cash generating unit (CGU). The key assumptions for these calculations are: operating margins, discount rates and growth rates.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows for the Transportation CGU was 13.2% and for the Natural Resources CGU was 14.3%. In 2020, the discount rates used for the two CGUs were Transportation 12.4% and Natural Resources 12.5%.

10. PROPERTY, PLANT AND EQUIPMENT

			Right-of-use assets		
	Land & Buildings £m	Plant & Equipment £m	Land & Buildings £m	Vehicles, plant & equipment £m	Total £m
Cost					
At 1 January 2020	12.5	32.3	19.5	21.2	85.5
Currency movements	0.8	0.3	-	-	1.1
Additions	-	0.5	1.2	19.1	20.8
Disposal of subsidiary undertakings	(12.5)	(4.0)	-	-	(16.5)
Disposals	(0.2)	(2.1)	(0.2)	(10.0)	(12.5)
At 31 December 2020	0.6	27.0	20.5	30.3	78.4
At 1 January 2021	0.6	27.0	20.5	30.3	78.4
Additions	-	0.7	1.0	17.0	18.7
Disposals	-	(0.7)	(7.4)	(17.9)	(26.0)
At 31 December 2021	0.6	27.0	14.1	29.4	71.1
Accumulated depreciation					
At 1 January 2020	9.5	20.8	4.3	6.8	41.4
Currency movements	0.6	0.1	-	-	0.7
Charge in year	-	2.7	4.3	8.0	15.0
Impairment	0.6	-	-	-	0.6
Disposal of subsidiary undertakings	(10.0)	(1.9)	-	-	(11.9)
Disposals	(0.1)	(1.9)	(0.2)	(5.1)	(7.3)
At 31 December 2020	0.6	19.8	8.4	9.7	38.5
At 1 January 2021	0.6	19.8	8.4	9.7	38.5
Charge in year	-	2.5	3.3	7.1	12.9
Disposals	-	(0.7)	(5.6)	(6.0)	(12.3)
At 31 December 2021	0.6	21.6	6.1	10.8	39.1
Net book value					
At 31 December 2021	-	5.4	8.0	18.6	32.0
At 31 December 2020	-	7.2	12.1	20.6	39.9
At 1 January 2020	3.0	11.5	15.2	14.4	44.1

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed below and include the Group's share of cash held by joint operations of £58.1m (2020: £61.1m).

	2021 £m	2020 £m
Cash and cash equivalents	159.4	150.9
Borrowings – current	(7.4)	(7.2)
Borrowings – non-current	(32.0)	(39.6)
Net cash	120.0	104.1

The borrowings of £39.4m are net of arrangement fees of £0.6m.

12. 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. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension charge in the income statement was £11.7m comprising £11.7m included in operating costs and £nil interest income included in net finance expense (2020: £12.7m, comprising £12.9m in operating costs less £0.2m interest income included in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2019 and this was updated to 31 December 2021 by a qualified independent actuary. At 31 December 2021, there were 2,875 retirees and 2,629 deferred members. The weighted average duration of the obligations is 16.3 years.

	2021 £m	2020 £m	2019 £m
Present value of defined benefit obligations	(837.5)	(886.5)	(812.1)
Fair value of scheme assets	904.6	880.9	817.0
Recognised asset/(liability) for defined benefit obligations	67.1	(5.6)	4.9

Movements in present value of defined benefit obligations

	2021 £m	2020 £m
At 1 January	886.5	812.1
Past service cost – GMP equalisation charge	-	0.9
Interest cost	11.7	16.3
Remeasurements – demographic assumptions	(5.4)	(2.9)
Remeasurements – financial assumptions	(16.1)	99.0
Remeasurements – experience adjustments	(6.5)	(4.6)
Benefits paid	(32.7)	(34.3)
At 31 December	837.5	886.5

Movements in fair value of scheme assets

	2021 £m	2020 £m
At 1 January	880.9	817.0
Interest income	11.7	16.5
Remeasurements – return on assets	34.6	71.5
Contributions by employer	10.4	10.6
Administrative expenses	(0.3)	(0.4)
Benefits paid	(32.7)	(34.3)
At 31 December	904.6	880.9

Expense recognised in the income statement

	2021 £m	2020 £m
Administrative expenses paid by the pension scheme	(0.3)	(0.4)
Administrative expenses paid directly by the Group	(1.0)	(1.7)
GMP equalisation charge	-	(0.9)
Interest income on the net assets/liabilities of the defined benefit pension scheme	-	0.2
	(1.3)	(2.8)

Fair value of scheme assets

	2021 £m	2020 £m
Global equities	137.2	125.0
Multi-asset growth funds	133.7	118.4
Multi-credit fund	118.1	139.8
LDI plus collateral	494.6	421.4
PFI Investments	-	44.7
Property	4.4	15.7
Cash	16.6	15.9
	904.6	880.9

Principal actuarial assumption (expressed as weighted averages)

	2021 %	2020 %
Discount rate	1.80	1.35
Future pension increases	3.25	2.85
Inflation assumption	3.40	2.95

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2021 and 31 December 2020 is:

	2021		2020	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	22.1	24.0	22.3	24.1
Non-retirees currently aged 45	23.1	25.3	23.3	25.3

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	33.1	0.6
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	28.6	0.5
Increase life expectancy by one year, increases pension liability and increases pension cost by	39.0	0.7

As highlighted in the table above, the defined benefit scheme exposes the Group to actuarial risks such as longevity, interest rate, inflation and investment risks. The LDI portfolio is designed to respond to changes in gilt yields in a similar way to a fixed proportion of the liabilities. With the LDI portfolio, if gilt yields fall, the value of the investments will rise to help partially match the increase in the trustee valuation of the liabilities arising from a fall in the gilt yield based discount rate. Similarly, if gilt yields rise, the value of the matching asset portfolio will fall, as will the valuation of the liabilities because of an increase in the discount rate. The leverage within the LDI portfolio means the equivalent of 95 per cent of the value of the assets is sensitive to changes in interest rates and inflation and this mitigates the equivalent movement in the liabilities on the scheme as a whole.

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2019. In March 2020, the valuation and an updated deficit recovery plan were agreed with the scheme Trustee resulting in cash contributions of £10.2m for each year commencing 1 April 2020 (increasing annually with inflation) until the deficit is cleared, which would be in 2029 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. 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 £10.4m (2020: £9.9m).

13. SHARE CAPITAL

	2021		2020	
	Number (millions)	Nominal value £m	Number (millions)	Nominal value £m
Issued share capital				
Shares in issue at beginning of year - ordinary shares of 50p each, fully paid	275.0	137.5	108.3	54.1
Issued in year (see below)	-	-	166.7	83.4
Shares in issue at end of year - ordinary shares of 50p each, fully paid	275.0	137.5	275.0	137.5

The Company's issued share capital comprised 274,949,741 ordinary shares of 50 pence each as at 31 December 2021. The increase in issued share capital in 2020 reflects the Firm Placing and Placing and Open Offer undertaken by Costain in May 2020 and described in Costain's results for FY20.

All shares rank pari passu regarding entitlement to capital and dividends.

14. EVENTS AFTER THE REPORTING DATE

As per notes 2 and 3 we reached a full and final settlement regarding the Peterborough & Huntingdon contract with a cash payment of £43.4m after the year-end.