

COSTAIN

Creating a sustainable future



Costain Group PLC
Annual Report and Accounts

2023

We shape, create and deliver solutions that transform the performance of the infrastructure ecosystem.

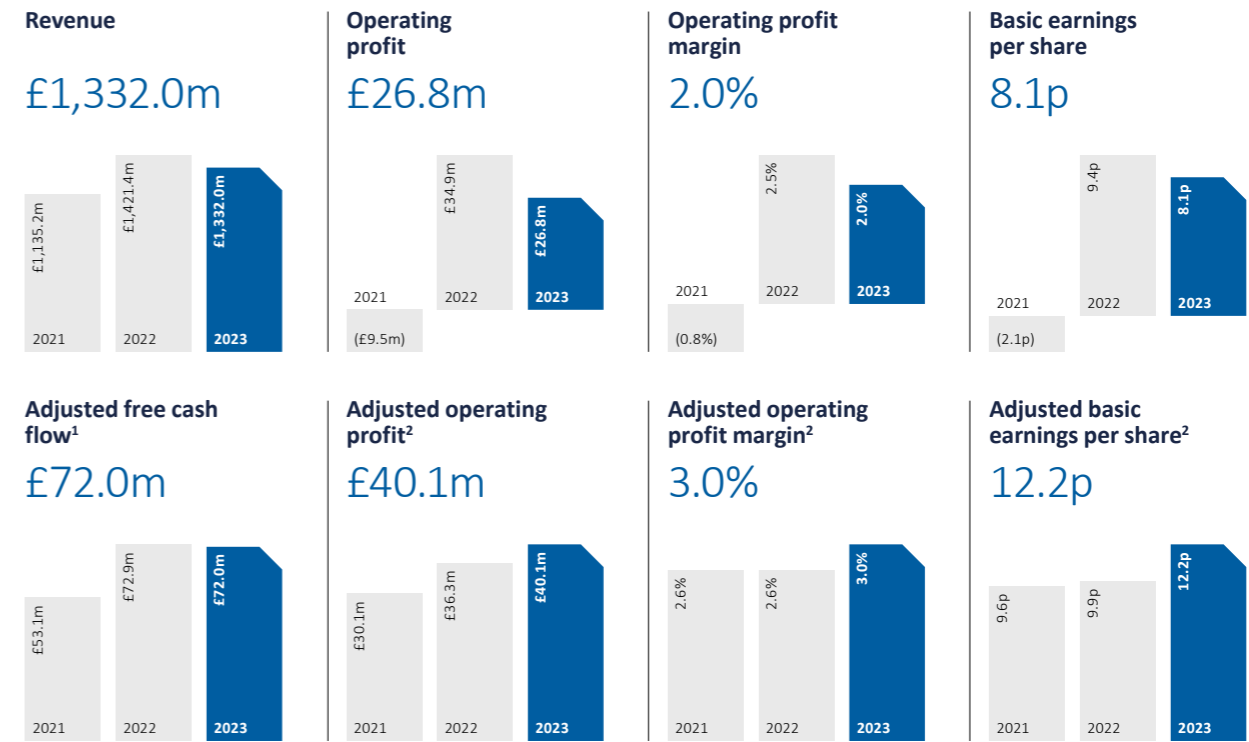
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For the latest investor relations information visit our website / www.costain.com/investors



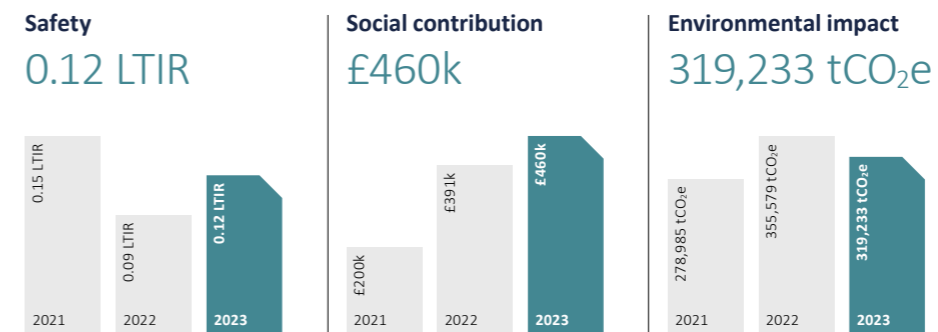
Highlights

Financial highlights



1 Adjusted free cash flow is defined as cash from operations, excluding cash flows relating to adjusting items and pension deficit contributions, less taxation and capital expenditure.
2 See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

Non-financial highlights



See our KPIs for more information on the above / [pages 28 and 29](#)

Our ESG performance

Operating responsibly is integral to our strategic priorities of people, planet and performance, underpinning how we operate and our expectations of our people, suppliers and partners. For further information on our ESG performance please download our ESG Report.

Download the ESG Report here / www.costain.com/our-culture/performance-and-reports/

Our Purpose

Improving people's lives



Our vision

To create connected, sustainable infrastructure enabling people and the planet to thrive.

How we do that

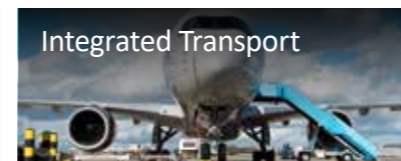
We shape, create and deliver pioneering solutions that transform the performance of the infrastructure ecosystem.

Where we operate

Our focus is on four strategic markets in the UK: Transport, Water, Energy and Defence and everything we do is rooted in delivering solutions and is organised around our customers.

Transportation

Within the Transportation division, we support key customers such as Government transport agencies, as well as local and devolved authorities and private regulated bodies. We report results in three sectors: Road, Rail and Integrated Transport.



Natural Resources

Within the Natural Resources division we work with privately-owned utility, water and sewerage companies, with energy companies, and in defence, with several public and private sector organisations. We report results in three sectors: Water, Energy, and Defence and Nuclear Energy.



See our operational review / pages 22 to 27

Our ambition

Revenue and operating profit growth, with an adjusted operating profit margin run-rate of 3.5% during the course of 2024, rising to 4.5% during 2025, and in excess of 5.0% thereafter.



See our strategy / pages 10 and 11

How we measure success

Our financial and non-financial KPIs are on pages 28 and 29.



See our risks / pages 43 to 49

Our stakeholders

We collaborate more closely than ever with customers, partners, communities, wider industry and shareholders to meet today's infrastructure demands.



See our stakeholder engagement / pages 66 and 67

Chair's Statement

During 2023 Costain delivered a strong operational and cash performance.

During 2023 Costain delivered a strong set of financial results. The Group's adjusted operating profit¹ increased for the third year, our adjusted operating margin grew, and we generated strong cash flow which exceeded market expectations.



"We are delivering well on our strategic objectives with an increase in our adjusted operating profit and margin. We continue to build a pipeline of future opportunities for 2025 and beyond."

Kate Rock
Chair

Our financial performance is especially pleasing as it has been delivered against the backdrop of some rephasing and rescoping of several large-scale national projects, clearly demonstrating the resilience of our multi-sector strategic focus and the strength and flexibility of Costain's operational and financial management.

Importantly, we are delivering against our operational targets to increase our adjusted profit margin, targeting a 3.5% margin run-rate in the course of 2024 and 4.5% the year after. Alex Vaughan, CEO, discusses our ongoing margin improvement and our enhanced bidding and delivery discipline on page 7. Helen Willis, CFO, expands on our financial performance in the Financial Review on pages 40 to 42.

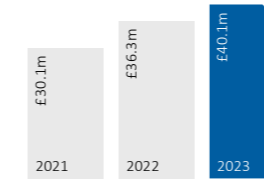
Our customers

There is a greater need than ever to update, connect and integrate infrastructure ecosystems to meet the needs of the UK's growing population, the impact of climate change and the need for increased economic and environmental resilience, all while delivering growth for the wider economy.

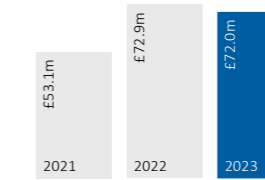
We focus on long-term, strategic relationships with Tier 1 customers and Costain's aim is to be the partner of choice for all our customers as they meet these challenges. We bring together a unique mix of engineering solutions for increasingly complex problems. Our commitment to create connected, sustainable infrastructure is core to all our activities with Costain focusing on our four key markets of Transport, Water, Energy and Defence, which is discussed on pages 13 and 14.

During 2023, the UK Government has had to balance its wish to further invest in the country's infrastructure with the impact of inflation and rising costs on its spending plans. As a result, during 2023, we saw the Government and its agencies rephase and rescope some large-scale infrastructure projects in Road and Rail. We anticipate that changes may continue into 2024 and 2025.

Adjusted operating profit¹ £40.1m



Adjusted free cash flow² £72.0m



Alex discusses the priorities of the National Infrastructure Commission's Second National Infrastructure Assessment on page 8 and we outline our market opportunities in more detail on page 12. We are seeing greater opportunity in the multi-year growth plans announced in areas such as Water and Energy; we expect the Water sector's AMP8 (Asset Management Plan) programme to be at least twice the size of AMP7.

Sustainability

Costain's Board continues its oversight of Environmental, Social and Governance (ESG) matters. This year we completed a double materiality assessment to help identify ESG focus areas, flagging those with the greatest impact on Costain's performance and the issues on which we can have a significant impact, such as climate change. We have developed an ESG programme to drive deliverable actions and set long-term goals to 2030 against which we can measure our progress. Our customers are increasingly considering ESG matters in their decision-making and we are working closely with them to mitigate their risks and realise their opportunities in this area.

Through 2023, we have worked with the Science Based Targets initiative (SBTi) to validate Costain's near-term and net zero ambitions. We are pleased to report that these were approved in February 2024. During 2023, work has been ongoing to reduce our emissions and engage collaboratively with our supply chain to efficiently access accurate data. Carbon is a key issue for us; we have updated our carbon management system to align with the revised 2023 PAS 2080 standard and issued a low-carbon materials mandate to our designers, engineers and supply chain.

We continue to trial the latest plant and equipment on our projects, with positive feedback around the use of electric HGVs and hydrogen-fuelled generators. We have also pioneered innovative construction techniques such as the offsite 3D printing of structures made with low-carbon concrete.

During 2023 we developed Costain's first Social Value Plan which sets out our approach to creating social, economic and environmental value in our local communities. A proud moment for everyone at Costain in 2023 was our 24/7 campaign with the Samaritans, with more than £247k raised for our long-term charity partner. Further details can be seen on page 73. Additional information on our ESG policies and practices can be found on pages 32 to 38 and we also publish a separate ESG Report which is available at www.costain.com/our-culture/performance-and-reports.

Our people

Our outstanding team is at the heart of everything that we do and essential to the success of our business. Our unique mix of construction, consulting and digital experts embody our core values and behaviours, which helps create a culture where everyone feels included and respected. The Board and I are highly appreciative of our people and would like to thank them for the work they do.

I was delighted to meet many of our highly skilled and valued workforce at the sites I visited during 2023. On Costain's impact days, where we focussed on carbon reduction and embedding our learning organisation model, I enjoyed visits to AWE Mensa and Devonport. The quality and commitment of our teams that I met at Anglian Water SPA, A30, Heathrow, HS2 (Victoria Road Crossover Box) and Southern Water was hugely impressive. The Board's workforce engagement activities are set out in more detail on pages 74 to 77.

I am pleased to see improvements in areas where we have taken targeted action and that we have retained our Best Companies accreditation as a 'A Very Good Company to Work For' in our 2023 engagement survey. More details about these initiatives can be found in our case study on page 75.

¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

² Free cash flow is defined as cash from operations, excluding cash flows relating to adjusting items and pension deficit contributions, less taxation and capital expenditure.

Chair's Statement continued

Financial strengthening

We have been successful in significantly increasing the financial strength and stability of Costain. In June 2023, we were able to announce that an agreement had been reached with the Trustees of the Group's defined benefit pension scheme on the 31 March 2022 triennial actuarial funding valuation, together with a new reduced payment contribution plan.

The new contribution plan from the Group to the Costain Pension Scheme runs from 1 July 2023 to 31 March 2027 and is for a payment of £3.3m per year which will increase in line with inflation (CPI) each 1 April. This replaces the previous contribution plan to the Scheme, which from April 2023 would have increased to an annual payment of £11.98m.

This reduction in payments to the defined benefit scheme has provided better financial flexibility by retaining more cash in Costain and reflects the strong funding level (97% funded at the time of agreement) of the scheme. Importantly, if the pension scheme funding level is above 101% as of 31 March each year, then no contributions will be payable for the following year.

In July 2023, we successfully concluded negotiations with our bank and surety facility providers for a new three-year agreement of our bank and bonding facilities. The Group's new facilities agreement runs to September 2026 and comprises an £85m sustainability-linked revolving credit facility (previously £125m), and surety and bank bonding facilities totalling £270m (previously £280m). It was good to see that National Westminster Bank (NatWest) joined our banking group, alongside Lloyds Bank, HSBC and Crédit Industriel et Commercial (CIC).

Capital allocation

Given the Group's improved financial performance, net cash position and growth prospects, the Board took the view that it would resume dividend payments and declared an interim dividend of 0.4p per ordinary share for the six months ended 30 June 2023. In line with our policy that dividends will typically be paid 1/3 as interim and 2/3 as final dividends, the Board is proposing a final dividend of 0.8p for the period to 31 December 2023.

The dividend payments for 2023 match broadly the £3.3m per year plus inflation (CPI) payment to the defined benefit pension scheme. Potential increased dividends may be considered by the Board depending upon our underlying cash flow generation and the pension scheme funding level (and any associated dividend parity requirement) in line with the Group's policy.

Board changes

We welcomed Steve Mogford and Amanda Fisher to the Board on 1 November 2023 and 1 December 2023 respectively, as independent non-executive directors. Steve and Amanda are members of the Company's Audit and Risk, Nomination and Remuneration Committees.

Steve is an experienced executive and non-executive director with extensive expertise in water, defence and complex joint ventures. He was CEO of United Utilities Group PLC from 2011 until March 2023 and led significant growth during that period.

Amanda was CEO of Amey, the engineering and infrastructure company, from 2019 until 2022 and has considerable expertise in transportation, infrastructure and defence.

As part of these changes, Neil Crockett and Jacqueline de Rojas, non-executive directors, stepped down from the Board on 31 October 2023. On behalf of the Board, I would like to thank Neil and Jacqueline for their considerable contributions to Costain during their tenure.

Separately, Bishoy Azmy has also decided to step down from the Board with effect from 31 March 2024. We are very grateful for his contribution to Costain, having joined the Board in June 2020 following the equity fund raise earlier that year. I fully understand and appreciate that, as he sees Costain in a robust shape and well set for future growth, he wishes to step down from the Board to commit to his other significant global activities.

Looking ahead

The Board would like to thank our people, customers and suppliers for their efforts and support during the year and their long-term commitment to the Group.

While we are mindful of market conditions and the wider economic and geopolitical challenges, we believe there is a positive long-term outlook for UK infrastructure and good growth prospects for the Group. These market drivers, combined with the strategic progress made during the year, gives the Board confidence in our future and that we will deliver increasing value to all of our stakeholders.

Kate Rock

Chair

11 March 2024

Chief Executive Officer's Statement

Strong performance in key national markets

We delivered further growth in adjusted operating profit and margin, a continued increase to our net cash position and have secured strong positions in our markets.



"We delivered against our strategic objectives in key national markets."

Alex Vaughan

Chief Executive Officer

In 2023, we:

- **Delivered another strong operational and financial performance:**
 - An adjusted operating profit of £40.1m, up 10.5% on last year¹.
 - A strong cash performance with a net cash position of £164.4m² at the end of the year, well ahead of expectations, resulting from an adjusted free cash inflow of £72.0m³. I note that we have benefitted from positive year-end cash timings, which if fully reversed in 2024 will result in us having cash at approximately the same level at the end of this year.
 - An improved adjusted operating margin of 3.0%¹, an increase on last year's 2.6%. The margin in the second half of 2023 stood at 3.8%, demonstrating the increasing quality of our business as we progress towards our stated margin goals.
 - An order book and preferred bidder book with the combined total standing at three times 2023 revenue.
 - Won a number of key contracts on long-term programmes.
 - Delivered an industry-leading Lost Time Injury Frequency Rate.
- **Continued to strengthen our operational and financial performance:**
 - Demonstrated predictable contract performance, benefitting from strong risk management in work winning and contract delivery.
 - Our risk management of contracts in the year delivered a positive performance against the backdrop of the rephasing and rescoping of some major contracts.
 - Finalised a new three-year agreement for our bank and bonding facilities.
 - Agreed a new payment plan with the Trustee of the Company's defined benefit pension scheme, based on the 31 March 2022 triennial actuarial funding valuation and ongoing contributions to the Scheme.
 - Further broadened our Tier 1 customer mix across our growth markets.

¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

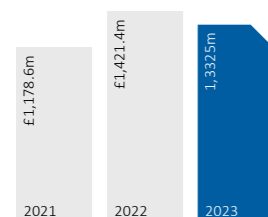
² Net cash balance is cash and cash equivalents.

³ Free cash flow is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.

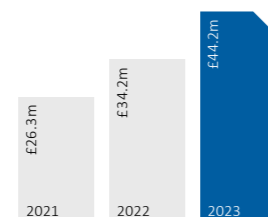
Chief Executive Officer's Statement *continued*

Reported revenue

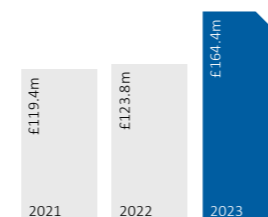
£1,332.0m

Adjusted profit before tax¹

£44.2m

Net cash balance²

£164.4m



- Increased our positioning in growing markets:

- In our markets, national needs are growing as set out in the National Infrastructure Commission's Second National Infrastructure Assessment (SNIA).
- We are positioned on primary investment programmes, and have already secured key positions in Energy, Water, Defence, Aviation and Highway programmes for the next five years.
- As a result of our improved operational and financial performance, we were able to resume dividend payments, outlined on page 6.

I'm grateful for the hard work and support of all our employees and partners during the year, both to deliver this progress, and to navigate the challenging operating environment. Thank you.

Our strategy

The Group benefits from being strategically positioned in four key markets in which long-term investment continues to be made (Transport, Water, Energy and Defence) providing us with a strategic, diversified and resilient customer base. The National Infrastructure Commission published its SNIA in October 2023, which sets out the broad investment expected in infrastructure of around £70bn per year across our markets, to be underpinned by legislative and regulatory commitments.

We have explicitly chosen to work with customers who wish to partner with a business such as ours to help them shape, create and deliver their business plan commitments and investment programmes, and to navigate the various challenges facing their businesses. Our vision is to create connected, sustainable infrastructure to help people and the planet to thrive and you can read more about our strategy and markets on pages 10 to 14.

While we forecast long-term spending increases in our markets, due to the present inflationary pressures on the UK Government, and the pending general election, we expect the changing timescales and spending levels that we have seen on some major infrastructure programmes in 2023 to continue into 2024 and 2025.

At the end of 2023, our order book, where contracts are signed and ready to proceed, was £2.1bn (FY22: £2.8bn), and our preferred bidder book stands at £1.8bn (FY22: £1.6bn), see page 23 for further details. The total of order and preferred bidder book of £3.9bn represents three times FY23 revenue, which is market-leading.

At the end of 2023, we had more than £1bn of Group revenue secured for 2024, representing more than 80% of forecast revenue for the period. Our four chosen markets continue to offer significant long-term opportunities for the Group, with water investment, for example, set to double during the next regulatory period, AMP8.

Strategic priorities

Right across the Group we are focused on three strategic priorities that will deliver for all of our stakeholders: People, Planet and Performance.

PEOPLE – Ensuring safety, diversity, inclusion, and positive social impact for our people and the wider community are key values for the Group.

For more details on our work with ESG issues, please see pages 32 to 38. Safety is always our number one priority, and our Lost Time Injury Frequency Rate in FY23 was 0.12 (FY22: 0.09) which remains industry-leading.

We continue to proactively address our gender pay gap and in 2023 we launched a pilot programme to support women in progressing in their careers, building on the feedback of our employee networks. Following the success of the programme, Costain will be rolling out a second intake in the first quarter of 2024.

Costain plays a significant role in enhancing the prosperity of local communities by channelling our spending with small and medium-sized businesses (SMEs). In 2023 38% of Costain's spending was with SMEs, exceeding the UK Government target of 33%, and consistent with the FY22 performance of 38%.

PLANET – Caring for the environment is not an add-on for Costain – it is part of who we are. It is also a critical requirement of our customers. We continue to implement our climate change action plan, with an ambition to be net zero carbon by 2035. Absolute greenhouse gas (GHG) emissions, including Scope 3, is one of our key non-financial performance indicators (see page 29) and, regardless of how much our business grows, we still reduce the carbon dioxide we are releasing into the atmosphere.

Given the growth of ESG awareness and importance across society, I note that our customers increasingly value our ESG capabilities as a point of differentiation, and on pages 16 to 21 we discuss projects where we have demonstrated our skills.

PERFORMANCE – This is where we work with our customers to help shape, create and deliver their broader infrastructure requirements.

The key measures of our development as a business are:

- Financial performance (see page 28 for further details).
- Customer wins.

We continue to operate strong risk management processes on contracts at pre-contract and contract stages, ensuring a robust operational performance. In addition, we have secured further opportunities with our customers, demonstrating our strategic progress. Our strategy provides for assured delivery, lower risk contracts in our orderbook, and a broader business mix.

We delivered good growth in our adjusted operating margin during the year and we remain on track to deliver on our operational targets as outlined in March 2023:

- An adjusted operating margin run-rate of 3.5% during the course of FY24, as we increase effectiveness within the business through the implementation of our Transformation programme and Operating Excellence Model (OEM), the growth of our consultancy services, increased effectiveness in procurement and ongoing focus on operating costs.
- An adjusted operating margin run-rate of 4.5% during the course of FY25, to be reached by improving margins within complex programme delivery (construction contracts), further efficiencies from our Transformation programme, our OEM and an increasing mix of higher-margin contracts.
- We continue to have an ambition for an adjusted operating margin in excess of 5.0% as we increase our mix of higher-margin business.

We have made good progress in securing new work that demonstrates how we are working in deeper partnerships with our customers. During 2023 we have:

- Expanded our presence in the Water sector with our first set of AMP8 wins and were appointed by United Utilities in July to extend our work as its Managed Service Provider for a further two years. We have also had our AMP7 contracts extended into AMP8 by Severn Trent Water and Thames Water. Post year-end we began a new relationship with Northumbrian Water Group when they appointed us to their AMP8 framework.
- Been appointed by NRS Ltd (previously known as Magnox) to deliver its decommissioning programme, supporting the Company across 11 sites and ensuring the safe and secure closure of locations through to 2029.
- Further grown our delivery partner consultancy roles building on our current positions with AWE, Babcock, Cadent and National Highways. We are also increasing our activity at Heathrow, where we are working as a solution delivery partner, providing construction, consulting and digital capabilities during its next regulatory period.
- Secured further strategic wins to provide consultancy advice and support to bp and Yorkshire Water, and post year-end with the Department for Transport (DfT), and Transport for London (TfL).

Outlook

Our expectations for further progress in 2024 remain unchanged. As a result of our continued strategic and operational development, we remain on track to deliver an adjusted operating margin run-rate of 3.5% during the course of FY24 and 4.5% during the course of FY25, in line with our ambition to deliver margins in excess of 5.0%.

We remain mindful of the macro-economic and geopolitical backdrop and its importance for near-term government priorities and timing of spending. Notwithstanding this, with our increasingly broad high-quality customer base, further improvements to our operational performance, opportunities for higher-margin business, strong cash position and clear strategic priorities, we are well positioned for further growth in profits and cash generation.

Alex Vaughan

Chief Executive Officer

11 March 2024

¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

² Net cash balance is cash and cash equivalents.



Our Strategy

We are at the forefront of helping meet many of the UK's infrastructure needs.

Our strategy focuses on transforming the UK's infrastructure performance and safeguarding our planet.

Our integrated offering

As construction, consulting and digital partners we bring together a mix of experts to engineer solutions to the most complex infrastructure problems. We have specifically chosen to work with customers who wish to partner with us to help them shape, create and deliver their business plan commitments and investment programmes, and navigate the challenges facing their businesses.

Building Costain

There is a major requirement to update, connect and integrate infrastructure systems in the UK, which requires new ways of working.

1. We aim to grow a resilient customer base where long-term strategic investment is being made with emphasis on those customers where we can collaborate closely to create connected, sustainable infrastructure.
2. Our 150-year heritage of pioneering problem solving, together with constant innovation, enables us to deliver sustainable, efficient and practical answers as construction, consulting and digital partners.
3. We look to enhance the environmental and social value that construction delivers with an ambition to be net zero carbon by 2035.

At our core

Everything we do is rooted in delivery and organised around our customers. We anticipate and help solve their challenges, such as a growing population, climate change, and economic and environmental resilience across the infrastructure ecosystem.

Our ambition

Revenue and operating profit growth, with an adjusted operating profit margin run-rate of 3.5% during the course of 2024, rising to 4.5% during 2025, and in excess of 5.0% thereafter.

We form strategic relationships with Tier 1 customers, forging long-term partnerships which deliver their business plans.

We have enacted a Transformation programme within Costain to streamline our organisational structure, digitise to increase efficiencies and refine our procurement processes.

At the same time, we recognise our wider responsibilities and report on ESG matters on pages 32 to 39 and in our separate ESG Report at www.costain.com/our-culture/performance-and-reports.

People

To deliver our ambition for growth, we are focused on making Costain a great and inclusive place to work where people can be at their best.

Our people strategy is focused on six key areas:

- Excellent leadership and line management role modelling of our values and behaviours, to motivate and engage our people.
- Having a diverse, inclusive, and thriving workforce.
- Creating high-performing, agile teams with a one Costain ethos.
- Developing skills, capabilities and talent now and for the future giving our people opportunity to grow their careers at Costain.
- Ensuring our people feel valued, respected, recognised and appropriately rewarded.
- We value the health and wellbeing of our people, and the safety of everyone working with us and around us is one of our core values.

During 2023, we maintained our status as a 'A Very Good Company to Work For' (Best Companies), achieving a ranking of 19 in their 'Big Companies to Work For' category. Key highlights include the launch of our job architecture to improve transparency of pay and reward, the launch of our new leadership framework, launching our female empower programme and our ethnicity pay listening circles, and piloting our career path framework with our front-line management community, giving people more visibility of how to grow their careers at Costain. We discuss our workforce engagement survey in more detail on page 75.

Planet

In 2023 we developed and implemented an ESG programme to accelerate our approach to enhance performance and at the same time we are working with our customers to support them in reaching their ESG objectives.

Going beyond protecting nature and the environment is crucial to our strategic priority to safeguard our planet's future. Not only are we working with our customers to help decarbonise their businesses and improve their resilience, but we are also shaping solutions that deliver biodiversity net gain.

Driving an orderly transition to net zero is critical to both Costain and our customers, all the while adapting to overcome the physical climate risks that impact infrastructure. Please see pages 34 and 35 for our Task Force on Climate-related Financial Disclosures (TCFD).

We maintain our focus on maximising our social and environmental contribution. Demonstrating social value for money has significantly increased in importance to our stakeholders. Every Costain complex project delivery contract is required to maintain a local social value plan, targeting local opportunities to create sustainable outcomes such as increased employment opportunities, improving access to community spaces and nature, and promoting local investment.

Performance

To meet the huge challenges and opportunities facing infrastructure delivery in the UK, we need to transform the performance of infrastructure delivery.

We collaborate more closely than ever with customers, partners, communities and wider industry to deliver infrastructure faster and more efficiently, without compromising on innovation, safety or environmental impact. In addition, our consultancy capabilities support our customers to develop strategies and deliver the outcomes they need. We are improving the performance of our business, by simplifying processes and bringing clarity of accountability.

To drive growth, assure project delivery and ensure the highest safety and environmental performance, we focus on:

- **Predictable performance:** we are continuously improving and standardising our approach to production thinking, project controls and assurance, to enhance productivity and drive consistent delivery of every contract to plan with industry-leading safety and quality.
- **People and sustainability:** we are driving fairness, consistency, and transparency of our rewards packages to attract and retain talent, as well as continuing to enhance our ESG reporting to meet our environmental and social commitments.
- **Market intelligence and agility:** we are investing in our business development skills and market insight knowledge to ensure we develop a resilient customer base and remain agile to respond to changing market conditions.
- **Strategic partnerships:** we are developing a range of strategic partnerships to help us de-risk delivery, build long-term capabilities, and win more work by increasing the value we add for customers.



See examples of our purpose in action / www.costain.com/solutions

Market Overview

£700bn infrastructure investment expected over next decade.

In line with the Second National Infrastructure Assessment (SNIA), we are strategically well positioned in our four chosen markets. These markets benefit from significant, and increasing, long-term strategic investment to meet the UK’s critical national needs, with the National Infrastructure and Construction Pipeline projecting at least £700bn of infrastructure spending during the next decade.

Market opportunity

We focus on four key UK markets where there is strategic commitment to long-term investment in infrastructure: Transport, Water, Energy and Defence.

Policy, investment and regulation trends continue to reinforce our strategy in terms of change in market needs and our need to focus on expert delivery, predictability and productivity. The SNIA, published in October 2023 by the National Infrastructure Commission, highlighted a need to increase investment in infrastructure quickly to meet critical national needs, as well as identifying a pressing need to improve productivity and the predictability of major infrastructure delivery in the UK.

Our approach puts us at the forefront of meeting this opportunity to create truly connected, sustainable infrastructure for the good of UK communities and to improve people’s lives. We collaborate closely with government as well as our strategic partners, suppliers, and customers in each of our markets to shape the future of infrastructure delivery.

Strategic investment programmes – expected infrastructure spend¹

	Committed investment	Investment period	2024	2025	2026	2027	2028	2029	2030
National Highways	£27bn	2020–2025	RIS2		RIS3				
High Speed Rail	£45–54bn	2018–2030	Phase 1 (London–West Midlands)						
Integrated Rail Plan	£54bn	2022–2050	IRP						
Network Rail	£43bn	2024–2029	CP7					CP8	
Local and regional transport	c£14bn	2022–2032	City Regional Sustainable Transport Settlements						
	c£8bn	2023–2026	TfL 2023 Business Plan						
Ports and Aviation	£7bn+	2021–2040	Port and Airport expansion						
Water	£96bn	2025–2030	AMP7		AMP8				
	£12bn	2020–2030	10-Point Plan						
	£30bn	2021–2026	RIIO-2			RIIO-3			
Energy	£25bn	2023–2028	RIIO-ED2 (Electricity Distribution)				RIIO-ED3		
	£240bn	2022–2032	Defence Equipment Plan						
Defence	£4bn	2020–2030	Defence Estates Optimisation						
	Nuclear	£8bn	2023–2025	Nuclear Decommissioning Authority					
c£20bn		2023–2038	Sizewell C						

¹ These investment plans are not all addressable by Costain and there are market opportunities which do not fall under these investment plans available to the Group. The estimates are as of 31 December 2023.

We estimate that the total annualised market spend for infrastructure in the UK is approximately £70bn per year across all the markets during the period outlined above, with a c.30% increase from 2023 to 2030 driven by new customer spending cycles.

Transportation markets



Road

National Highways has committed to spending £27bn across the strategic road network through the Road Investment Strategy 2 (RIS2) programme. Our focus is delivering RIS2 imperatives while supporting National Highways’ ambition on carbon, digital and asset management as they increase their focus on maintaining the existing network as they prepare for the Road Investment Strategy 3 (RIS3) programme from 2025–2030.

We expect investment in the local road network in the UK to match that of the strategic road network between 2024 and 2030 through various local and central government funding allocations, such as the City Regional Sustainable Transport Settlements (CRSTS), with a focus on renewal and maintenance of the existing road network for local and regional authorities.

Road committed spend

£27bn



Please see page 24 for details on our progress in the sector during 2023.



Rail

The SNIA, published in October 2023 by the National Infrastructure Commission, recommended that investment in rail should be prioritised to support growth across regions in the UK. This includes a recommendation that spend on rail enhancements (including through the Integrated Rail Plan and successor schemes) increases to an average of almost £10bn per year for the next 10 years, as well as an increased spend on renewals and maintenance to ensure infrastructure is resilient to climate change impacts. As such, the outlook for rail investment in the UK remains positive. In 2023, the UK Government and its agencies rephased and rescoped some large-scale rail projects, and we anticipate these changes to continue into 2024.

A core part of the delivery of this investment comes through Network Rail who have committed to a £43bn investment programme in CP7 (control period) between 2024 and 2029, and there is an expected HS2 spend of £45–54bn across its investment cycle. Through this investment period, Network Rail is focused on improving the efficiency, environmental impact and resilience of the rail network, as well as increasing the freight capacity.

Rail committed spend

£142bn+



Please see page 25 for details on our progress in the sector during 2023.



Integrated Transport

Investment is increasingly being decentralised through levelling up investment and further devolution, bringing decision-making closer to local communities. This investment is delivered through a range of funding streams including the CRSTS, which has committed c£14bn for sustainable transport in city regions until 2032. The decarbonisation challenge remains a big driver, with local and regional authorities needing to decarbonise their operations and infrastructure and develop future, low-carbon mass transit options. The SNIA forecasts that the share of transport investment on urban transport will increase from around 40% today to 50% in the 2040’s.

The aviation market has bounced back following the COVID pandemic, which, combined with a need to meet the decarbonisation challenge, has reinvigorated infrastructure investment plans. Similarly, UK ports are committing increasing investment to develop infrastructure to support the energy transition, decarbonise their operations and get better use of their assets.

Integrated Transport committed spend

£29bn+



Please see page 25 for details on our progress in the sector during 2023.

Market Overview continued

Natural Resources markets



Water

Our customers in the Water sector are privately-owned utility, water and sewerage companies that are regulated by Ofwat in England and Wales, with the regulator setting the price limit, investment requirements and service package for customers. In England and Wales, the sector is currently operating in Asset Management Plan 7 (AMP7), which will deliver investment of £51bn between 2020 and 2025. The focus is on decarbonisation, improving water quality and affordability, reducing pollution and discharge into rivers, while driving innovation to improve resilience. Increased levels of investment are expected in the next AMP8, with AMP8 expected to be at least double the investment of AMP7.

We focus on being a partner for water customers as they move into AMP8 to help deliver long-term plans, invest in new infrastructure, and drive improvements throughout the asset lifecycle.



Energy

The transition to clean, sustainable energy forms a key part of the UK's commitment to be net zero by 2050. In addition, there is a renewed emphasis on the UK's energy security and independence. We expect significant growth in this sector given the requirement for energy infrastructure investment to support economic growth, tackle climate change and enhance the natural environment, as outlined in the National Infrastructure Commission's recent SNIA.

We provide our customers in this sector with a range of services including engineering design, managed services and programme management, solving our customers' complex energy challenges through excellence in engineering and delivery. Our strategic focus areas are energy transition (hydrogen and carbon capture), energy resilience (brownfield modifications for enhanced longevity and performance, energy storage and carbon reduction) and energy connectivity (gas and electricity networks).

We continue our contract with Cadent, are working with bp on the net zero contract at Teesside and continue to support bp as it progresses the wider decarbonisation of the region's energy supply.



Defence and Nuclear Energy

The national Defence budget for equipment and infrastructure is more than £23bn annually, and in June 2022 the Government committed to increasing this to 2.5% of GDP by 2030. This will allow the Ministry of Defence to invest in next-generation capability and infrastructure to assure the continued delivery of the UK's independent nuclear deterrent. Our focus to date has been on supporting the Continuous At Sea Deterrent Programme and our ambition is to grow into a long-term partner for our defence customers to deliver their most complex infrastructure engineering needs.

Our focus in the nuclear energy market is to support the safe decommissioning of nuclear power plants as well as construction of new nuclear stations in the UK. We are working closely with Sellafield, Nuclear Restoration Services and EDF to deliver this ambition.

Water committed spend

£96bn



Please see [page 26](#) for details on our progress in the sector during 2023.

Energy committed spend

£67bn



Please see [page 27](#) for details on our progress in the sector during 2023.

Defence and Nuclear Energy committed spend

£272bn



Please see [page 27](#) for details on our progress in the sector during 2023.

Our Business Model

We work to shape, create and deliver pioneering infrastructure solutions for our customers.

We develop strategic solutions to optimise value and reduce risk; engineer innovative solutions that are sustainable, efficient and practical, and deliver projects in a safer, greener, faster and more efficient way. We discuss our work in action on pages 16 to 21.

Understanding the needs of our customers across the infrastructure ecosystem

We work with customers to anticipate, identify and meet their challenges, helping us to deliver pioneering solutions right across the infrastructure lifecycle, in strategy, operations and asset creation. We do all of this as either a construction, consultancy or digital partner.



Underpinned by our Environmental, Social and Governance (ESG) goals

Operating responsibly and with integrity is a key part of our strategy.



Read more / [pages 32 to 38](#)

Purpose in Action

Together we're focusing on...

Our people make us unique. Their expertise drives our collaborative and innovative approach and means we deliver for customers time and again.

We have a focus on excellent leadership and wellbeing, as well as championing diversity, inclusion, and positive social impact for our people and the communities we serve. This is brought to life through some examples below.



People

Leadership

We have a relentless focus on 'eliminating harm' in everything that we do, and we have led the industry with forensic reviews into any safety incidents that occur. Where those reviews find that new procedures are needed, we are rigorous in rolling those procedures out to our partners and supply chains. A good example of this, following the Gatwick fatality in 2022 and the risk associated with lifting practices, is our new 'Hands off, step back' procedure which has been widely adopted.

Our values and behaviours are front and centre in all our activities. Leaders are encouraged to role model them and recognise examples where our people have demonstrated them in their activities. One of our core behaviours is 'Be caring', with leaders expected to extend our 'eliminating harm' approach to wellbeing. For an example of one of our wellbeing initiatives, please see the case study on the facing page.

Wellbeing

Wellbeing goes hand in hand with a progressive approach to diversity and ensuring our sites and offices are inclusive places to work. To assist with this, we have launched our Empower programme, a development programme aimed at tackling barriers to women's progression into senior roles. The content of the programme was drawn from feedback through our Women's network survey, which highlighted that women in the business wanted a course which focused on women and addressed their experiences in the industry. We are also running listening circles with employees from different ethnic backgrounds to better understand how to tackle ethnicity pay gaps and identify interventions to improve employee experiences.

Another aspect to an inclusive and thriving workplace is developing our people. Not only does this support more fulfilling careers, it ensures our people are at the cutting edge of knowledge and deliver innovative, sustainable and value for money solutions for our customers.

In 2023, we supported many of our engineers to develop their expertise further by achieving Professional Chartership status, with a number of our senior leaders achieving Fellowships. We've also incorporated training for our teams on biodiversity, inclusive design, and production thinking.

Positive social impact

Creating positive social impact through our projects is not only important to us, it's increasingly important to our customers and rightly demanded by the communities we serve. We are working with our customers to ensure that our projects take account of local communities, boosting skills, improving the environment and supporting businesses.

Working with Lancashire County Council we completed a major new road scheme linking parts of Preston and the Fylde to the M55 motorway. Our approach centred on collaboration, keeping local residents and businesses firmly in mind at all times. We scored highly in the Considerate Constructors Scheme (45 out of 50), with an excellent rating across categories including Respect the Community, Care for the Environment and Value their Workforce.

Nearly 60% of the people working on the scheme came from the local area, and 45% of project spend was invested within a 25-mile radius.

The theme of supporting local communities is also evident on the A30 scheme for National Highways. That project has spent more than £30m with local and regional companies, provided STEM activities to local students, employed local apprentices and raised almost £30,000 for the Cornwall Air Ambulance.

And on our M6 Smart Motorways Programme we're continuing to support a local school with a bee-keeping programme, installed a new pond, created an allotment and refurbished an old freight container to act as a school shop which sells produce from the other projects. We also supported a local charity, focussed on alleviating poverty, by offering work experience and upskilling courses, and helped local students with placements as well as STEM events. The team has also supported a local rugby club with a refurbished car park and provided landscaping for a local country park.



Championing wellbeing in Manchester

Company-wide workplace wellbeing remains a focus. In 2023, we have appointed a new Wellbeing manager to help us renew our strategic approach based on data-driven priorities. Our first SHE impact day in 2024 is themed around wellbeing.

The Manchester office Mental Health First Aider (MHFA) forum has been recognised for their outstanding efforts in raising wellbeing awareness and orchestrating successful initiatives.

Lisa Thomas, chair of the Manchester MHFA Forum, said, "We have really worked hard to promote mental health and wellbeing in our Manchester office. It's been great to see colleagues attending our lunchtime chats about stress and anxiety, joining us for coffee and cake for Time to Talk day, sharing their feedback in a sleep survey, attending physical health sessions and facilitating the Graduates and Apprenticeships tailored wellbeing sessions."

Purpose in Action continued

Together we're focusing on...

Safeguarding the future of our planet is something we take personally.



Right: Severn Trent Water facilities

Below: HS2 construction

Our ambition to be net zero by 2035 runs through everything we do, and we are driving biodiversity net gains across our projects.



Planet

Climate change action

At the heart of this is our commitment to cut our greenhouse gas emissions in absolute terms even as we grow the business, with a clear roadmap of our ambition to achieve net zero by 2035.

During the upgrade of Gatwick Airport station (more project details on the following pages), we targeted reducing carbon emissions during both the building and operation of the new concourse. Our innovative approach used almost 3,000m³ of low-carbon concrete, saving 517 tonnes of CO₂ emissions and £12,500 in costs. LED lighting was used throughout the station, escalators were fitted with reduced speed technology to lower emissions when not in use, and high-efficiency gearless lifts were installed as well as a hybrid heating and cooling system. An annual saving of nearly £60,000 and 144 tonnes of carbon emissions are expected from these features.

Also within Rail, our HS2 joint venture with Skanska and STRABAG (SCS) has already harnessed our state-of-the-art logistics centre to remove over a million miles of lorry journeys from London's roads.

This has been achieved by using a conveyor system and dedicated trains to transport spoil to sustainable land deposition sites across the UK, including a bird sanctuary. We also use rail to deliver the vast majority of the 96,000 tunnel segments, and overall we have seen a 40% reduction in carbon emissions as a result.

The threat caused by carbon emissions and resultant climate change is very real for many of our customers. We are providing Network Rail with specialist project management, planning and risk-control services across a variety of programmes, and supporting their Weather Risk Task Force, which was set up to combat the risk of climate change to the railways and help mitigate the dangers of landslips and flooding.

Energy transition solutions

Public authorities are also turning to us for help in meeting their net zero targets. We are drawing on our full breadth of expertise to help Swindon Borough Council turn their fleet and waste management depot into a hub for sustainable operations, with substantial additional power capacity to support the transition of the Council's fleet to electric battery technology.

We have also pioneered the use of electric vehicles on project sites, partnering with Enterprise Flex E-Rent to trial electric vans on three of our road schemes. This supports the approach taken to our own car fleet, where the vast majority of cars used by our people are ultra-low or low emission. EV charging points are available at all our offices, and installation of charging points within site compounds is now a mandatory element of site set-up.

Where carbon can't be reduced, it can often be removed, and carbon capture, utilisation and storage is a growth area for both us and the UK. In 2023 we successfully completed a key milestone in the journey towards the UK's first fully decarbonised industrial cluster, which will eventually see up to 23m tonnes of CO₂ a year emitted from a variety of industries on Teesside captured, transported and securely stored under the North Sea. This will facilitate Net Zero Teesside Power's proposed combined cycle gas turbine electricity generating station, which will produce up to 860 megawatts of low-carbon electricity, enough to power up to 1.3m homes per year.

Our project team, which includes Mott MacDonald and px Group, has completed the first phase of the design for the CO₂ gathering pipelines, and we detail how our expertise has overcome the particular challenges of the project in the Performance section below.

Biodiversity

Not only are we working with our customers to help decarbonise their businesses and mitigate the threats of climate change, we are also positively improving the environment by shaping solutions that deliver biodiversity net gains on projects.

On the Preston Western Distributor Road scheme, we designed the plan to restore farmland and protect and enhance habitats for species such as great crested newts, bats and hedgehogs with a 10% biodiversity net gain. The 600,000 cubic metres of soil which was removed as part of the work was kept on site, significantly reducing the impact on the local road network. Our expertise saw us remodel the soil to create a landscape feature with replanted trees that doubles as a noise barrier for local residents.



Using technology and training to cut emissions

On the M6 project we used a combination of technology and training to cut emissions from our construction plant and van fleet by nearly 40 percentage points. The project, which upgrades J21a–26 as part of the SMP Alliance for National Highways, has seen us work with partners to significantly cut the scheme's carbon footprint. Emissions from vehicles idling on site were reduced from 56% to 18% by the end of June 2023, using innovative enhanced idling sensors and behavioural training.

A trial fitting site vans with idling trackers took place between February 2023 and June 2023, resulting in a reduction of around 25%, with associated carbon emissions and costs falling, on average, by 35kg and £4.19 per driver over the period of the trial.

Since switching from diesel fuel to hydrotreated vegetable oil (HVO) in February 2022 Scope 1 carbon emissions reduced by 24% which is the equivalent of 27,000 trees' absorption of CO₂ in one year. The steps taken to reduce carbon won Costain a prestigious Green Apple award.

Purpose in Action continued

Together we're focusing on...

We shape, create and deliver pioneering solutions that transform the performance of the infrastructure ecosystem; meeting our customers' strategic infrastructure needs.



Below: Gatwick Airport station

Customers choose us because we understand their business needs, have the right expertise and approach; and trust that we will deliver. We provide solutions to their most complex challenges, working collaboratively to overcome obstacles without compromising on innovation, safety or environmental impact.



Pioneering performance

At Gatwick station, Network Rail chose us to deliver a comprehensive reconfiguration of the railway infrastructure around a live railway line and without disrupting airport operations. This challenging four-and-a-half-year project was successfully delivered for Network Rail and opened to the public in late 2023. The upgrade was needed by the airport to handle the growing number of passengers using its facilities. We introduced an enhanced one-way system between the airport and the station, improving passenger experience, and brought significant improvements to accessibility, with wider platforms, eight new escalators and five new lifts. The work has also enabled journey times between London and Brighton to be reduced by five minutes.

We referenced our progress on the Net Zero Teesside Power, a joint venture between bp and Equinor, in the Planet section on pages 18 and 19, and key to the success on this ground-breaking project was using our expertise to create a new geographic information system (GIS) to act as a single source to capture asset information and data from a variety of sources and stakeholders.

The team used laser scanning and modelling techniques to design the complex route for the new CO₂ gathering network, which includes the crossing of the River Tees as well as navigating natural gas pipelines and high-voltage infrastructure. The digital footprint that has been generated is pioneering; it is the first time that the assets, spanning many decades, have been collectively documented, enabling us to design the integrated network accurately and safely. Not only does this knowledge help the many different stakeholders to work together effectively, but this digital footprint will be a legacy for the local industry and asset owners beyond completion of the project and first commercial operations in 2027.

Continuing on the energy theme, we are also focused on the hydrogen aspect of energy transition and continue to build on our long-standing experience in hydrogen processing and transportation. We anticipate further growth in this area.

In the area of energy connectivity, we continue to enable Cadent to outperform against their statutory obligations on gas mains replacement in the East of England.

In our Defence sector, we continue to support Babcock at Devonport, helping to sustain the UK's submarines for decades to come. As Delivery Partner, together with Mott MacDonald, we oversee the project in delivering substantial upgrades to existing infrastructure that will support the future capability of the Royal Navy.

Similarly, our work as construction Delivery Partner with the Atomic Weapons Establishment (AWE) continues, as we help to deliver one of Europe's most complex infrastructure projects. Despite the complexity, our focus on safety has seen AWE, Costain and the supply chain reach more than six million working hours without a lost time injury. While not directly undertaking the construction work at Devonport or AWE Mensa, our expertise is ensuring we deliver some of the UK's most challenging and critical defence projects effectively.

Performance

Within the Water sector, we have seen contract extensions across our portfolio, with Severn Trent Water, Thames Water and United Utilities all choosing to continue their collaborative work with us in areas such as asset management and maintenance. Post year-end we were selected by Northumbrian Water to help them deliver their strategic infrastructure upgrade programme, which will see us assist the company deliver its business plan over a potential 12-year period.

We continue to successfully deliver Southern Water's capital programme, driving a capital cost efficiency of 20% from AMP6 to AMP7, and successfully hitting 30 regulatory dates so far in the AMP7 period. And on the Anglian Water Strategic Pipeline Alliance, with our partners, we have integrated the pipeline route selection with a GIS, optimising the material selection of the pipeline and its alignment and achieving a 65% reduction in capital carbon compared with the original baseline.

In addition, through the modelling of the demand requirements for the pumping stations, there was the delivery of further operational cost efficiencies and additional carbon savings.

And on Tideway, the London sewer upgrade where we work on the eastern section in a joint venture with VINCI Construction Grands Projets and Bachy Soletanche, we successfully delivered the final section of secondary lining, a vital step before activating the tunnel in 2024. Following analysis, the linings were reduced in thickness by up to 70mm, saving both cost and thousands of tonnes of carbon.

Turning to Roads, on the M6, as well as our success in cutting carbon emissions as referenced above, we were asked by National Highways to retrofit 12 emergency areas (safety lay-bys) in addition to the 10 emergency areas already planned.

This required us to be agile, deploying Lean principles (ISO 18404) to refine construction techniques through direct observation, reducing waste and maximising value-adding production. By doing it in this way, we have enabled National Highways to utilise road space far more effectively and avoided the need for further traffic management after opening, saving our customer money and reducing inconvenience to the public.

We have also been chosen by Transport for London (TfL) to support with some of their most challenging projects. After successfully delivering an upgrade to the A40 ahead of time and under budget, TfL has trusted us to provide detailed design and construction services for the second phase of the project.

Operational Review

Chief Executive Officer's introduction



"Our 2023 results show strong operational and financial performance by the Group."

Alex Vaughan
Chief Executive Officer

We have delivered a 10.5% increase in adjusted operating profits and strong net free cash flow in the year.

We report both our statutory results, 'reported', and results excluding adjusting items, 'adjusted'. Key adjusting items for FY23 include the impact of Transformation and restructuring, and an impairment of an intangible asset.

Reported and adjusted revenue was £1,332.0m in FY23 (FY22: £1,421.4m), an expected reduction on the prior period. We saw increased Natural Resources revenue in Defence and Nuclear Energy, and Water. In Transportation, we saw continued growth in Rail and growing activity on our Heathrow H7 contract, new contracts with Transport for London, and the rephasing and rescope of certain contracts in Road, resulting in reduced revenue for this sector.

Adjusted operating profit grew by 10.5% to £40.1m (FY22: £36.3m), driven mainly by the expected increased profitability in Natural Resources and the early benefits of our Transformation programme across the Group. The adjusted operating margin increased to 3.0% (FY22: 2.6%) reflecting the above. Our H2 23 adjusted operating margin was 3.8% (H2 22: 2.9%).

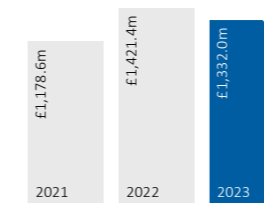
Reported operating profit decreased to £26.8m (FY22: £34.9m), due to the previously announced impairment of an intangible asset as we reposition our digital portfolio towards services and the Group's transformation and restructuring programme.

Net finance income amounted to £4.1m (FY22: £2.1m expense), driven by higher interest income from bank deposits, higher interest income on the net assets of the pension scheme, and lower interest payable on bank overdrafts, loans, borrowings and other similar charges. As a result, adjusted profit before tax increased 29.2% to £44.2m (FY22: £34.2m), with adjusted basic earnings per share (EPS) up by 23.2% at 12.2p (FY22: 9.9p). Reported profit before tax was down 5.8% at £30.9m (FY22: £32.8m) and reported basic earnings per share (EPS) was also down 13.8% at 8.1p (FY22: 9.4p).

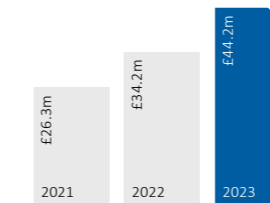
Adjustments to reported items

We incurred £8.0m (FY22: £5.7m) on transformation and restructuring costs, and £5.3m (FY22: £nil) on the impairment of an intangible asset relating to the repositioning of digital services.

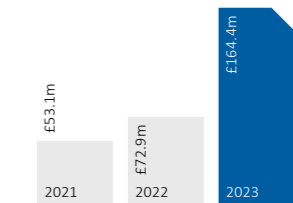
Reported revenue
£1,332.0m



Adjusted profit before tax¹
£44.2m



Net cash balance²
£164.4m



¹ See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

² Net cash is cash and cash equivalents.

In FY22 we incurred £1.4m of aged tunnel boring machine write-off costs, and recognised an insurance receipt of £5.2m relating to the Peterborough & Huntingdon contract, as well as a profit of £0.5m on the sale of a non-core asset. We expect reduced transformation and restructuring costs of around £5.0m in FY24 and thereafter such costs to be minimal and not to be separately disclosed as adjusting items.

Cash flow and liquidity

During FY23 we completed the March 2022 review of our defined benefit pension scheme, and the refinancing of our bank and bonding facilities, with the positive outcomes of both increasing our ability to generate cash for the Group.

Cash generated from operations in FY23 was £55.5m (FY22: £16.7m). The FY22 comparison was impacted by the settlement of the Peterborough & Huntingdon contract of £43.4m in February 2022 and a related, partially offsetting insurance receipt of £5.2m.

Adjusted free cash flow in FY23 of £72.0m reflected growth in adjusted operating profit, increased financial income and positive working capital timings, albeit at a lower level than seen in the prior year, resulting in a strong net cash position at the end of FY23 of £164.4m (FY22: £123.8m). We expect our FY24 year-end net cash position to be broadly similar to that at the end of FY23, as the adjusted net free cash flow from the business is likely to be offset by the unwinding of cumulative working capital timing benefits of £25.0m at the end of FY23.

During FY23 we paid more than 98% of invoices within 60 days (FY22: more than 98%). In January 2024, Costain was re-confirmed as one of the top fastest-paying lead contractors in construction on an average days-to-pay basis following the submissions to the Government's Duty to Report on Payment Practices and Performance.

Business model resilience

Costain enjoys good forward visibility with our combined order book and preferred bidder book representing around three times our FY23 annual revenues, at £3.9bn (FY22: £4.4bn). We anticipate a shift towards the preferred bidder book away from the order book as we continue to secure long-term (5-to-10-year) framework positions with our customers, providing a reliable and long-term stream of future work.

Further information

We are building a new kind of company to create connected, sustainable infrastructure, enabling people and the planet to thrive.



Read more about our business model / [page 15](#)

We are committed to supporting our people and playing an active, positive role in society.



Read more about our purpose in action / [pages 16 to 21](#)

Our order book stood at £2.1bn at the end of FY23 (FY22: £2.8bn). This reflected the timing of certain major contract bids, our customers' five-year investment programmes, maintaining discipline in contract selection and the shorter lead time of consulting and digital work. The order book evolves as contracts progress and as new contracts are added at periods aligned to our customers' strategic procurement windows which are typically every five years. The order book does not therefore provide a complete picture of the Group's potential future revenue expectations.

The preferred bidder book comprises awards for which we have been selected as the preferred partner and are in the final stages prior to commencing the contract, or exclusive frameworks where a further works order is required. The preferred bidder book increased to £1.8bn at the end of FY23 (FY22: £1.6bn), with contracts in Road, Water and Integrated Transport, including Heathrow.

We note that some of our framework and consulting revenue is not recorded in our order book, or preferred bidder book, and is expected to represent an increasing proportion of our future revenue.

We had in excess of £1bn of secured Group revenue for FY24 at the end of FY23, representing more than 80% of forecast revenue for the period. Awards have yet to be made on a significant number of bids undertaken since H1 22 and we currently expect awards on these bids to be made during FY24 and FY25.

Operational Review *continued*

Transportation delivered a resilient performance in 2023 with rephasing and rescoping of contracts during the year.



“Transportation delivered well on its contracts, maintaining a stable margin for the year.”

David Taylor

Interim Managing Director – Transportation

Transportation highlights

- Reported and adjusted revenue of £943.1m, was down 9.9% against prior year as a result of the rephasing and rescoping of contracts.
- Adjusted operating margin¹ was 3.0%, unchanged year-on-year.
- Revenue driven mainly by complex scheme delivery for High Speed 2 (HS2) and National Highways, which currently represent the majority of Transportation activities.
- Revenue secured for FY24 is £687m.

Road revenue declined by 19.9% in FY23 as expected, compared with the prior year driven by a reduction in schemes revenues as they near completion, and the impact of previously announced rephasing and rescoping of projects. As a strategic partner for National Highways, we support their key investment programmes through the Regional Delivery Partnerships (RDP) major projects framework, and the Smart Motorways Programme (SMP) Alliance delivering smart motorway safety enhancements.

On RDP, our work to upgrade the A1 around Newcastle continues to make good progress with the widening of the Birtley to Coal House section, and in Cornwall our project continues to widen the last section of the A30 to dual carriageway between Chiverton and Carland Cross. We have led the work to submit the Development Consent Order application for the A12 Chelmsford to A120 widening project, which was granted in January 2024, along with a package of enabling works for the scheme. We continue to develop the M60 Simister Island scheme in the North-West through its development phase. We are continuing to deliver highway maintenance activities on our Area 14 contract with National Highways, which continues through to 2032 and we have concluded our scheme development work on the A66.

Within the SMP Alliance, our delivery of the M6 Junction 21a–26 smart motorway upgrade continues and is progressing well, and we are supporting the National Emergency Area Retrofit programme for smart motorways through design and delivery of additional stopping areas.

Our role as delivery assurance partner in a joint venture with Mott MacDonald continues on the A303 Stonehenge Improvements Scheme following the granting of a development consent order (DCO) in July 2023.

We have a growing pipeline of opportunities in Road for local government bodies, as well as National Highways, and see good long-term prospects in this market.

Divisional results

Transportation	FY23 adjusted ¹	FY22 adjusted ¹	Adjusted ¹ change
Road	399.5	498.7	-19.9%
Rail	500.2	480.8	4.0%
Integrated Transport	43.4	66.8	-35.0%
Total revenue	943.1	1,046.3	-9.9%
Operating profit/(loss)	28.0	31.5	-11.1%
Operating margin	3.0%	3.0%	0.0pp

¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

Rail revenue increased by 4.0% in FY23, principally as a result of the volume of work in delivering HS2. The Skanska Costain STRABAG JV contract to construct the southern section of route for HS2 which has a twin bore tunnel now has three (of seven) tunnel boring machines (TBMs) fully in operation. We are working closely with HS2 Ltd to optimise our delivery schedule to best progress the project delivery within the introduced near-term financial constraints.

We have expanded our portfolio of work for Network Rail through our framework contracts, where we are providing professional consulting services on multiple projects. Our work to upgrade Gatwick Airport Station concourse for Network Rail will complete in H1 24 following the opening of the station in Q4 23.

We have several live tenders being progressed in Rail.

Integrated Transport provides a mix of consulting and complex project delivery to sub-national bodies, Central Government, and to customers in aviation and ports. Revenue decreased by 35.0% in FY23 on the prior year, reflecting the timing of complex schemes delivery. During the year we successfully completed the Edith Rigby Way (Preston Western distributor scheme) which links the M55 with the A583 and we expect that design phase work we have undertaken during 2023 will deliver revenue growth for this sector during 2024.

During FY23, we continued work for TfL with design and feasibility work for Gallows Corner, George Green/Green Man and the A40, design work on the Piccadilly Line and continued support for TfL's CCTV service. In January 2024, we were awarded the Gallows Corner Flyover Detailed Design and Build contract by TfL and the design phase for Brent Cross. We have successfully expanded services to a range of local authorities, including Bradford and Cornwall.



Costain works with our customers to ensure that projects take account of local communities and their needs including boosting local skills, improving the environment and supporting businesses.

We cover our ESG activities in more detail in a separate report which is available at www.costain.com/our-culture/performance-and-reports/



For more examples, visit our website / www.costain.com/solutions/

During FY23, we increased the volume of our work at Heathrow to shape, create and deliver asset renewal and construction projects through the Terminal Asset Renewal Partner and Major Project Partner lots of the H7 framework. We continue to support other aviation customers at East Midlands, Gatwick, Manchester and Stansted airports.

We expect that Aviation, Ports, Local and Devolved Government will offer strong growth opportunities for the business.

Lastly, I would like to welcome Jonathan Willcock, who will join Costain in April 2024 to be the new managing director of the Transportation division.

David Taylor

Interim Managing Director – Transportation

11 March 2024

Operational Review *continued*

Natural Resources saw revenue growth in the year together with positive margin improvement.



“Natural Resources delivered a good performance in the year with an improved performance by the division.”

Sam White
Managing Director – Natural Resources

Natural Resources highlights

- Adjusted revenue¹ was £388.9m, an increase of 3.7% driven by increased activity levels in Defence and Nuclear Energy, and Water.
- Adjusted operating profit¹ was £21.8m, up £6.8m, and operating margin was 5.6%, 1.6 percentage points higher.
- Good progress in Water sector with wins in AMP8 programmes.
- Revenue secured for FY24 is £338m.

Water delivers a broad range of services to improve asset and operational resilience across the Water sector, together with decarbonisation capabilities. Reported and adjusted revenue was up 2.9% on the prior year with good visibility across our five-year water AMP7 programmes through to 2025 and our recently announced AMP8 projects. We continue to make good progress in delivering on Tideway as it moves towards its commissioning phase where, in a joint venture, we are responsible for the eastern section.

The breadth of our service offering continues to grow with work including wastewater to gas, water quality assurance and water treatment, as well as design, maintenance, capital delivery and strategic resource options. We have capital delivery programmes for Anglian Water, Severn Trent Water, Southern Water, and Thames Water in AMP7; recently won a Northumbrian Water contract for AMP8; an AMP7 maintenance service provider contract for United Utilities; a range of consultancy services for Yorkshire Water, Thames Water, Southern Water; and digital services to Anglian Water.

In July 2023, we were appointed by United Utilities to work as its Managed Service Provider for a further two years, which represented our first AMP8 programme win. Since then, we have expanded our AMP8 work with programme extensions with Severn Trent and Thames Water, and a new AMP8 contract with Northumbrian Water Group, with the latter announced in January 2024. We expect to see continued growth in the Water sector, and we aim to expand our current portfolio under the AMP8 programme. Alongside core AMP8 requirements, we continue to engage with customers to understand their potential needs for new value-added solutions to meet their ESG requirements and are in an early stage of working with customers regarding the Strategic Water Resource Options programme, which will run alongside AMP8.

Divisional results

Natural Resources	FY23 adjusted ¹	FY22 adjusted ¹	Adjusted ¹ change
Water	245.3	238.2	2.9%
Energy	45.6	52.6	-13.6%
Defence and Nuclear Energy	98.0	84.3	16.3%
Total revenue	388.9	375.1	3.7%
Operating profit/(loss)	21.8	15.0	45.3%
Operating margin (loss)	5.6%	4.0%	+1.6pp

¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

Energy revenue decreased by 13.6% in FY23 on the prior year, with civil nuclear-related revenue now included within the Defence and Nuclear Energy sector. We expect significant growth in this sector given the requirement for energy infrastructure investment to support economic growth, tackle climate change and enhance the natural environment, as outlined in the National Infrastructure Commission's recent SNIA. We provide our customers in this sector with a range of services including engineering design, managed services and programme management, solving our customers' complex energy challenges through excellence in engineering and delivery.

Our strategic focus areas are energy transition (hydrogen and carbon capture), energy resilience (brownfield modifications for enhanced longevity and performance, energy storage and carbon reduction) and energy connectivity (gas and electricity networks). We continue with our contract with Cadent, managing the mains replacement across the East of England and have performed well in energy resilience. We continue to build our position in energy transition and through FY23 we have strengthened our core strategy to support the development of the industrial clusters across the UK. Having completed delivery of the FEED (front end engineering design) for bp on the track 1 net zero contract at Teesside (part of the East Coast cluster), we continue to support bp as it progresses the wider decarbonisation of the local region's energy supply and pursues innovative carbon capture and storage solutions.

We have seen growth in project delivery and opportunities in supporting our long-standing petrochemical customers in decarbonising their midstream operations through large scale energy switching engineering projects, including hydrogen generation and transportation.

Defence and Nuclear Energy supports several public and private sector organisations, in a variety of customer-side, delivery partnership roles, across the UK Defence Nuclear Enterprise. Defence and Nuclear Energy includes nuclear energy-related revenue previously included in Energy, following the reorganising of the Natural Resources division. Reported and adjusted revenue increased by £13.8m, 16.3% on the prior year, driven by a growth in demand for support within our current delivery partnership roles, with Babcock and the Atomic Weapons Establishment (AWE).



Reducing carbon in infrastructure

We continually aim to reduce carbon in our projects and we discuss how we work with our customers to help them move to net zero on pages 16 to 21.

In both contracts, we work as a construction delivery partner, delivering major infrastructure projects, and providing expertise in design and construction management and do not carry out any construction work.

We also provide ongoing support to the Defence Nuclear Organisation (DNO), helping it develop portfolio management capabilities and developing its programme definition for future infrastructure requirements. We are currently well positioned across the Defence Nuclear Enterprise, supporting the UK's Continuous At Sea Deterrent (CASD), and our ambition is to be the delivery partner of choice for the Ministry of Defence's (MoD) future strategic infrastructure needs.

During H1 23, we were awarded a place on a new six-year framework for NRS Ltd (previously known as Magnox). In addition to our work on decommissioning, through our work at Sellafield, we also see opportunities for growth in support to the nuclear fuel sector.

During H2 23, we secured a two-year contract extension to deliver a project controls managed service across EDF's eight UK nuclear power stations. As part of this contract which has the option to be extended, Costain will continue to develop and grow EDF's core project controls capabilities and provide specialist support to improve project performance and deliver cost efficiencies.

Sam White
Managing Director – Natural Resources

11 March 2024

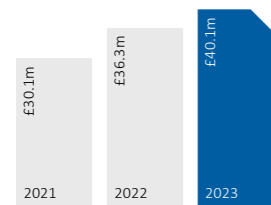
Key Performance Indicators

How we've performed

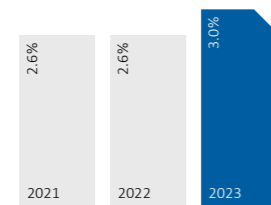
Our KPIs are aligned with how we measure our performance against our strategic priorities. These reflect our vision of creating infrastructure that helps people and the planet to thrive, while also ensuring that we deliver for all our stakeholders.

Financial metrics

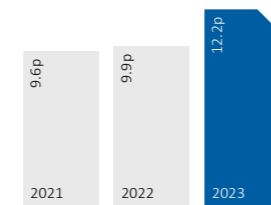
Adjusted operating profit¹
£40.1m



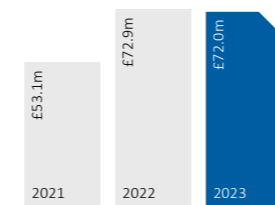
Adjusted operating profit margin¹
3.0%



Adjusted basic earnings per share¹ (EPS)
12.2p



Adjusted free cash flow
£72.0m



Measure

Adjusted operating profit¹.

Adjusted operating profit margin¹.

Adjusted basic earnings per share¹.

Adjusted free cash flow is defined as net cash flow from operating activities, excluding cash flow relating to adjusting items, less capital expenditure.

Relevance

Our business is going through a transformation as we build on being a Tier 1 contractor, in order to provide a unique offering across the asset life cycle, which is reflected in an increased adjusted operating profit and improved margin. The infrastructure investment programme being undertaken by the UK Government is for the more traditional type of construction work, for which margins are lower, and we also saw the impact of inflation on pricing.

As our business becomes more efficient and revenue mix shifts to include more higher-margin consultancy and digital work, we expect this to be reflected in the operating profit margin. We have identified areas for operational efficiency, some of which we anticipate adding to the bottom line and supporting our margin. This is calculated as adjusted operating profit divided by adjusted revenue.

We believe that EPS, while not perfect, is an accessible measure of the returns we are generating for our shareholders and reflects both revenue growth and operating profit margin. It also acknowledges that historically, shareholdings have been diluted through share issues. EPS is calculated based on the adjusted profit attributable to equity shareholders, divided by the basic weighted average number of ordinary shares ranking for any dividend in the period.

In a business with small operating margins, profitability alone is not an adequate measure of performance or balance sheet strength; it is possible to deliver better margins, but poor value for shareholders if that profit is not converted into cash.

Target

Double-digit compound growth in the medium term.

We aim to reach 3.5% adjusted operating margin run-rate during the course of FY24, a 4.5% run-rate during the course of FY25, and our ambition is to reach in excess of 5.0% thereafter.

We target EPS growth in line with our strategy to grow operating profit.

Cash conversion rate of 90%.

Performance

Adjusted operating profit was £40.1m (FY22: £36.3m) and adjusted operating growth was 10.5%, reflecting increasing efficiencies in the business and growth in Natural Resources.

Adjusted operating margin was 3.0% for the year and 3.8% in the second half as we saw improvement in the business driven by growth and increased margin in the Natural Resources division.

Improvement in EPS is driven by overall improvement in profitability.

Strong net cash flow in the year, driven by improved operating profit, efficient working capital management and the timing of cash receipts.

Link to strategic priorities

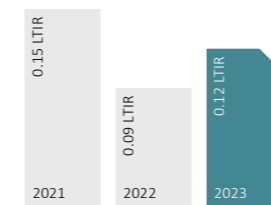


¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

Non-financial metrics

Safety

0.12 LTIR



Measure

Lost Time Injury Rate (LTIR).

Relevance

Effective health and safety management systems are critical in preventing incidents which could cause injury to people and damage to property and reputation.

The main outcome metric we use to measure safety performance is Lost Time Injuries by the number of hours worked, multiplied by 100,000.

Target

Target is to keep LTIR less than 0.15.

Performance

Costain has again delivered an industry-leading safety performance. We continued to follow our 'Learning organisation model', ensuring we are embedding the lessons we learn.

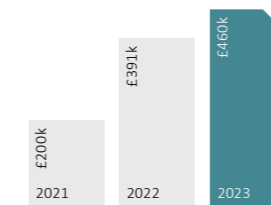
In 2023 we rolled out a new approach to lifting following the fatality on our Gatwick Station project in July 2022. This new approach is changing the traditional industry behaviours.

Link to strategic priorities



Social contribution

£460k



Community investment.

We are committed to being a trusted community partner and one that genuinely adds social value. We have a responsibility to understand the needs of local people and, where possible, work with them to make a lasting difference.

Social contribution is defined as the sum of charitable/community donations, employee fundraising, and the social value resulting from employee volunteering.

Target

Investment of 1% of absolute profit in the medium term.

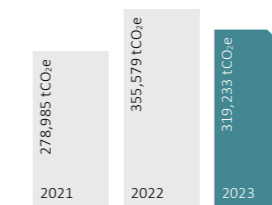
Performance

2023 saw the conclusion of Costain's 24/7 campaign, where over £247k was contributed to our charity partner Samaritans (see page 73 for more information). Costain continued to play an active role in our local communities, delivering employment programmes, supporting the creation of warm hubs, volunteering in schools and delivering projects to improve community spaces.



Environmental impact

319,233tCO₂e



Absolute GHG emissions (Scopes 1, 2 and 3).

Climate change is the challenge of our generation and we have an ambition to become a net zero business by 2035. This year, for the first time, we are disclosing our Scope 3 emissions. It is fundamental that we not only reduce the carbon produced in our operations and our customers' operations, but also what becomes embedded in what we build. Further detail on the calculation of our GHG emissions can be found on page 38.

Target

Net zero GHG emissions by 2035.

Performance

During 2023, we have seen a year-on-year 10% decrease in absolute emissions, but with a 14% increase against our 2021 baseline. When normalised by turnover (tCO₂e/£m) emissions have reduced by 2% compared to our 2021 baseline. As part of our continual improvement, we have updated our boundary and quantification approach to allow us to include additional Scope 3 categories in our 2023 reporting.



Key to strategic priorities

- People
- Planet
- Performance



See our full GHG disclosure / page 33

Our Stakeholders

Working together to achieve our goals

Understanding what is important to our stakeholders is crucial to delivering shared value.

We have a responsibility to work together with our customers and partners, our people, our communities, and our supply chain to minimise our environmental impact and to generate positive social value. We actively listen to our stakeholders and take action to help address their needs. We look beyond our local impact and engage with stakeholders to consider our wider societal contribution and how this aligns to macro initiatives such as the United Nations Sustainable Development Goals.

We work with our stakeholders to maintain our high standards of business conduct, particularly with regards to ethics and human rights issues. We take a zero-tolerance approach to corruption and bribery, and our independent whistleblowing process ensures that we can listen and react to any concerns that are raised.

As an example of our ethical standards, in 2023 we updated our Code of Conduct to include new rules on gifts and hospitality.

The Board and Executive Board of Costain are accountable for Environmental, Social and Governance (ESG), developing and implementing policies that align with our wider business objectives. The Board recognises that it is essential that Costain operates in a responsible manner.

The Board seeks to engage with each of our key stakeholder groups to help inform the strategic decision-making process.

Our key stakeholder groups



Workforce

Our people are our most valuable asset. We rely on their skills, experience, knowledge and diversity to deliver our purpose to improve people's lives.



Customers

Understanding our customers' changing requirements is fundamental to our success. We support our customers by offering them solutions to meet their evolving needs.



Shareholders

Our shareholders' views inform our decision-making and their interests underpin our commitment to operating responsibly.



Suppliers

Our suppliers are key to our ability to deliver pioneering solutions for our customers. It is important we understand each other's cultures and methods of business.



Communities and environment

We value the opportunity to engage with our local communities across all of our projects. We generate social value as a result of our work in our local communities.

Making a positive contribution to our environment and tackling climate change are central to our operational practices.



For our Section 172 Statement, which sets out how the Board takes stakeholder interests into account when making decisions, see our Governance Report / **pages 66 to 69**



What matters to our stakeholders

We are committed to identifying and addressing the material sustainability and ESG issues that affect Costain and our stakeholders.

Data-driven materiality analysis
In 2023, we conducted a double materiality assessment to help inform Costain's business planning, our operations, guide our disclosure, and help us identify stakeholder priorities to enhance our engagement.

The process allowed us to both validate known important issues and identify new or emerging issues that may impact our Company, as well as the potential impact our business and operations may have on the environment and society.

We conducted this assessment through both stakeholder engagement and the use of Datamaran, a software analytics platform.

Through this smart, data-driven process, we are able to: focus only on the key issues that matter; monitor changes and be agile when responding to stakeholders; and advance internal collaboration and leadership knowledge.

The analysis was used to develop an ESG programme, focused on the issues that are materially important to Costain.

Costain's materially important ESG issues



Environment

- Carbon
- Nature
- Resource efficiency



Social

- Employee diversity and inclusion
- Community and social value
- Employee health and safety



Governance

- Ethical corporate behaviour
- Climate change resilience
- Quality



Please see **page 51** for our Non-financial Information Statement, which sets out our position on the key non-financial matters that our stakeholders have deemed important when taking part in our materiality assessment.

Environmental, Social and Governance (ESG)

Our ESG Performance



Our ESG programme

In 2023, we created an ESG programme to help us deliver sustainable business activities in the short to medium term. Our ESG programme sets out our detailed goals, KPIs and plans on issues such as climate change, nature, water resources, health and safety, and diversity and inclusion. We have used a 'double materiality' assessment to highlight the environmental and social issues that really matter to us, and our business case for action, but also the issues that matter to our stakeholders too.

Costain's ESG programme is not just about environmental and social goals, it is also about the governance enablers and is fundamentally underpinned by issue-specific implementation plans and strategies (climate change action plan; inclusion strategy; social value plan; and safety, health and environment strategy).

The ESG programme brings together all our goals, targets, KPIs and enablers; showing how we will create environmental, social and economic value for all, now and into a more sustainable future.

Our 2030 ESG goals

- A psychologically safe workplace with an engaged, thriving and representative workforce.
- In the period to 2030 our solutions and social value programmes will improve more than one million lives.
- Eliminating harm in all we do.
- Net zero carbon by 2035.
- Nature positive.
- 30% reduction in water use from operations compared against a 2023 baseline.
- Our stakeholders rate us as an ethical company.
- 30% of revenue from 'green' projects.
- Right first time.

Reporting progress against our ESG goals

Our ESG goals are integral to our strategic priorities of people, planet and performance, underpinning how we operate.

We welcome the sustainability disclosure standards from the IFRS and are voluntarily working to incorporate these requirements where possible. Irrespective of the final requirements of the UK Sustainability Disclosure Standards, we recognise reporting progress against our material ESG issues is the demonstration of a responsible business.

We are pleased to report progress against our annual objectives within this report and have produced a separate ESG Report to share further information.



Find our 2023 ESG Report on our website / www.costain.com/our-culture/performance-and-reports/

Carbon transition plan

In 2020, Costain set out a climate change action plan (transition plan) which identified the steps we need to take and the milestones we need to achieve in meeting our ambition to be net zero carbon by 2035. These steps included:

- All operations, including supply chain, will be net zero carbon by 2035 against our 2020 baseline.
- By the end of 2023, every solution delivered by Costain for customers will propose a low carbon option.

- Corporate emissions from car fleets will be net zero carbon by 2030.
- Our permanent offices to be supplied by carbon neutral energy by 2022 (achieved in 2021).

Through 2023, we have worked with the Science Based Targets initiative (SBTi) to validate Costain's near-term and net zero targets and we are pleased to report these were approved in February 2024.

As a validation of the progress Costain has made in implementing our plan, Costain maintained a B rating with the Carbon Disclosure Project (CDP), despite the bar raising.

We report our progress against the plan on pages 9 to 12 of our ESG Report.



Costain's climate change action plan is accessible on our website / www.costain.com/what-we-do/climate-change-solutions/

2023 OBJECTIVES



Environment

- Continue to ensure 100% of all relevant designs and delivery contracts have a carbon baseline and reduction plan.
- Deliver a >6% reduction in our Scope 1 and 2 emissions.
- All solutions proposed to include a low carbon option in line with PAS 2080.



Social

- Eliminating harm in all we do, achieving an LTIR of 0.15.
- Support 100 people previously classed as Not in Education, Employment or Training (NEET) to enhance their 'Green and digital skills'.
- 10% year-on-year increase in employee volunteering.
- Social contribution is defined as the sum of charitable/ community donations, employee fundraising, and the social value resulting from employee volunteering.



Governance

- >35% of our spend to be with SMEs.
- >19% of our spend to be with small businesses and voluntary, community or social enterprises (VCSEs).
- Have an average Considerate Constructors Scheme score of >42.

OUR 2023 PROGRESS AND PERFORMANCE

	2023	2022	% change
Scope 1 tCO ₂ e (CO ₂ equivalent emissions across all legal entities)	4,876	6,426*	-24%
Scope 2 tCO ₂ e (CO ₂ equivalent emissions across all legal entities)	1,299	958*	36%
Scope 3 tCO ₂ e (CO ₂ equivalent emissions across all legal entities)	313,058	348,195*	-10%
Total emissions	319,233	355,579*	-10%
% of relevant contracts with carbon baseline and reduction plans	100%	100%	0%
% of solutions proposed to include low carbon options	57%	n/a	n/a
Major environmental incidents	0	2	-100%
Environmental incident frequency rate	0.18	0.10	n/a

* Restated figures for 2022 include additional data obtained after reporting.

- For a detailed breakdown of our emissions including totals of energy consumption as per the Streamlined Energy and Carbon Reporting (SECR) requirements, see page 38 of this report for further details.
- Following the Environmental Agency's investigation of a 2019 pollution incident, Costain's offered enforcement undertaking was accepted and a donation of £55,000 was made to the Tyne Rivers Trust to fund the improvement of water quality in the River Don catchment. A completion certificate was issued by the Environment Agency in 2023.



For detailed information on Costain's environmental performance, please see our ESG Report / www.costain.com/our-culture/performance-and-reports/

Lost Time Injury Rate (LTIR)

0.12

2022: 0.09

- 13 reportable accidents in over 30 million working hours.

Social contribution*

£460k

2022: £391k

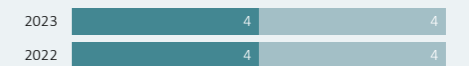
- 4,100 hours volunteered in our local communities (2022: 3,300).
- Costain's Samaritans fundraising campaign concluded, with over £247k raised since 2022.
- In total £377k was raised and/or donated to UK charities in 2023.

Diversity of our workforce

Employees



Board members



Senior management



Male Female

Spend with SMEs*

38%

2022: 38%

- £319m spent with small businesses and VCSEs, equating to 18.4% of our total spend (2022: 17.5%)*.
- 50 SMEs took part in our supply chain academy, taking the total number of businesses to 354 since 2012.
- Average Considerate Constructors Scheme score for Costain contracts is 45.2/50. Industry average is 40.3/50.

* Reported SME spend includes joint venture supplier spending where payment has been processed through Costain.

Environmental, Social and Governance (ESG) *continued*

The Task Force on Climate-related Financial Disclosures (TCFD)



Addressing climate change is the biggest challenge of the 21st century and businesses, society and government all have a significant part to play.

Costain has set an ambition to lead UK infrastructure into a zero-carbon future by supporting the Government in meeting its 2050 target. In 2019 Costain launched its climate change action plan, with a route-map to meet our net zero carbon by 2035 ambition.

We are pleased to make climate related financial disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the requirements of LR 9.8.6. Our disclosure covers 1 January to 31 December 2023.

Section	Pages
Governance	35
Strategy	36
Risk management	37, 43, 45 and 49
Metrics and targets	38



We provide a more detailed update on the progress we have made against Costain's climate change action plan in our separate ESG Report / www.costain.com/our-culture/performance-and-reports/

Costain's TCFD timeline

- 2019: Launched our climate change action plan, setting an ambition to be net zero by 2035.
- 2020: We committed to work towards compliance with TCFD recommendations and became certified PAS 2080 compliant.
- 2021: Climate change was elevated to a principal risk.
- 2022: Costain voluntarily published Scope 3 emissions data, despite recognising it was an incomplete data-set.
- 2023: Costain rated 'B' by the Carbon Disclosure Project (CDP).
- 2024: Costain's near-term and net zero targets were approved by the Science Based Targets initiative (SBTi).
- 2024: Costain to issue a carbon transition plan, replacing the climate change action plan.
- 2024: Costain to launch its nature positive plan.

Climate related governance

Corporate governance is central to our responsible and value-oriented management and Board oversight activities. Currently, the Board has overall accountability for ESG related activities and for ensuring that policies and strategies are aligned with the wider business objectives. Our governance structure as set out below enables accountability and responsibilities for climate-related matters to be held at the right level. This delegates appropriate authority to manage risks and opportunities as well as local decision-making for operational matters. Core to Costain's climate-related governance are the following accountable parties and their aligned responsibilities:

Forum	Responsibilities
The Board	The Board has ultimate responsibility for ESG issues. The Board sets and oversees Costain's strategic priorities and monitors the implementation of our strategy, which includes the climate change action plan. The Board met ten times in 2023, discussing climate related matters in three meetings. The Board receives a report at each meeting from the chief people and sustainability officer which provides updates on our ESG activities. In August 2023 the Board reviewed and approved Costain's ESG programme (see page 32). The chief executive officer has accountability for Principal Risk – Climate change resilience.
The Audit and Risk Committee – reports to the Board	The Audit and Risk Committee meets four times per year and is responsible for supporting the Board in its oversight of all risks, including climate change. The Audit and Risk Committee reviews PR 10 twice a year along with our other principal risks.
Remuneration Committee – reports to the Board	The Remuneration Committee approves the annual incentive plan for the executive directors and senior managers, which includes a weighting for safety, health and environmental (SHE) performance. The Remuneration Committee approves the Long-Term Incentive Plan (LTIP) criteria, which for the first time in 2023 included an ESG weighting (climate change 15%).
The Executive Board – reports to the Board	The Executive Board is responsible for the management of strategic risks and opportunities and monitoring the progress of Costain's ESG programme and climate change action plan, ensuring that the necessary resources are available. The Executive Board met 10 times in 2023, with climate related matters discussed in four meetings. The Executive Board receives a report at each meeting from the chief people and sustainability officer providing updates on our ESG activities and the Group SHE director provides a detailed report setting out our projects' performance against agreed carbon reduction plans and biodiversity plans. In May 2023 the Executive Board was briefed on the findings of Costain's materiality assessment and in June 2023 recommended that Costain's ESG programme be submitted to the Board for approval.
Executive Safety, Health and Environment (SHE) Committee – reports to the Executive Board	The Executive Safety, Health and Environmental (SHE) Committee is responsible for the delivery of Costain's climate change action plan and reports progress to the Executive Board. In 2023 the meeting structure was updated to divide into two separate parts, following a review of Costain's materially important ESG issues (see page 57), to ensure topics such as climate change, carbon, nature and environmental performance were given appropriate oversight. The Executive SHE Committee absorbed the responsibilities of Costain's former climate change steering group and expanded the membership. The Committee membership includes Costain's two divisional managing directors, the chief people and sustainability officer, chief engineer and procurement and supply chain director. The Executive SHE Committee met eight times in 2023, with climate related matters discussed at every meeting.
Operational leadership – reports to the Executive Board	Operational leadership reports to the Executive Board: risks and opportunities are managed by the divisional leadership teams, with the managing directors responsible for taking a market-based approach to these matters.

2023 progress

Low carbon materials mandate

Construction materials have significant embodied carbon, while their extraction and manufacture negatively impacts the environment and society. Concrete, steel, aggregate and asphalt account for at least 70% of Costain's annual carbon emissions.

By reducing the volume of materials we use and increasing our use of more sustainable (transitional) materials, we are able to reduce our annual emissions.

In Q1 23 a low-carbon materials mandate was introduced through technical briefing notes and briefing sessions. By the end of 2023, 67% of our design projects were able to implement the mandate during the period.

Climate resilience materials risk assessment

Following physical climate scenario analysis, our sustainable engineering team developed a climate resilience materials risk assessment to support engineers and designers when considering the impact that extreme temperature increases and decreases, as well as extreme precipitation and wind, have on manufacturing, delivery and construction of key materials.

Data improvement project

We undertook a review of our approach to Scope 3 data collection recognising that obtaining data had been challenging. Through screening and applying an environmentally extended input-output approach (EEIO) to our annual spend inventory, we have updated our approach. This spend-based approach has been combined with our existing material and product-based approach to enable a wider Scope 3 inventory to be reported.

Monitoring reduction

All contracts achieved their target to submit monthly emissions data and monitor progress against their annual action plans, with 66% achieving a reduction against their baseline. Progress against reductions targets is monitored at a Group and divisional level within monthly safety, health and environmental (SHE) dashboards.

Innovation in materials

In 2023 Costain led the use of 3D printing in a UK road building project for the first time. Costain's A30 Chiverton to Carland Cross team installed the first 3D printed curved concrete headwall as part of a Digital Roads of the Future Partnership innovation project (a collaboration of Costain, Versarien, the University of Cambridge and National Highways).

Environmental, Social and Governance (ESG) *continued*

Creating connected and sustainable infrastructure enabling people and the planet to thrive for future generations is ingrained throughout everything that we do.

Strategy

Costain's strategy focuses on transforming infrastructure performance and safeguarding our planet. We understand the policy, investment and regulation trends that are reinforcing our strategy in terms of changing market needs and how climate change is driving this. We believe that our approach puts us at the forefront of meeting this opportunity to create truly connected, sustainable infrastructure for the good of UK communities and to improve people's lives. We collaborate with our customers who we have specifically chosen to partner with us to help shape the future of infrastructure delivery and asset management. For further information on Costain's strategy and market overview see pages 10 to 14.

On page 37 we have set out and described the climate-related opportunities and risks to Costain over the short (0-3 years), medium (3-10) and long term (10 years+).

Since its implementation in 2020, our climate change action plan has shaped our strategy, reinforcing resilience and will enable us to achieve a net zero future. We provide a detailed report of our progress against our ambition in our ESG Report.



www.costain.com/our-culture/performance-and-reports/

Scenario analysis: resilience of strategy

In 2021 and 2022 we worked with sustainability consultants Anthesis, to undertake quantitative and qualitative scenario analysis, to help us develop our understanding of the transitional and physical risks of climate change likely to impact our business.

The scenarios included quantifying the impact of extreme heat and precipitation on productivity levels across our sites, and the volatility of materials pricing due to transitional risks.

These scenarios were based on the Network for Greening the Financial System (NGFS) global climate models to qualitatively assess the possible implications of climate change on our business up to 2050.

The scenarios are as follows:

- 1) Net zero 2050 (or an orderly transition) which limits warming to 1.5°C through stringent climate policies and innovation, reaching net zero CO₂ emissions around 2050. This scenario is compatible with the long-term temperature goal of the Paris Agreement.
- 2) Delayed transition (or a 'disorderly transition') assumes annual emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2°C.
- 3) Current policies (or a 'hot house world') assumes that only currently implemented policies are preserved, leading to a global warming of 3°C+ by 2100 and high associated climate impacts.

These scenarios provided insight on transition pathways and climate impacts which have been used in our business planning and the development of our risks and opportunities. We have shared the findings across the business and have commenced a project to develop specific climate-related training for our commercial and estimating teams to raise awareness of our risks.

2023 scenario analysis

We recognised that for many of our customers to reach net zero emissions and/or to enhance infrastructure to become more resilient to climate change this would in the medium term result in an increase in capital expenditure on the construction of infrastructure. While this is a market opportunity for Costain, it has the potential to delay Costain's own pathway to net zero emissions through a growth in overall emissions.

For 2023 we carried out scenario analysis based on different revenue projections over the short to medium term across each of our sectors to understand the possible emissions intensity profile for Costain. We found that our emissions are affected by increases in revenue and specific types of construction activity. We are using the findings of the analysis to shape Costain's carbon transition plan which will replace our climate change action plan, and be compliant with the UK Transition Plan Taskforce recommendations.

Resilience of Costain's strategy

We have identified risks and opportunities (see page 37) that could arise taking into consideration a 2°C or lower scenario. We believe Costain's strategy to be resilient to our various climate risks and we are well placed to capitalise on the market opportunity presented through our customers' need to enhance the climate resilience of their infrastructure. These opportunities by far outweigh the identified risks. An example of these opportunities coming to fruition is work secured for the medium term with water customers (see page 26).

Impact on financial statements

We are currently monitoring our contractual position due to disallowable costs arising from our transition to net zero. These costs are mainly related to the additional price premium for hydrotreated vegetable oil (HVO) fuel which is not supported by certain customers. However, we do not believe these costs are material.

Going concern and viability

While climate change resilience is one of Costain's principal risks, the prospective impact of climate change on the business's operating costs are not considered material within the time frame over which going concern and viability are considered.

Please see the scenario analysis section for our viability assessment. In the medium term, we do not currently believe that any of these scenarios have an impact on future viability assessments.

Climate risks and opportunities

The following table summarises the material climate-related risks and opportunities that have been identified across the short, medium and long term. Costain's processes for identifying, assessing and managing climate-related risks is the same as for all other Group risks and further detail is included within the risk section of this report (see pages 43 to 49).

In 2023 following a review of our climate risks, we created two Group risks that serve as a subset of Principal Risk- climate change resilience. These Group risks cover both the physical impact of climate change to Costain's ability to operate and also transitional risks of Costain's net zero objective. For specific details on Costain's Principal Risk- Climate change resilience, please see page 49.

Category	Risks	Opportunities
Policy and legal ST MT LT	<ul style="list-style-type: none"> • Policies such as carbon pricing mechanisms are likely to increase our operational costs (eg asset and fleet costs) across our value chain. This is because key materials such as cement and steel are carbon intensive, and the price of these materials, for example, will be significantly higher due to increased carbon prices. Elevated material prices can be included in new and target cost contracts. However, in short-term and fixed-cost contracts, the cost of materials may have to be absorbed by us, impacting our short-term profitability. • Delaying the political and regulatory transition to a low carbon economy may result in more severe climate impacts such as more frequent and intense flooding events. This could result in an increased risk of litigation for our business which we believe will have a financial impact. 	<ul style="list-style-type: none"> • By developing low carbon alternatives, we can proactively prepare ourselves to scale up our offering in aggressive transition scenarios. This can help us to remain competitive in a rapidly changing market and position ourselves as a leader in the low carbon economy. • Carbon pricing policies can create financial incentives to us as a business. By achieving our net zero objective ahead of our competitors we could potentially generate additional revenue through the sale of carbon credits.
Market MT LT	<ul style="list-style-type: none"> • We rely on a wide range of inputs, such as raw materials, energy and labour. The prices of these inputs can be volatile and subject to a range of factors such as natural disasters, supply chain disruptions, and geopolitical tensions as demonstrated across 2023. Notably, a net zero 2050, or delayed transition to a low carbon economy could also lead to changes in the prices of these inputs, particularly when there is increased demand for sustainable materials and technologies. However, with the advent of new technology these are likely to become more available. • The transition to a low carbon economy is unlikely to stop new construction and infrastructure projects. However, market risks could result in a slowdown in investment in infrastructure. Public body investments in infrastructure may look to avoid a 'lock-in' of emissions given the long-term nature of contracts. As a result, our order book may be reduced if we cannot evidence sustainability credentials. 	<ul style="list-style-type: none"> • Shift in customer buying behaviour from constructing new assets to maintaining infrastructure potentially resulting in growth of Costain's maintenance capability. • By driving our low carbon alternatives on all projects, we can gain a competitive advantage over peers by being seen as a partner who can offer solutions to customers' net zero goals. • Private sector investment in decarbonisation is likely to grow, generating and increasing the likelihood of new opportunities. • Increased opportunity to support infrastructure customers with the decarbonisation of their assets and to support the energy transition.
Physical ST MT LT	<ul style="list-style-type: none"> • Increasing severity of extreme weather (wind, precipitation and heat) events across the UK is the single biggest physical risk across all time-frames, potentially resulting in delays, damage to assets and increasing project costs. • Physical climate risks will also drive an increase in insurance costs and indeed what is insurable. 	<ul style="list-style-type: none"> • We have identified opportunities to support existing customers' infrastructure to become more resilient to the physical elements of climate change.
Technology ST MT LT	<ul style="list-style-type: none"> • Due to the nature of our business, many technologies related to plant and equipment require significant amounts of energy to operate. The development of innovative technologies to facilitate a low carbon future will be required to support the transition to net zero emissions. For example, diesel-free plant and equipment. • There could be a skills-related risk, linked to training in order to operate new or innovative technologies. When new technologies continue to be developed, there is difficulty in predicting which ones will be most relevant and which ones will become obsolete. 	<ul style="list-style-type: none"> • We are already upskilling and developing employees to meet customer needs, while simultaneously reducing reliance on an increasingly competitive external hiring market. We need to ensure our strategy remains ahead of competitors and exploit some of the opportunities from technological advancement.

Environmental, Social and Governance (ESG) continued

Metrics

Greenhouse gas emissions

Our emissions data is calculated in line with the GHG Protocol and is third-party accredited by Achilles in accordance with Toitu Carbon Reduce scheme and ISO 14064-1. All of our emissions are incurred in the UK. Where Costain operates in a joint venture, we have divided emissions proportionately in line with our financial share of each contract.

Emissions intensity

	Metric tonnes of CO ₂ e/£m	
	2023	2022
Scope 1	3.66	4.52*
Scope 2	0.97	0.67*
Scope 3	235.03	244.97*
Total	239.66	250.16*

Scope 1 (All indirect emissions from the activities under our control)

	Metric tonnes of CO ₂ e/year		
	2023	2022	2021
Total	4,876	6,426*	11,561*
kWh	61,422,961	62,309,746*	48,040,659*

Scope 2 (Indirect emissions from our purchased and used electricity)

	Energy		
	2023	2022	2021
Metric tonnes of CO ₂ e/year	1,299	958*	1,032*
kWh	5,542,724	4,663,809*	4,787,774
Location-based tCO ₂ e	1,299	958	1,302
Market-based tCO ₂ e	187	56	1,697

Scope 3

Emission category	Metric tonnes of CO ₂ e/year		
	2023	2022	2021
Purchased goods and services	302,215	336,859	255,221
Capital goods	15	33	21
Fuel and energy-related activities	3,275	4,760	5,148
Upstream transportation and distribution	4,668	3,259	3,099
Waste generated in operations	325	952	1,156
Business travel	1,930	1,687	1,151
Employee commuting	579	565	503
Upstream leased assets	51	80	93
Total	313,058	348,195*	266,392*

Our performance

In 2023 absolute emissions reduced by 10% year-on-year but increasing by 14% compared to our 2021 baseline. However, when normalised by turnover (tCO₂e/£m) emissions reduced by 2% compared to our 2021 baseline.

The implementation of Costain's hydrotreated vegetable oil (HVO) fuel mandate has contributed to the 24% reduction in Scope 1 emissions, with HVO making up 88% of all purchased fuel.

Costain's 36% increase in Scope 2 emissions is largely attributed to: an increase in projects using mains-supplied electricity rather than generators; and the significant scale of tunnelling operations on our HS2 contract (REGO tariffs account for 100% of Costain-purchased electricity). Through an improved building management system in our Maidenhead office we were able to reduce electricity consumption for the building by 6%.

*Restatement of data

We have restated data from 2021 and 2022 due to additional data becoming available after previous reporting and changes to how company car (EV) and fleet fuel emissions are reported. For Scope 1 and 2 emissions this has added an additional 176 tonnes of CO₂e representing less than 0.1% of Costain's total emissions.

As part of our continual improvement, we have updated our boundary and quantification approach to allow us to include additional Scope 3 categories in our 2023 reporting. We have used this approach to backdate our data to 2021 which accounts for the significant increase in reported emissions.

Climate risk and opportunity-related metrics

Metric	2023	2022
Board meetings where climate-related matters were discussed	30%	30%
% of contracts compliant with 2023 low-carbon materials mandate	67%	n/a
% of purchased fuel is HVO	89%	80%
Employees understanding their role in helping Costain to meet net zero	68%	62%

Climate risk and opportunity-related targets

Targets	2023	2022
100% of all relevant designs and delivery contracts have a carbon baseline and reduction plan	100%	100%
Deliver a >6% year-on-year reduction in our Scope 1 and 2 emissions	-16%	-41%
All solutions proposed to include a low-carbon option in line with PAS 2080	57%	n/a



More information on our performance can be found in our ESG Report / www.costain.com/our-culture/performance-and-reports/

Gender and Ethnicity Pay Gap

Inclusion is fundamental to how we approach doing business. Every employee should feel able to participate, contribute and challenge the status quo, and this is how psychological safety will draw out the benefits of diverse teams.

We use both quantitative and qualitative data to inform our approach to inclusion. We are continuing to invest in our data and reporting capabilities as well as maintaining our employee feedback loops to identify targeted actions to address pay gaps.

Gender pay gap

We are pleased to report that in 2023, our gender pay gap has reduced by 2.2% from 2022. We have also seen a 2% increase in the proportion of women in the lower middle quartile and a reduction of women in the lower quartile by 1.6%. Our analysis credits the reduction to a drop in the ratio of women to men at middle-management grades.

Acting on feedback from a survey of women in the business, in 2023 we piloted a development programme aimed at tackling barriers to women's progression into senior roles (see page 71). Following the successful pilot we have launched for a second cohort in Q1 24.

We are tackling bias in career progression through our new job architecture, creating transparency associated to job grade, reward and benefits. In support of the job architecture, we are rolling out a new career-path framework to improve transparency and address any potential bias in promotion decisions.

Ensuring development programmes have diverse participation remains a priority and Costain's latest Emerging Leaders programme cohort was 56% female with 20% of delegates from an ethnic minority background.

Ethnicity pay gap

Our ethnicity pay gap has increased by 1.8% for Asian employees and 1.5% for Mixed Heritage and Other Ethnicity employees, while the gap has decreased by 0.3% for Black employees. We have seen a 1.7% increase in the proportion of Asian colleagues and 1.2% increase in the proportion of Black colleagues in the lower middle pay quartile. There has also been an increase of 1.1% in the proportion of Black colleagues in the upper middle pay quartile since last year.

In 2023 we commissioned our first in a series of listening circles with employees from different ethnic backgrounds to understand the different experiences in career progression, development, pay and reward reflected by our ethnicity pay gaps, as well as to receive suggestions on how to tackle our ethnicity pay gaps.

The business received positive feedback following the conclusion of the second cohort of our Mutual Mentoring scheme, which pairs members of our Religion, Ethnicity and Cultural Heritage network with senior leaders in the business to allow for a two-way learning share. The scheme offered space for structured conversations around stereotypes, microaggressions, role models and access to career-boosting projects.



Costain for the first time has published an integrated gender and ethnicity pay gap report which can be found on our website / www.costain.com/our-culture/equality-diversity-and-inclusion

Ethnicity and gender pay gap statistics							
Ethnicity pay gap 2023	All White	All Asian	All Black	All other minority	Unknown/Prefer not to say		
						Median	Mean
Median	n/a	13.87%	20.03%	16.95%	7.43%		
Mean	n/a	12.56%	21.31%	21.06%	-2.13%		
Gender pay gap				2022	2023	Change	
Median				26.63%	24.42%		-2.21%
Mean				18.67%	15.81%		-2.86%
Employee population 31 December 2023							
	Total	Male	Female	Black	Asian	All other minority	Unknown/Prefer not to say
Number of employees	3,270	2,329	941	161	283	70	173
Percentage	100%	71.22%	28.78%	4.92%	8.65%	2.14%	5.29%

Chief Financial Officer's Review

We delivered increased adjusted operating profit and margin, together with a strong cash performance.

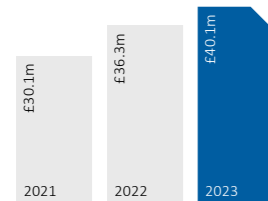


"We have delivered adjusted operating profit growth and increased cash generation, with year-end net cash of £164.4m."

Helen Willis
Chief Financial Officer

Adjusted operating profit¹

£40.1m



Adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	2023	2022	Change	2023	2022	Change	2023	2022	Change
Revenue £m									
Adjusted ¹	943.1	1,046.3	-9.9%	388.9	375.1	3.7%	1,332.0	1,421.4	-6.3%
Adjusting items	-	-	-	-	-	-	-	-	-
Reported	943.1	1,046.3	-9.9%	388.9	375.1	3.7%	1,332.0	1,421.4	-6.3%
Operating profit £m									
Adjusted ¹	28.0	31.5	-11.1%	21.8	15.0	45.3%	40.1	36.3	10.5%
Adjusting items	(7.1)	(1.4)		(0.1)	4.5		(13.3)	(1.4)	
Reported	20.9	30.1	-30.6%	21.7	19.5	11.3%	26.8	34.9	-23.2%

¹ See notes 2 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.



Cash flow

The Group generated a £72.0m adjusted free cash inflow for the year (FY22: £72.9m). The Group had a positive net cash balance of £164.4m as of 31 December 2023 (H1 23: £132.1m, FY22: £123.8m) comprising Costain cash balances of £105.2m (H1 23: £77.6m, FY22: £67.3m), cash held by joint operations of £59.2m (H1 23: £54.5m, FY22: £56.5m) and borrowings of £nil (H1 23: £nil, FY22: £nil).

The average month-end net cash balance during the year was £141.4m (FY22: £101.9m) and the average week-end net cash balance during the year was £141.0m (FY22: £94.5m). Utilisation of the total bonding facilities as of 31 December 2023 was £69.9m (H1 23: £78.9m; FY22: £88.8m).

Adjusted free cash flow reconciliation

£m	FY23	FY22
Cash flow from operations	55.5	16.7
Add back adjusting items	9.2	46.4
Add back pension deficit contributions	8.1	10.8
Less taxation	(0.7)	(0.5)
Less capital expenditure	(0.1)	(0.5)
Adjusted free cash flow	72.0	72.9

Net cash reconciliation

£m	FY23	FY22
Cash and cash equivalents at the beginning of period	123.8	159.4
Net cash flow	40.6	(35.6)
Cash and cash equivalents at the end of period	164.4	123.8
Net cash	164.4	123.8

Administrative costs

The Group incurred administrative expenses of £78.0m in FY23, an increase of £20.2m on the same period last year (FY22: £57.8m). £5.3m of the increase relates to the impairment of an intangible asset in FY23. £5.2m of the increase is driven by the recognition of an insurance receipt relating to the Peterborough & Huntingdon contract in FY22. £1.4m of the increase has resulted from higher transformation and restructuring costs driven by the repositioning of digital services in FY23, partially offset by asset write-off costs seen in FY22.

£7.3m of the increase has resulted from a reclassification of costs previously shown within cost of sales, now reflected in administrative expenses, as we have improved alignment, ownership and understanding of our cost base across the Group as part of our Transformation programme. The £1.0m balance of the increase has been driven by cost and wage inflation as well as the timing of incremental investment that will facilitate further net benefits from our Transformation programme into FY24, partially offset by the year-on-year benefit of cost management actions taken during FY23 and in the second half of FY22.

Chief Financial Officer’s Review *continued*

Financial resources

On 26 July 2023, we announced that we had successfully concluded negotiations with our bank and surety facility providers to refinance a new three-year agreement of our bank and bonding facilities. The Group’s facilities agreement to September 2026 comprises an £85m sustainability-linked revolving credit facility (RCF) (previously £125m), and surety and bank bonding facilities totalling £270m (previously £280m).

Costain has agreed with its banks and sureties that it will not declare a dividend should liquidity (undrawn revolving credit facility, plus Costain cash balances) be less than, or expected to be less than, £100m for the next twelve months (as certified by Costain).

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. Our capital allocation policy is as follows:

1. Investing for growth – disciplined investment in key areas such as digital that accelerate our business transformation.
2. Progressive dividend – the Board recognises the importance of dividends for shareholders and expects to target dividend cover of around three times adjusted earnings. This will take into account the cash flow generated in the period, and the potential impact of the ‘dividend parity’ arrangement relating to the defined benefit pension scheme, which continues until 31 March 2027.

Under the ‘dividend parity’ arrangement, an additional matching contribution (the excess of the total dividend above the Scheme contribution) to the Costain Pension Scheme will be made when the total of the interim and final dividends for a financial year paid to the shareholders of Costain are greater than the contributions paid into the Scheme in the previous Scheme financial year, which runs from 1 April to 31 March. In addition, if the funding level is above 101% as at 31 March each year, then no Scheme contributions will be payable in respect of dividend parity for the following year.
3. Selective M&A – retaining optionality to pursue strategic investments in technology, skills and capabilities to enhance our ability to support customers.
4. Returning surplus capital – after ensuring a strong balance sheet and cash position, identified surplus capital is returned to shareholders through share buy backs or special dividends.

Dividend payments were resumed in FY23 with an interim dividend of 0.4p per share for the six months ended 30 June 2023. The Board is proposing a final dividend of 0.8p per share which, if approved, will be paid on 28 May 2024 to shareholders on the register at the close of business on 19 April 2024.

Pensions

On 30 June 2023, we announced that agreement has been reached with the Trustee of the Company’s defined benefit pension scheme on the 31 March 2022 triennial actuarial funding valuation and ongoing contributions to the Scheme. The contribution plan from the Group to the Costain Pension Scheme runs from 1 July 2023 to 31 March 2027 and is for a payment of £3.3m per year, payable in monthly instalments, which will increase in line with inflation (CPI) each 1 April. This replaces the previous contribution plan to the Scheme, which from April 2023 had increased to an annual payment of £11.98m paid in monthly instalments.

As a result of the new contribution plan, the full year 2023 pension contribution payment by the Group was £8.1m, and payments for 2024 and thereafter will be £3.3m annually, plus inflationary increases as outlined above.

An assessment of the Scheme funding position will be carried out each 31 March and, if the funding level (on a Technical Provisions basis) is more than 101%, contributions will stop from the following 1 July to 30 June. If the funding level falls below 101% at the following 31 March, contributions will resume for the next year starting 1 July to 30 June at the agreed new level.

As at 31 December 2023, the Group’s pension scheme was in surplus in accordance with IAS 19 at £53.5m (H1 23: £58.7m surplus, FY22: £60.2m surplus).

The movement in the IAS 19 valuation, being a slight reduction in surplus from 30 June 2023 to 31 December 2023 was due to the impact of an increase in the value of scheme assets being slightly less than the increase in scheme liabilities, with the key drivers being the performance of growth assets, and the impact on liabilities from mortality assumption changes.

Cash contributions made to the scheme during the year amounted to £8.1m (FY23: £10.8m) and the charge to operating profit in respect of the administration cost of the UK Pension Scheme in the year was £0.2m (FY22: £0.3m).

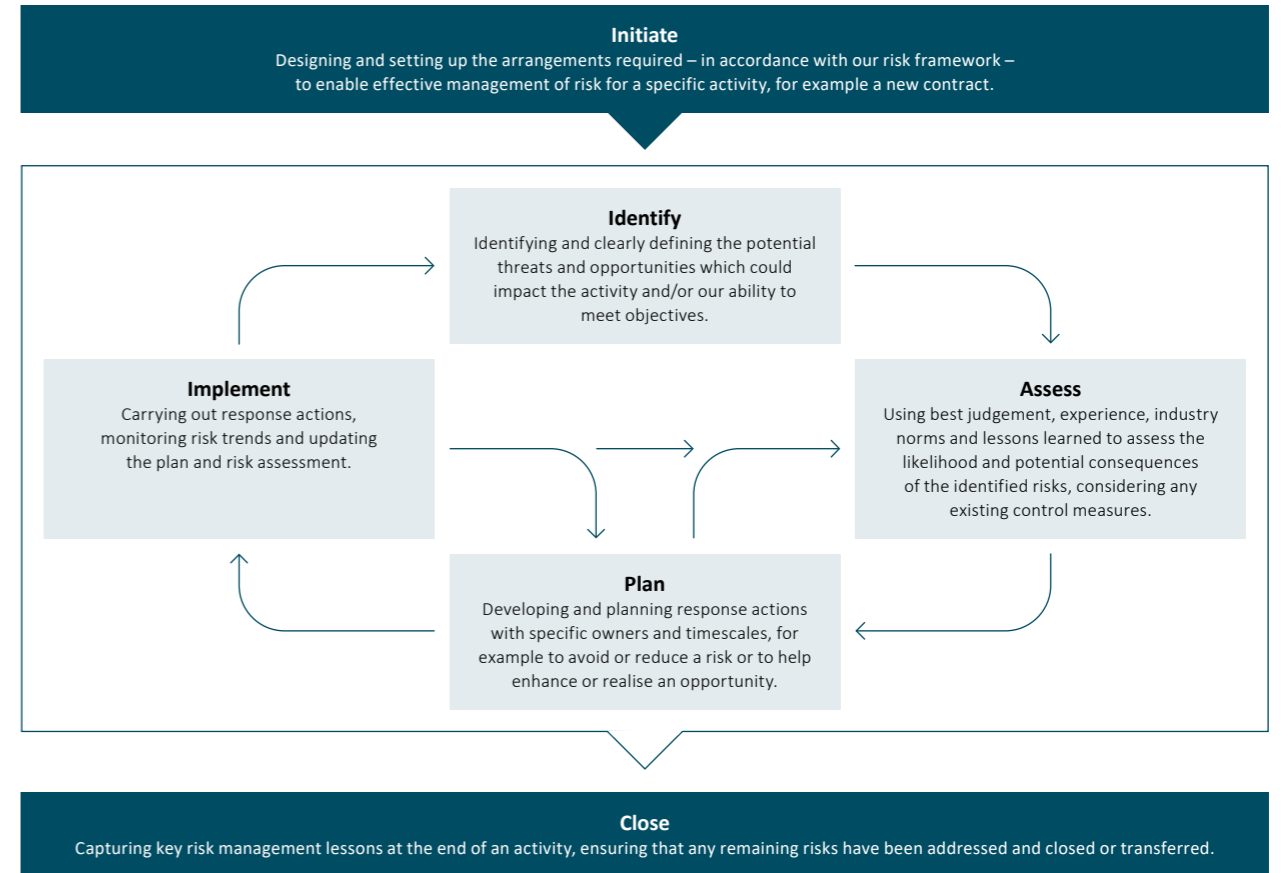
Helen Willis
Chief Financial Officer
11 March 2024

Risk Management

Our risk management process

The timely and thorough evaluation of risk is central to our business decision-making, and our approach is designed to ensure risks of all categories are identified, fully understood, and actively managed to protect our business, our people and the value we deliver for our customers.

Our process applies at all levels, from individual project risks to our Group-level principal risks. This approach ensures that risks are considered throughout the lifecycle and that we are using learning from our operational activities to continuously improve our management of risk.



Managing risk through the contract lifecycle







Risk management is central to the work we deliver for our customers, and in particular our construction project activities, where our teams manage a broad range of risks including those related to design maturity, approvals and consents, existing asset condition and the performance of third parties. Our lifecycle governance and risk management arrangements aim to ensure that we identify and explore potential risks early, make bid decisions based on our risk appetite, set our contracts up for success, and deliver our commitments to our customers.



Risk Management continued

Risk appetite and attitude

The Group’s risk appetite is aligned with our strategy, ensuring we continue to deliver predictable performance and pursue growth in key markets. The Board’s attitude to key categories of risk the business faces is set out in the table below. This is underpinned by clearly defined red lines and risk factors, which are used to evaluate risk through our contract lifecycle governance, ensuring that decisions are made in accordance with our risk appetite.

Risk category	Appetite	Attitude statement
 Safety, health and environment	Zero	We have no tolerance for harm to our people or partners, and will continually seek to reduce these risks and avoid any detrimental impact on the environment.
 Markets, customers and partners	Open	We are willing to consider a range of potential markets to achieve success in line with our strategy. We work with customers with long-term investment plans with whom we can build strategic relationships and secure repeat orders. We will partner with organisations which supplement our capability with new skills and share our values.
 Contract	Cautious	While our contracts contain significant risks, we will ensure these risks are well understood, provisioned for and manageable. We will only accept contracts where there is high confidence in achieving the target margin.
 Technical	Cautious	We are prepared to accept performance and integration risk provided additional technical assurance is implemented to ensure this is effectively managed. Our projects are delivered in accordance with nationally recognised codes and technical standards.
 Investment	Cautious	We will invest in developing solutions or building capability where there is a clear addressable market demand aligned with our business plan.
 Information security	Minimal	We will protect our systems, our data and our customers’ data to ensure we minimise the risk of disruption to operations and prevent uncontrolled access to information.

Governance

The Board is responsible for defining risk appetite and determining the nature and extent of the risks the Group is willing to take to achieve its long-term strategic objectives. On behalf of the Board, the Audit and Risk Committee reviews the effectiveness of the Group’s risk management and internal control systems every year. The process for doing this is set out in the Audit and Risk Committee Report on pages 82 to 87.

To undertake a robust assessment of the risks which could threaten business objectives, performance, sustainability, solvency or liquidity of Costain, the Board undertakes reviews of our principal risks and mitigation plans during the year to ensure they are well understood and actively managed to reduce the potential impact. The Board oversees risk deep dives and receives presentations on these from the Executive Board risk owner.

Principal risks

All principal risks are integrated with our strategic priorities. A formal biannual review of risks by the Executive Board is aligned to half-year and year-end reporting. Each principal risk is owned by a member of the Executive Board. Discussions are held at various times throughout the year with the owners to update the risk status and review progress of response actions together with any supporting metrics to review their effectiveness.

During 2023, the risk and assurance team led work to further develop the Group’s principal risks, to improve the definition of root causes and assessment of controls, and to continue to strengthen mitigation plans, ensuring these are incorporated into business plans.



The table below sets out the principal risks faced by the Group, the link to our strategic priorities, change in the risk during 2023 and relevant controls and mitigations.




Risk	Description and impact	Key controls and mitigations	Strategic Link
Safety, health and environment	<p>We operate in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards could result in illness, injury or loss of life. Failure to manage this risk could also affect our reputation and result in loss of business and financial penalties.</p> <p>While some of our operational activities involve significant hazards, we continue to strive to reduce these risks and prevent any potential for harm to our people or to third parties.</p> <p>Risk trend: Neutral ↔</p>	<ul style="list-style-type: none"> • Safety, health and environment (SHE) policy, procedures and guidance combined with monitoring and assurance. • The Costain behavioural safety programme. • Mandated accident and near miss reporting and embedding of lessons learned. • SHE assurance review process aligned with the learning organisation model used throughout delivery and during bid development to ensure key risks are identified and appropriate mitigation measures are in place. • Full consideration of environmental aspects during technical design review and approvals, updated during mobilisation and monthly operational review. • Reporting of environmental incidents and near misses to ensure lessons learned. • Continued environmental education programmes for all applicable employees. 	

Link to strategic priority



Risk Management continued




Risk	Description and impact	Key controls and mitigations	Strategic Link
Securing work and responding to changes in customer spending plans	<p>Our future growth and profitability is dependent on our ability to secure new work in our competitive marketplace. To be successful we need to maintain strong customer relationships and broaden our service offering by delivering innovative solutions across complex delivery, digital and consulting activities. Unforeseen changes to our core customers' investment priorities and spending plans could have a direct impact on both live contracts and our future pipeline.</p> <p>Risk trend: Increasing ↑</p> <p>2023 saw a number of significant changes in customer plans driven by policy, funding and regulatory factors. Policy decisions regarding the scope of HS2, combined with the impact of issues experienced on some of our Highways projects, represented a partial materialisation of this risk. A change in government following the next general election may result in further changes to policy and spending plans.</p>	<ul style="list-style-type: none"> • Directors' quarterly progress review of Group and divisional business plan, budget and objectives. • Leverage market intelligence, data analysis and bid learning to improve and better target work-winning activities. • Continual review and update of customer pursuit/ account plans based upon latest market intelligence. • Implement improvements to work-winning process including budgeting, opportunity prioritisation and clarity on artifacts for gate approval. • As part of the annual strategy review process, changes in markets and customer landscape are analysed, particularly in growth and fast-changing customers and markets. Strategy leads appointed in both divisions and Group to drive this analysis and ensure continuous horizon scanning, confirming changes to strategy and business plan, risks and opportunities to Costain and any threats (eg competition, customer organisation change). • Business development teams at sector and key account level maintaining good customer and stakeholder relationships at all levels. • Customer zipper (stakeholder relationship map) plans in place to shape relationships with Government, local authorities and trade bodies from Board downwards. • Strengthening our customer mix and exploring potential new market areas to increase resilience to changes in specific areas. 	
Managing our contracts and economic factors	<p>The contractual environment is becoming more complex with significant pricing competition while customers seek to transfer more risk to contracting parties. Onerous contract terms and conditions can result in exposure to potential financial losses, legal penalties and reputational damage. In addition, changes in the cost and availability of key materials, plant and fuels, along with other factors including exchange rates, trade arrangements and regulations can impact our delivery and financial performance.</p> <p>Risk trend: Increasing ↑</p> <p>Enhancements to existing contract review processes have helped to increase confidence in the management of this risk in 2023, whereas continued price inflation throughout 2023 has affected a number of our contracts and our work with key customers.</p>	<ul style="list-style-type: none"> • Commercial review process which examines in depth the performance of all contracts to assess progress in achieving our strategic objectives. • Early risk profiling of opportunities to ensure key contract risks are identified and bid decisions are aligned with risk appetite. • Updated contract reviews form part of work-winning governance to ensure robust management of contract risks. • Technical and design gate approvals. • Assessment of the sensitivity of planned activities to key economic factors, such as inflation during proposal development, ensuring that appropriate measures are incorporated into contracts to protect the business from future volatility. • Monthly financial contract and account reviews. • Ongoing monitoring of supplier performance and invoicing cost trends. • Centralised procurement of materials and goods sourced from outside the UK to ensure an optimised approach to managing exchange rate movements. 	




Risk	Description and impact	Key controls and mitigations	Strategic Link
Project set-up, mobilisation and delivery	<p>Working with our customers, we manage some of the most complex and challenging infrastructure projects in the UK, and this relies on rigorous planning, risk management and execution in delivery. Failure to effectively plan, mobilise and manage these complex projects can result in delays, impacting our customers and our market reputation for delivery excellence.</p> <p>Risk trend: Neutral ↔</p>	<ul style="list-style-type: none"> • Robust planning, estimating and risk identification and analysis during proposal development to form a stable, deliverable baseline for delivery. • Compliance with all aspects of the technical and design gate approvals. • New mobilisation process to ensure readiness for delivery and that resourcing, process and systems prerequisites are addressed promptly. • Formal contract closure process to ensure that all aspects of work are complete. • Integrated project controls framework for all complex delivery projects. 	
Procurement and supply chain performance	<p>A significant proportion of our work is delivered through our supply chain, and supplier selection and performance are therefore critical to our ability to fulfil our commitments to our customers. Issues with supplier resourcing, product quality or performance can adversely affect project delivery, contract performance and our reputation.</p> <p>Risk trend: Neutral ↔</p>	<ul style="list-style-type: none"> • Procurement process for evaluating potential options and selecting the appropriate supplier. • Enhanced standards for monitoring supply chain performance. • Continued drive on prompt payment of supplier invoices. 	
People: attracting, developing, and retaining talent	<p>The successful implementation of our strategy is dependent on our ability to attract and retain the skills and experience required to deliver our portfolio of work, lead specialist teams and continue to grow our market share. In an increasingly tight skills market, we have continued to focus on improving our understanding of future skills needs and on improving the Costain offer. We also recognise that developing skills and experience is essential in delivering our current and future needs, building resilience and providing development opportunities for our people. Failure to invest in these matters would hamper our growth, reduce employee engagement and increase attrition, impacting costs and performance.</p> <p>Risk trend: Neutral ↔</p>	<ul style="list-style-type: none"> • Strategic workforce planning including longer-term demand forecasting for key skills aligned with Group and divisional business plans. • Investment in new people system to underpin a more candidate-led automated experience, while improving efficiency and effectiveness of the attraction, recruitment and on-boarding processes. • Existing learning and development curriculum and targeted development programmes for core skills and emerging leaders. • Clear total reward strategy, regular review, and external benchmarking of our offer, ensuring we keep pace with market requirements. • Targeted enhancement to talent management and development in key functions to increase mobility and visibility of opportunities. • Employee communication and engagement channels and forums – listening and acting on feedback. 	

Link to strategic priority



Risk Management continued

Risk	Description and impact	Key controls and mitigations	Strategic Link
Financial resilience: maintaining a strong balance sheet, access to banking facilities and managing our legacy pension scheme	<p>A strong balance sheet is a prerequisite for many of the opportunities we pursue and the contracts we deliver for our customers. Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base could also adversely impact our balance sheet.</p> <p>Risk trend: Reducing ↓</p> <p>Loan arrangement agreements, a revised cashflow process and the triennial pension scheme valuation have resulted in a reduction in this risk in 2023.</p>	<ul style="list-style-type: none"> Monthly business review to monitor status of all contracts and ensure performance is aligned with expectations. Quarterly profit and cash forecast produced for current and following fiscal year including monitoring of covenant compliance and cash headroom and liquidity. Ensuring alignment of customer and supply contract payment terms to support effective control of working capital. Regular monitoring in conjunction with the trustee, of asset performance, pensions regulations, Company covenants, scheme funding and liability management. Provision of independent advice from a third-party pensions expert to help manage potential risks. 	
Information security: systems disruption and data protection	<p>Our work is enabled by safe, secure and resilient operating systems. Disruption to these systems, for example as a result of an outage or a targeted cyber-attack, would impact our ability to continue our normal operational activities efficiently. Unauthorised disclosure of Costain, customer or third-party data could result in financial penalties, loss of competitive advantage or reputational damage.</p> <p>Risk trend: Increasing ↑</p> <p>Cyber attacks on organisations like Costain are increasingly frequent and sophisticated. Costain has continued to invest in cyber protection in 2023.</p>	<ul style="list-style-type: none"> Maintaining Cyber Essentials Plus (CE+) and ISO 22301 (Security and Resilience) accreditation. Costain information security strategy integrates information systems, personnel and physical aspects in order to prevent, detect and respond to information security threats and data loss. Continual focus on improving cyber resiliency in technology and people, improving our security education, training and awareness (SETA). Ensuring all employees comply with mobile device management platform requirements. Review and update as necessary our system configuration assessments and Automatic Information Protection (AIP) protocols. 	 

Risk	Description and impact	Key controls and mitigations	Strategic Link
Climate change and sustainability	<p>Protecting our planet is one of our strategic priorities. Failure to deliver on our Environmental, Social and Governance (ESG) targets, and in particular our net zero 2035 ambition, could damage our reputation in the eyes of our employees, customers and other stakeholders. Our operational activities and contract performance could also be impacted by future changes in climate, and an increase in the frequency of major weather events in the UK.</p> <p>Risk trend: Neutral ↔</p>	<ul style="list-style-type: none"> Annual strategy and business planning cycle – functional business plans reviewed for alignment with climate change action plan. Rollout of greenhouse gas (GHG) emissions baseline for in-flight operations. Embedding sustainability assurance into work-winning governance and proposal development. Assessment of the potential contractual impact of weather event delays, ensuring adequate provision and/or protection is incorporated into agreements. Consideration of climate change impact on materials, assets and product life as part of technical design process and gate approvals. 	 
Delivering the benefits of our Transformation programme	<p>Our Transformation programme involves changes to our organisation, processes and systems, which are critical to increasing profitability and resilience, and will provide a platform for growth. Failure to manage dependencies between concurrent workstreams, embed changes effectively and/or realise the required benefits could impact our ability to deliver our planned strategy, operating results, and shareholder value.</p> <p>Risk trend: Neutral ↔</p>	<ul style="list-style-type: none"> Dedicated governance and gated approvals process including alignment with change framework. Transformation Steering Committee responsible for reviewing and approving new requests for change, and amendments to the existing scope of initiatives. A central management office to coordinate transformation efforts and monitor progress against an integrated transformation plan. Sequencing of initiatives to reflect the capacity to manage and absorb change. Benefits realisation plan in place for all initiatives. 	

Link to strategic priority



Viability Statement

Viability statement and going concern assessment

Assessing the Group's prospects

The Group's prospects are assessed through the annual strategic planning process, which involves the creation of five-year divisional business plans which are reviewed in detail by the Executive Board.

To create these plans, each division assesses external factors – market spend and emerging trends, regulatory environment, legislative spend, strategic national needs and our customers' business plans, and internal factors – including capability, skills, technology and thought leadership.

This results in a set of objectives and a clear implementation plan, considering known and emerging risks and opportunities over a broader horizon. This includes a five-year financial plan, with strategic objectives including targets for key accounts and strategic campaigns, resourcing and skills planning as well as research and development activity to support our customers to address complex infrastructure challenges.

The Board scrutinises and monitors the strategic and financial plans.

Assessing the Group's viability

While the Group has a five-year strategic planning horizon, our order book visibility is stronger over the medium-term period and our implementation workstreams are focused on the more immediate term. Therefore, the directors believe that an appropriate period to consider the Group's viability is over three years.

The directors have assumed that the current revolving credit facility remains in place with the same covenant requirements through to September 2026 and that the Group would either renew the facility thereafter or have sufficient time to agree an alternative source of finance, on terms which are broadly consistent with the current facility for the remainder of the three-year period assessed.

The assessment of viability has been made considering the Group's principal risks (as outlined on pages 43 to 49). The directors consider the likelihood of all these risks crystallising together to be remote and have therefore tested scenarios where a number of these risks materialise together in a plausible, but severe and prolonged combination. These downside scenarios reflect a combination of circumstances, including the potential impact of a significant decline in activity resulting from an inability to secure the estimated work to be obtained and deliver it at planned margins, the impact of a major safety incident or data breach and associated fines, the impact of a working capital decline, the loss of key management and inability to recruit the right capabilities, and a change in Government policy impacting investment and procurement programmes.

The main focus has been the impact of these downside scenarios on the Group's ability to comply with the leverage, interest and liquidity covenants as set out within its banking facilities, not the absolute value of net debt since, as evidenced by a reverse stress testing of each of the covenants, the Group maintains a significant cash headroom to absorb any further unforeseen losses.

In the event that the risks modelled in the severe but plausible downside scenarios were to materialise together, the Group would therefore be able to continue operating within its covenants and the Group's credit facilities would not be exhausted.

Viability statement

In accordance with Corporate Governance Code 2018 Provision 31, the directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provisions. Based on the results of this analysis, the directors confirm that it has 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 2026.

Going concern

The Group's going concern statement is detailed in note 2 of the consolidated financial statements on page 143.

Strategic Report

Our 2023 Overview and Strategic Report on pages 1 to 51 have been reviewed and approved by the Board of directors and signed by order of the Board.

Nicole Geoghegan

Company Secretary

11 March 2024

Non-financial information statement

Our reporting is compliant with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This is in addition to the reporting we already do under the Carbon Disclosure Project (CDP) and the Global Reporting Initiative.

Environmental, Social and Governance (ESG) and risk management reporting requirements and additional information

Environmental

Our ESG programme / [pages 32 and 33](#)

Climate change action plan / www.costain.com/what-we-do/climate-change-solutions

Employees

Our ESG programme / [pages 32 and 33](#)

Board composition and diversity / [pages 70, 71 and 78](#)

Gender and ethnicity pay gap / [page 39](#)

Human rights

Supplier code of conduct / www.costain.com/suppliers

Modern slavery statement / www.costain.com/our-culture

Social matters

Our ESG programme / [pages 32 and 33](#)

Our ESG Report 2023 / www.costain.com/our-culture

Anti-corruption and anti-bribery

Supplier code of conduct / www.costain.com/suppliers

Policy embedding, due diligence and outcomes

Risk management / [pages 43 to 49](#)

Description of principal risk and impact on the business

Risk management / [pages 43 to 49](#)

Description of business model

Business model / [page 15](#)

Non-financial KPIs

See [pages 29, 33 and 38](#)

Policy

Board diversity and inclusion

This policy sets out the chair and Board of directors' commitment to maintaining a diverse and inclusive Board, leading by example and setting the expectation that the Group operates inclusively and continues to invest in diversity. The owner of this policy is the chair.

Business continuity management

The principles which are to be adopted to ensure business continuity across the Group are set out in this policy. The Executive Board sponsor for this policy is the chief financial officer.

Collaborative working

This policy sets out the approach that Costain management shall take to ensure a collaborative working environment is maintained and relationships reflect the requirements of ISO 44001:2017 Collaborative Business Relationships. The Executive Board sponsor for this policy is the Group commercial director.

Customer service

This policy is a declaration of the Board's intent in relation to achieving a positive impact on society. It sets out how Costain will meet the needs of its customers, through professional, courteous and efficient service. The Executive Board sponsor for this policy is the chief executive officer.

Drugs and alcohol

This policy is a declaration of the Board's intent to provide a safe and healthy working environment, free from inappropriate use of alcohol and drugs in all Costain undertakings. The Executive Board sponsor for this policy is the chief executive officer.

Environmental

This policy sets out our approach to environmental management, going beyond minimising harm to the environment and sets out the proactive requirements of how our people must work to meet our ambition to be net zero carbon by 2035. The Executive Board sponsor for this policy is the chief executive officer.

Ethical business conduct

Bribery prevention, fair and open competition, insider dealing prevention, fraud prevention, receipt of gifts and hospitality, and whistleblowing are all covered by the Costain ethical business conduct policy. The Executive Board sponsor for this policy is the general counsel and company secretary.

Health and safety

This policy protects all our stakeholders, including customers, colleagues and suppliers, going beyond our statutory duties and responsibilities. The Executive Board sponsor for this policy is the chief executive officer.

Modern slavery and human trafficking

This policy specifies the mandatory conditions of employment and contractual conditions for our suppliers in respect of human rights. The Executive Board sponsor for this policy is the chief people and sustainability officer.

People

The Costain people policy encompasses recruitment, development, reward, diversity and inclusion, health and wellbeing, compliance with labour/employment and data protection laws and regulations, wherever we work. The Executive Board sponsor for this policy is the chief people and sustainability officer.

Social value

This policy sets out the Board's expectation for how the Company, its employees, partners and suppliers undertake social value in alignment with Procurement Policy Note 06/20 themes. This policy encompasses Costain's approach to social value and transparency in our reporting. The Executive Board sponsor for this policy is the chief people and sustainability officer.

Sustainable procurement and supply chain

The Costain sustainable procurement and supply chain policy stipulates the conditions of all procurement activity, aligning outcomes to our ESG commitments and business strategy. The Executive Board sponsor for this policy is the chief financial officer.











To read our policies in full, please visit our website / www.costain.com/our-culture/policies/

Board of Directors










■ Audit and Risk Committee ■ Nomination Committee ■ Remuneration Committee C Chair

Dynamic and effective leadership

EXECUTIVE DIRECTORS		NON-EXECUTIVE DIRECTORS					
							
Alex Vaughan FRICS, FICE Chief Executive Officer	Helen Willis ACA Chief Financial Officer	C Kate Rock Non-Executive Chair	C ■ ■ Tony Quinlan ACA Senior Independent Director	■ Bishoy Azmy Non-Independent Non-Executive Director	■ ■ ■ Amanda Fisher Independent Non-Executive Director	■ ■ C Fiona MacAulay Independent Non-Executive Director	■ ■ ■ Steve Mogford Independent Non-Executive Director
Appointed Alex was appointed to the Board as CEO in May 2019.	Helen was appointed to the Board as CFO in November 2020.	Appointed Kate was appointed to the Board in November 2022 and became chair of the Board and chair of the Nomination Committee in December 2022.	Tony was appointed to the Board in February 2021, became chair of the Audit and Risk Committee in May 2021 and senior independent director in January 2022.	Bishoy was appointed to the Board in June 2020.	Amanda was appointed to the Board in December 2023.	Fiona was appointed to the Board in April 2022 and became chair of the Remuneration Committee in May 2022.	Steve was appointed to the Board in November 2023.
Skills and Competencies Alex joined Costain in 1992 and has been a member of the Executive Board since 2006. Before becoming CEO, Alex played a leading role in Costain's transformation into an infrastructure solutions business through his leadership of the development and growth of the Group's consultancy and technology services. In his role as managing director, Natural Resources, Alex delivered significant growth in profit and margin. Alex is a qualified chartered quantity surveyor and has worked on infrastructure projects in the UK and internationally and additionally held various corporate roles across HR, strategy, M&A and corporate development. In 2009 he completed the Harvard Business School Advanced Management Program.	Helen has a strong financial background underpinned by her profession as a chartered accountant. She is an experienced public company chief financial officer with a high level of understanding of investor relations and change programmes, including in organisations undergoing periods of strategic change. Helen has also driven finance transformation programmes to significantly improve processes, systems and culture. She has worked in multiple sectors and is highly commercial, able to balance both short and long-term goals, develop strategic options and contribute broadly to the business. Prior to joining Costain, Helen held roles as chief financial officer of De La Rue and Premier Farnell. She has also held senior finance roles at Pelican Rouge, AZ Electronic Materials and HSS Hire.	Skills and Competencies Kate is an experienced non-executive director with a background in corporate communications and strategy and brings a strong understanding of the construction contracting sector, the application of innovation and technology to drive productivity enhancements, and of government. Baroness Rock is senior independent director at Keller Group plc (see below) and was, until 2017, a non-executive director and chair of the remuneration committee of Imagination Technologies plc. She was, until January 2023, a member of the House of Lords Select Committee for Science and Technology and a board member of the Centre for Data Ethics and Innovation.	Tony is a chartered accountant with a wealth of financial experience gained during multiple senior roles in high profile large companies and as a chair of audit committees. He also brings to the Board his business turnaround experience from his time as CFO then CEO at Laird. Tony possesses the recent and relevant financial experience in accounting and auditing required to effectively chair the Audit and Risk Committee. Tony was previously chief financial officer of Drax Group, held senior finance roles at Marks & Spencer and was senior independent director and chair of the audit committee for the Port of London Authority.	Bishoy is the designated Board representative of ASGC, a construction conglomerate with its headquarters in Dubai, UAE, and the largest shareholder of the Company. Bishoy is an engineer with a focus on safety and risk management. The Company benefits from the wealth of market knowledge, management and commercial expertise, together with construction sector experience, he has accumulated during his career. He has dynamically led new market expansion, digital transformation and operational innovation strategy thereby bringing a strong strategic focus to Board discussions. Bishoy is an active member of the Young Presidents Organization and an associate of the Chartered Institute of Arbitrators. Bishoy has decided to step down from the Board with effect from 31 March 2024.	Amanda was CEO of Amey, the engineering and infrastructure company, from 2019 until 2022. With considerable expertise in transportation, infrastructure and defence, Amanda restructured the business, redefining the strategy, building strong client relationships and improving contract risk and performance, leading to its successful sale in 2022. Prior to Amey, Amanda held two managing director positions at Balfour Beatty plc, improving their market share in key sectors, and held a senior management position at the construction firm, Alfred McAlpine. Amanda is a passionate advocate for ESG including diversity and inclusion.	Fiona is an experienced non-executive director and remuneration committee chair within the resources and industrial sectors including upstream oil and gas. Fiona has extensive experience in ESG, has completed Diligent's Climate Leadership Program and is a member of Chapter Zero, a community of business leaders taking ownership of the climate challenge. Fiona has experience in operations, large programmes, stakeholder and global supply chain management from BG Group, Mobil, Rockhopper Exploration and Echo Energy. Fiona is a past president of American Association of Petroleum Geologists Europe.	With a firm commitment to ESG, Steve is an experienced executive and non-executive director with extensive expertise in water and defence, together with experience of contracting and complex joint ventures. Steve was chief executive officer of United Utilities Group PLC from 2011 until March 2023 and led significant growth during that period. During 30 years at BAE Systems Plc, Steve held various senior positions before being appointed chief operating officer and a member of the board. Steve was previously senior independent director of G4S plc.
External Appointments • None	• None	External Appointments • Keller Group plc; senior independent director and non-executive director with responsibility for workforce engagement. • The Prince's Countryside Fund; trustee.	• Hill & Smith Holdings PLC; non-executive director, senior independent director and chair of the remuneration committee. • Associated British Ports; non-executive director. • Laird Thermal Systems (Adparatus GmbH); chair and advisory board member.	• Innovo Holdings Limited; CEO.	• University of Plymouth; independent external governor.	• Ferrexpo plc; non-executive director, senior independent director and chair of the remuneration and ESG committees. • Chemring Group PLC; non-executive director. • Dowlais Group plc; non-executive director.	• QinetiQ plc; non-executive director and senior independent director.

Executive Board

Running the business

EXECUTIVE BOARD							
							
Alex Vaughan FRICS, FICE Chief Executive Officer	Helen Willis ACA Chief Financial Officer	Nicole Geoghegan LLB General Counsel and Company Secretary	Catherine Warbrick Chief People and Sustainability Officer	Sam White Managing Director – Natural Resources	David Taylor FRICS, FIoD Group Commercial Director currently serving as Interim Managing Director – Transportation	Abida Lalani Director of Strategy and Transformation	
Appointed Appointed in May 2019.	Appointed in November 2020.	Appointed in July 2022.	Appointed in September 2019.	Appointed in January 2022.	Appointed in January 2015.	Appointed in October 2022.	
Skills and Competencies							
<p> For more information please go to / page 52</p>		<p> For more information please go to / page 52</p> <p>Nicole is a highly experienced general counsel and company secretary with an extensive background in major/mega projects and infrastructure, covering the full asset lifecycle. Nicole spent six years on the HS2 project as general counsel and company secretary prior to joining Costain. She has significant international experience in rail/transport, engineering and project services and is an expert in public sector procurement, fit-for-purpose governance and effective risk management.</p>		<p>Catherine joined Costain in 2006 and has performed a number of roles, including as director of learning and development and corporate responsibility (CR), and investor relations director. In 2019, Catherine became Group HR director and in 2022 took on additional responsibility for sustainability, becoming chief people and sustainability officer. Highlights of Catherine's career with Costain include developing and implementing the Group's first CR strategy, achieving Platinum status in Business in the Community's CR Index in 2013, driving change to achieve the Group's recognition in the Times Top 50 Employers for Women 2018–2021 and Costain being cited as a game changer in 2019 for its work on gender parity in early careers recruitment. Catherine is a qualified executive coach and graduated with an honours degree in environmental science.</p>		<p>Sam was appointed managing director of Natural Resources in January 2022. He has a strong track record in developing strategic customer relationships and delivering enhanced business performance and growth, gained through a variety of challenging multi-sector roles in multi-national organisations. Sam joined Costain from Babcock International Group where he held various leadership roles across defence, energy and engineering services. Prior to this he held roles with BAE Systems and General Dynamics. Sam is a qualified executive coach and is a passionate advocate of inclusion and diversity.</p>	
External Appointments							
• None	• None	• None	• None	• None	• None	• Chair of the board of trustees at Volunteer Centre Camden.	

Governance at a Glance

Leading a responsible business

Statistics from engagement survey

72%
of colleagues responded to the survey

94%
agree that health and safety is taken seriously in the organisation

81%
agree that their line manager exhibits the Costain behaviours

78%
agree that they feel included and respected



UK Corporate Governance Code – application of Code Principles

The table below sets out where the required reporting on the Principles can be located in the 2023 annual report.

1. Board leadership and Company purpose

- A** Effective Board / [pages 52, 53 and 78](#)
- B** Purpose, values and culture / [pages 72 and 76](#)
- C** Governance framework and Board resources / [pages 28, 29 and 43 to 49](#)
- D** Stakeholder engagement / [pages 30, 31, 66 and 67](#)
- E** Workforce policies and practices / [page 51](#)

2. Division of responsibilities

- F** Board roles / [pages 63 and 65](#)
- G** Independence / [pages 52, 53, 65, 78 and 79](#)
- H** External appointments and conflicts of interest / [pages 52, 53, 80 and 122](#)
- I** Key activities of the Board during 2023 / [pages 58 and 59](#)

3. Composition, succession and evaluation

- J** Appointments to the Board / [pages 88 to 91](#)
- K** Board skills, experience and knowledge, service length / [pages 52, 53, chart adjacent and 78](#)
- L** Annual Board evaluation / [page 63](#)

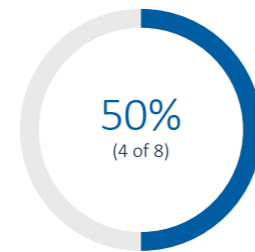
4. Audit, risk and internal control

- M** Financial reporting, external auditor and internal audit / [pages 82 to 87](#)
- N** Review of the 2023 annual report / [page 81](#)
- O** Internal financial controls and risk management / [pages 43 to 49 and 81](#)

5. Remuneration

- P** Linking remuneration with purpose and strategy / [pages 93 and 94](#)
- Q** Remuneration policy review / [pages 97 to 100](#)
- R** Performance outcomes in 2023 / [pages 92, 103 to 106](#)
Strategic targets / [pages 107 to 110](#)

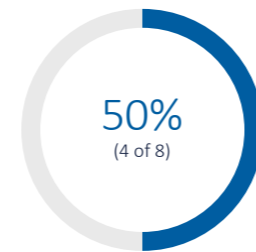
Board independence



Chair*	1
Non-independent directors	3
Independent directors	4

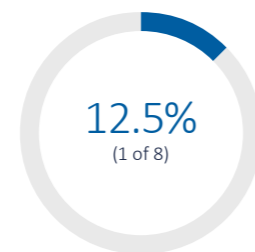
* The chair was independent on appointment.

Board diversity – gender



Male	4
Female	4

Board diversity – other ethnicity



White British	7
Other ethnic groups*	1

* All other ethnic groups combined (excluding white minorities).

Non-executive director length of service



<1 year	2
1–3 years	2
>3 years	2

Governance case study

A deep dive review of our Board and Committee governance framework was undertaken in autumn 2023 to ensure Costain has the right governance structure to support exceptional financial and operating performance and business growth. The review was led by the general counsel and company secretary, in consultation with other corporate functions such as people and sustainability. The review focused on committee structure, including sub-committees below Executive Board level, terms of reference, membership and attendance. The Board endorsed the findings that our PLC-level governance structure and Committee membership is fit for purpose and the only change recommended at this level was to rename the Audit Committee the Audit and Risk Committee to better describe its activities.

As a result of the review, some changes have been made below Board level to Executive sub-committee terms of reference to ensure some ESG and other matters are appropriately addressed. In addition, during 2023, other governance changes were made at Executive level, for example a new People Committee was established to ensure people matters not reserved for the Board or its Committees are discussed and approved promptly and by the appropriate senior leadership.



“Our in-depth governance review has shown our Board-level governance structure to be fit for purpose with all relevant matters appropriately considered at the Board and its Committees. The separate review of principal risks and the risk management framework has enabled Costain to further shape its risk mitigation priorities. I am confident we have a robust governance structure which enables sound decision-making and a sharp focus on business performance and growth.”

Kate Rock
Chair

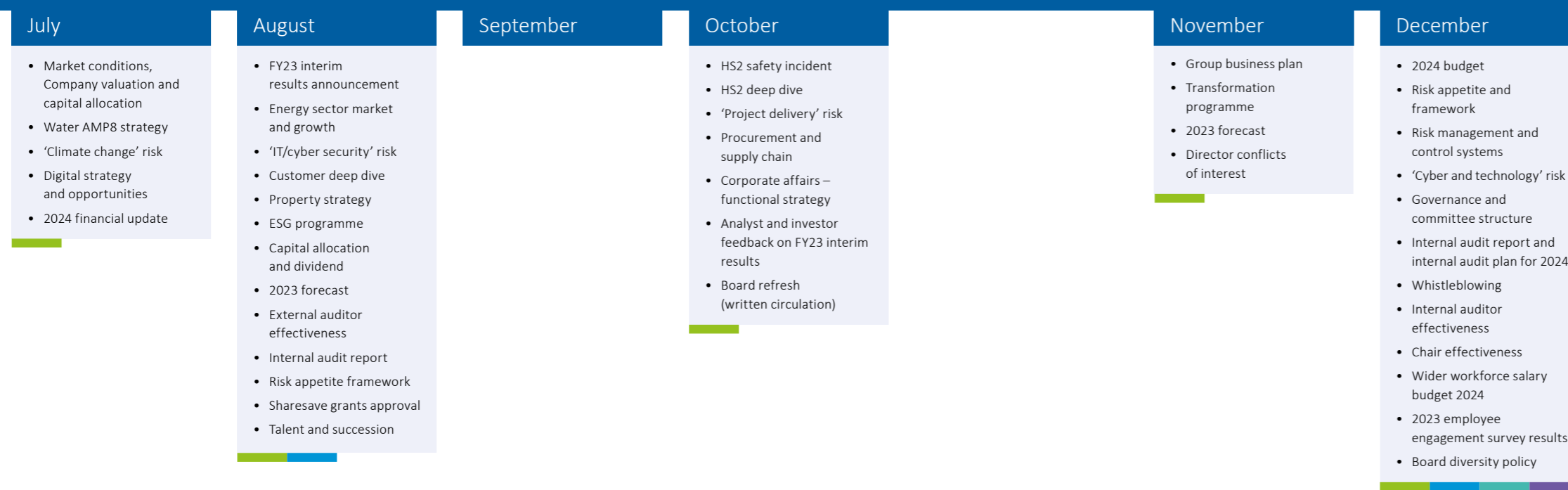


For more information / [pages 60, 64 and 65](#)

Governance at a Glance *continued*

2023 key activities

The main areas of discussion of the Board and Committees in 2023 are shown in this timeline.



At each full Board meeting, the Board considers a safety moment, a safety, health and environment (SHE) report, the CEO and CFO reports, an investor relations update, a legal update, a people and sustainability report and, if required under the matters reserved for the Board, work-winning approval(s).



Chair's Introduction

The Board ensures the Company's governance processes support business performance and growth.

"The Board recognises the value of good corporate governance to long-term sustainable business success."

Kate Rock

Chair

Dear shareholder

The Board has continued to maintain high standards of corporate governance across the Group to support business performance. It promotes Costain's values, encourages diverse views and constructive challenge, has acute awareness of Group risks and is responsive to the views of shareholders and wider stakeholders.

The Board has demonstrated compliance with the 2018 UK Corporate Governance Code (the 2018 Code) with one exception relating to the Board's annual performance review (see opposite).

Board and Committee governance

As also described on page 57, in autumn 2023 our company secretary and general counsel, at my request and in consultation with other corporate functions such as people and sustainability, conducted a deep dive review of our Board and Committee governance framework, including sub-committees below Executive Board level. The Board endorsed the findings that our PLC-level governance structure and Committee membership is fit for purpose and the only change recommended at this level was to rename the Audit Committee the Audit and Risk Committee to better describe its activities. It was noted there was no requirement for a separate Environmental, Social and Governance (ESG) committee; instead it was important for ESG to be appropriately reflected in Costain's culture and business-as-usual practices. Accordingly, some changes have been made below Board level to Executive sub-committee terms of reference to ensure some ESG and other matters are appropriately addressed.

Stakeholder engagement

During the year we stepped up our engagement with shareholders, including our retail investors. I met with some of our largest shareholders in July to hear their views and to discuss the opportunities and challenges for Costain. In April we hosted our banks at HS2 Main Works at West Ruislip, a visit with a strong ESG focus, and in September Costain held a Water sector seminar on the industry impact of the AMP8 cycle, with analysts and large investors in attendance. The session included an update from David Black, CEO of Ofwat. We are now seeing an increasing number of enquiries from prospective investors.

The Board is committed to increasing its visibility with the Company's workforce to gain additional insights into the culture and concerns at different levels of the Company. Visits also enhance our understanding of the business and its relationships with significant stakeholders. I have visited several of our operational sites and have been delighted to see first hand the commitment of our employees to their work and to safety, and evidence of the Costain values and behaviours in action.

In 2023, I also met with the chairs of two of our key customers, HS2 and AWE, to understand their key opportunities and challenges.

ESG

The Board continues to prioritise ESG matters and spent time in the year understanding the International Sustainability Standards Board (ISSB) reporting requirements, and reviewing and approving Costain's ESG programme. We also considered our customers and levels of customer engagement, often in relation to the social value of projects, relations with Government, and our progress on decarbonising the business. We had a deep dive on climate change risk and approved Costain's revolving credit facility which was updated to become sustainability-linked. For further information on our ESG progress and initiatives, please see pages 30 to 39, together with our separate ESG Report at www.costain.com.

Compliance with the UK Corporate Governance Code

As a premium listed company on the London Stock Exchange, and in respect of the financial year ended 31 December 2023, the Company is reporting in accordance with the 2018 Code which sets out standards of good practice in relation to the following principles:

- (i) board leadership and company purpose;
- (ii) division of responsibilities;
- (iii) composition, succession and evaluation;
- (iv) audit, risk and internal control; and
- (v) remuneration.



The 2018 Code is published by the Financial Reporting Council (FRC) and is available on its website / www.frc.org.uk

Costain was compliant with the provisions of the 2018 Code in 2023 with one exception. In 2023 we did not conduct an evaluation of the Board's performance. Instead we decided to defer the planned external Board and Committee performance review until spring 2024 to enable time for our new directors to settle in following the membership refresh in autumn 2023 (see Nomination Committee Report on pages 88 to 91). The senior independent director conducted an assessment of chair effectiveness in 2023 (see page 63). Separately, we conducted a review of our governance framework (see opposite).

The Audit and Risk Committee Report on pages 82 to 87, the Nomination Committee Report on pages 88 to 91 and the Directors' Remuneration Report on pages 92 to 117 are also incorporated into this report by reference.

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

Chair's Introduction continued

Strategy

The Board establishes the Group's purpose, values and strategy, ensuring the Company's culture is aligned. In shaping the Group's strategic direction, the Board seeks to ensure that good governance standards are embedded throughout the organisation to support our purpose.

In 2023, the Board continued to work hard to build stronger investor and market confidence in the Company. We are now seeing the benefits of our efforts. By means of implementing the various elements of transformation and delivering our strategy, we believe we can achieve strong growth. In June the Board came together for a strategy session at which the ambition for 2030 was agreed and growth opportunities were considered and prioritised. Business improvements were identified, such as in operational delivery performance, and we reviewed our portfolio, competitive differentiators and customer relationships. Further details of our strategy are on pages 10, 11 and 72.

Board refresh

Following a review of Board skills and competencies, to align with our strategy and further strengthen our Board, Costain appointed Steve Mogford and Amanda Fisher as independent non-executive directors effective 1 November 2023 and 1 December 2023 respectively. As part of these changes, which were in line with the Board's succession plan, Neil Crockett and Jacqueline de Rojas stepped down from the Board on 31 October 2023. The appointments followed an extensive independent external search process. Further details of all Nomination Committee matters, including talent and succession reviews below Board level, are provided in the Nomination Committee Report on pages 88 to 91.



Above: A30 Chiverton to Carland Cross

Risk management

Effective risk management is a fundamental aspect of the Group's operating, financial and governance activities (see pages 43 to 49).

During the year, management undertook a comprehensive review of the Company's risk appetite and risk management framework, the outcomes of which were endorsed by the Board, and Audit and Risk Committee, as appropriate. The Board conducted reviews of several of the Group's risks, including people, climate change, project and programme delivery, and IT/cyber security.

Further details of all Audit and Risk Committee matters are provided in the Audit and Risk Committee Report on pages 82 to 87.

In addition, Board members use their engagement visits to sites (see page 74) as an opportunity to lead a risk conversation.

Remuneration

Following a consultation with our largest investors and their representative bodies concluding in March 2023, our new remuneration policy was approved by shareholders at the 2023 AGM with a 97.17% vote in favour. During 2023, the Remuneration Committee continued to have regard to the wider workforce, our shareholders and other stakeholders and believes our incentive outcomes are a fair reflection of the Group's performance.

We are committed to aligning shareholder and Company interests, maintaining an open and transparent dialogue with our shareholders on executive pay and listening to shareholders' views.

Please see the Directors' Remuneration Report on pages 92 to 117 for more information on the work of the Remuneration Committee and implementation of the remuneration policy in 2023.

Culture

The Board has an important role in setting and developing the culture of the Company and uses several leading and lagging indicators to make an informed assessment of the Company's culture (see page 72). Towards the end of 2023, the Company again carried out a Group-wide employee engagement survey with support from Best Companies. We were delighted with the participation level as it gives us a wealth of information on what we do well and areas for improvement, together with our accreditation, for the second year, as a Best Companies 1 Star organisation, meaning Costain has 'very good' levels of workforce engagement (see page 75 for more information).

Kate Rock

Chair

11 March 2024

Board Evaluation

The Board has a formal process for the evaluation of the effectiveness of the Board and its Committees. As set out on page 61, the Board decided to defer the planned external Board and Committee performance review in autumn 2023 until spring 2024 to enable time for the new directors to settle in following the membership refresh in autumn 2023.

The procedures, effectiveness and development of the Board will continue to be kept under review. The planned external evaluation will support this process.

In autumn 2023, the senior independent director conducted an assessment of chair effectiveness. Tony Quinlan conferred with each director, including Neil Crockett and Jacqueline de Rojas who stepped down from the Board at the end of October 2023, and gave feedback to the chair.

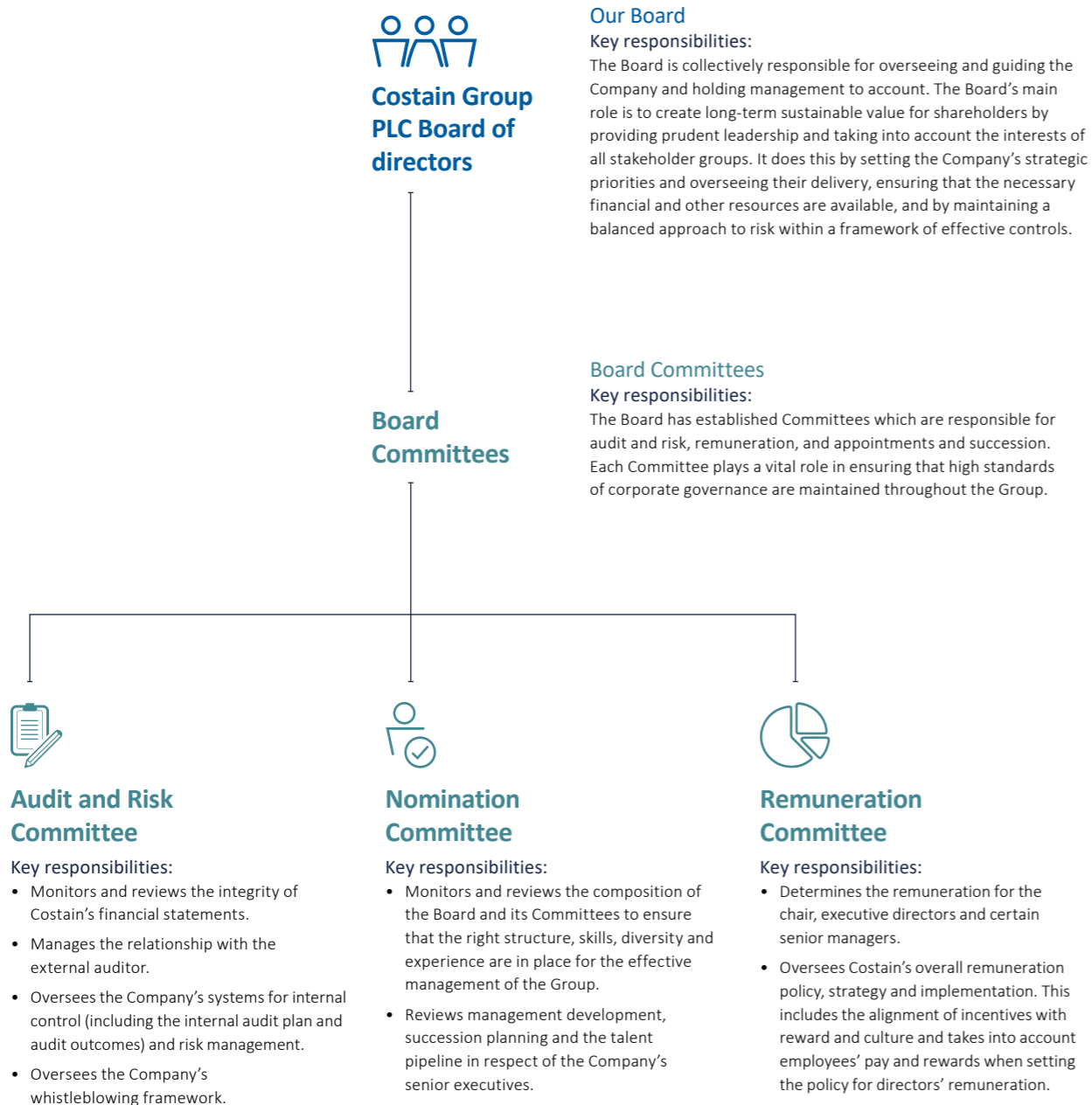
Progress made in 2023 against the areas of focus that were identified during the 2022 internal Board and Committee performance evaluation are shown below.

Areas of focus identified in 2022	Purpose, link to strategy and actions undertaken
Increase time on strategic matters	<ul style="list-style-type: none"> A strategy day was held in June 2023. The director of strategy and transformation held separate meetings with each of the non-executive directors before the day to ensure directors' views were captured and that the day was used to best effect. The strategy session updated on Costain's business and recent operational and financial performance, its customer base, competitor trends, trends in Costain's core markets and industry mega trends, and then prioritised growth areas. 2024 and 2025 Board calendars also include a strategy only session. Also presented and discussed at Board meetings in 2023 were a market update, valuation and capital allocation discussion by Rothschild & Co, financial advisers, and updates on digital strategy, Water AMP8 strategy and property strategy.
Embed ESG commitments	<ul style="list-style-type: none"> Presentations and papers were received in 2023 by the Board on ESG reporting and assurance from PwC, on climate resilience and on the business' longer-term ESG programme. Board members attended the two leadership impact days focused on carbon reduction and safety (see page 74). A sustainability-linked revolving credit facility was introduced. ESG targets were included in LTIP targets (see page 95). The Nomination Committee approved the refreshed diversity and inclusion policy (see page 70).
Refresh the risk appetite	<ul style="list-style-type: none"> An update on the review of risk appetite was presented to the August Audit and Risk Committee meeting and a further update seeking specific approvals was presented to the December Board meeting.
Heighten engagement with stakeholders	<ul style="list-style-type: none"> Non-executive directors attended the April and October Company-wide leadership impact days and have accompanied members of the leadership team on other site visits and engaged with the workforce (see page 74). The Board has engaged with members of the Executive Board and the senior leadership team at various Board and Committee meetings and at other meetings, for example with the general counsel and company secretary, chief people and sustainability officer, director of strategy and transformation, risk and assurance director, Group SHE director, Group environmental director, MDs Transportation and Natural Resources, sector director Water, HS2 client director, procurement and supply chain director, head of digital product development and consultancy, and the talent and development director. Various meetings were held by the chair with customers, major shareholders and Government. The Board received feedback from analysts and investors on the full and half-year results roadshows. The Board received a presentation on the results of the employee engagement survey 2022 and action plan. The Remuneration Committee, in December 2023, received details of the headline results of the 2023 engagement survey as an indicator of wider workforce experience (see page 102 of the Directors' Remuneration Report). We hosted representatives from our banks at HS2 Main Works at West Ruislip. Costain, supported by the CEO of Ofwat, held a Water sector seminar on the industry impact of the AMP8 cycle (see page 61).
Chair to reach out to other directors immediately prior to each meeting to discuss the papers and any proposals	<ul style="list-style-type: none"> This has been actioned, leading to informed debate and constructive challenge at Board meetings. The chair engages with non-executive directors on a regular basis outside of Board meetings. The non-executive directors often meet for dinner prior to Board meetings, about half of occasions with the executive directors present.
Continuous improvement of Board papers	<ul style="list-style-type: none"> Meeting agendas have improved to be more forward-looking, with stronger linkages to the strategy to ensure the Board is focused on key matters. The general counsel and company secretary reviews each paper prior to submission and suggests changes, where appropriate, to authors to ensure the papers are of a consistently high standard and meet the Board's expectations. The general counsel and company secretary briefs new presenters on expectations of papers and presentations. Each paper clearly sets out the 'ask' of the Board.
Bring outside views into the boardroom	<ul style="list-style-type: none"> During 2023, the Board received a presentation from PwC on ESG reporting regulations and trends, from Slaughter and May, the Company's corporate legal advisers, on regulations and governance applicable to listed companies, from Boston Consulting Group, who supported the Board's strategy day in June, and from Rothschild & Co (see above).

Our Governance Structure

Delivering effective decision-making and meeting corporate governance standards

The Group’s governance structure is established and overseen by the Board. For details of the governance structure review in 2023 please see pages 57 and 60.



How we divide up our responsibilities

Chair	The chair, Kate Rock, is responsible for the effective leadership and operation of the Board. The chair promotes high standards of governance and supports and guides the CEO.
Chief executive officer	The CEO, Alex Vaughan, is responsible for managing the business of the Company through the implementation of policies and strategies approved by the Board. The CEO maintains constructive dialogue with the chair, the Group’s shareholders on strategy and performance, and other stakeholders.
Senior independent director	The role of the senior independent director, Tony Quinlan, involves providing a sounding board for the chair and providing support to her, acting as a point of contact for shareholders to raise any concerns not addressed adequately through normal channels and meeting with the other non-executive directors, without the presence of the chair or executive directors, to discuss such matters as the chair’s performance.
Non-executive directors	The non-executive directors all bring valuable experience, insight and perspective to the Board, through their former or current executive roles and their other non-executive positions, which are held across a wide range of businesses and disciplines. This facilitates robust decision-making by the Board as a whole. The non-executive directors, including the chair, also meet without the executive directors present from time to time as a matter of good corporate governance.

Further information



The review of the governance framework (see pages 57 and 60), as approved by the Board in December 2023, has led to a small number of changes to the matters reserved for the Board early in 2024, most notably in relation to approval of any contract for the Group where the customer is a special purpose vehicle or joint venture and if the customer requires a lump sum or guaranteed maximum price under a complex delivery contract for a single stage design and construction project. No changes were made to the terms of reference of Board Committees in 2023 other than to change the name of the Audit Committee to the Audit and Risk Committee. The matters reserved for the Board and Committee terms of reference, which are reviewed at least annually, can be viewed in the corporate governance section of the Company’s website. The members of each Committee and details of their attendance are shown on pages 82, 88, and 101.

S172 Statement

Engaging with our stakeholders



Our commitment to stakeholders

We set out on page 30 our key stakeholder groups and here we detail how we engage with each of them. Each stakeholder group requires a tailored engagement approach to foster effective relationships. By understanding our stakeholders and listening to their views and feedback, we can factor into Board discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

The information included in the table to the right and on pages 68 and 69 (Principal decisions), shows how the directors have performed their duties under Section 172 Companies Act 2006, having regard to a range of stakeholder feedback.

In response to the results of the 2022 employee engagement survey, we targeted certain actions including in relation to fairness and transparency of pay. Results of the 2023 survey showed improvements in many of these targeted areas.

Signed by the Board

11 March 2024



Workforce

HOW WE ENGAGED

- Board members took part in site visits and Q&A sessions with our people.
- We held two Company-wide leadership impact days where our people stopped their usual activities and took part in discussions.
- We conducted our regular Group-wide engagement survey.
- We launched our job architecture with line managers via webinars and piloted the career path framework with front-line managers.
- We rolled out a refreshed code of conduct and gifts and hospitality policy.
- We concluded our Samaritans 24/7 fundraising campaign in 2023 with several Company and employee-led events.
- The CEO attended a 'Costain connected' event at our HS2 contract with over 400 employees participating.
- Developed skills, capabilities and talent, such as with the Empower, First-Time Line Managers, Emerging Leaders and Accelerate development programmes.
- The CEO met with 40 Costain graduates on completion of their programme.



Customers

- The Board received presentations on major customers including National Highways and HS2 to understand opportunities and challenges.
- We took our customers, such as National Highways leadership, on site visits to flagship projects, helping to showcase our capabilities and the quality of work across our portfolio.
- We attended strategic customer events such as the opening of Gatwick station.
- We attended a number of events with industry associations.
- Our chair met with the chair of AWE and the chair of HS2.
- Strong CEO and CFO customer engagement, for example with Heathrow, Southern Water and Cadent.
- Our CFO attended a roundtable with Government on sector opportunities and challenges and actions to boost infrastructure investment and delivery.



Shareholders

- We consulted with our largest shareholders on the remuneration policy renewal.
- We stepped up our engagement with shareholders, including smaller retail shareholders, and the chair met with some of our largest investors in July. Post interim results, we held our first ever 'meet the Company live' session with retail investors.
- We hosted a Water sector briefing with current and potential investors and analysts, with the CEO of Ofwat present, followed by a Q&A session.
- Our Annual General Meeting (AGM) took place in person in London. Questions could be asked before and during the meeting.
- We issued other regular announcements and streamed webcasts to accompany results announcements.



Suppliers

- Appointment of new procurement and supply chain director in 2023.
- Supply chain managers provide a crucial link with suppliers, developing strong, enduring relationships to ensure the best solutions for our customers.
- We continue to seek opportunities to liaise with our supply chain at the earliest possible moment, providing and developing our customer solutions.
- We held another virtual intake to our supply chain academy, training SME businesses on a variety of topics including corporate responsibility, inclusive practices and carbon (see page 33 for further details).
- We facilitated a series of strategic supplier engagement sessions focused on the alignment of their organisation with Costain.



Communities and environment

- We hosted our banks at HS2 Main Works, a visit with a strong ESG focus.
- The Board is updated at each meeting with a SHE and ESG Report.
- Costain took part in the Manchester Pride parade, with colleagues, friends and family to demonstrate our commitment to an inclusive workforce.
- We facilitated an opening ceremony for the Preston Western Distributor Road, which opened to traffic in June 2023.
- Costain has five senior leaders serving as regional board members or campaign leadership members for BITC, and the chief people and sustainability officer is a member of the Prince's Trust Built Environment Leadership Group.

DISCUSSIONS AND ACTIONS

- We engaged with and listened to feedback from role experts in constructing our new job architecture.
- As in 2022, in our 2023 engagement survey we asked a set of core questions about leadership, the Company, managers, teams, wellbeing, personal growth, giving something back and fair deal. In addition, we asked questions about safety, culture, advocacy, communication and career progression.
- Addressing some of our key risks and strategic priorities, the leadership impact day themes were 'my contribution to net zero' and 'embedding our learning organisation model'.
- The Your Voice forum focused on key themes: job architecture, systems and processes, reward and benefits, values and behaviours, communication and policies.
- We had a strategic Q&A session and lessons learned with the graduates as to how we can improve the programme and their career experience in Costain.

- We are spending more time with our customers, ensuring we are helping them meet their changing needs, working hard to secure the new work we can shape and that we are well placed to support them.
- Javier Echave, CFO at Heathrow Airport and chair of the Business in the Community (BITC) Wellbeing Leadership Group, presented to the Executive Board on the potential opportunity and organisational benefits from putting wellbeing and employees who thrive at the heart of business strategy.
- A senior representative from the Department for Transport presented to the Executive Board and discussed decarbonising infrastructure, pipeline predictability and skills strategies.
- With Southern Water leadership we discussed the challenges and opportunities of delivering their AMP8 plan and AMP7 close-out plans.

- We talked to shareholders about our share price, dividend reinstatement, trading, results announcements, new pensions funding arrangements and bank and bonding facility refinancing.
- At the 'meet the Company live' session, we responded to a broad range of questions with 57% of responders more positive towards the Company following the presentation and 86% believing the Company to be undervalued.
- We engaged with investors on their enquiries based on media reports about Government funding on projects including smart motorways and HS2.
- Fiona MacAulay, chair of the Remuneration Committee, met with shareholders who wished to discuss the new remuneration policy proposals in more detail and responded in writing to those requesting some more information.

- We discussed actions we and our suppliers need to take to meet our net zero carbon objective.
- We invited feedback from our strategic supply chain partners on our SHE strategy and our ESG programme.
- We invited suppliers to attend our second walk and talk event in aid of our Samaritans 24/7 campaign, discussing the importance of mental health and how Costain can support suppliers in raising awareness.
- We discussed market trends, such as materials and labour shortages.
- We discussed strategic alignment across various topics including wellbeing, carbon, inclusion, safety, environmental and ethical business.

- The CEO and chief people and sustainability officer discussed with the Government the New Model Institute for Technology and Engineering (NMITE).
- Our local communities have been keen to discuss construction activity, opportunities for local businesses, job opportunities and climate change.
- We stay connected with our local communities to inform them of any operational impact they may experience from our work and maintain a service level agreement for customer contact.
- Costain senior leaders took part in various BITC events including climate change, skills and employment, wellbeing and inclusion.
- Some of our high-profile projects continue to attract some level of protester interest and in those cases we have made efforts to de-escalate tensions and engage in productive conversations.

OUTCOMES

- We have used workforce feedback (for example from the engagement survey, Your Voice, the employee networks and line manager briefings) to inform our actions.
- Using feedback from the 2022 and 2023 engagement surveys, we have implemented and continue to implement targeted actions (see page 75).
- We have introduced a Q&A into every leadership and Board site visit.
- Employee feedback has generally been very positive to the new job architecture, which enables transparency in pay and reward and targeted action to normalise salaries against the market where necessary.
- The successful pilot with front-line managers of tools to support and accelerate career development will now be rolled out Company-wide.
- The female Empower programme has been extended to a second cohort with lessons learned applied.
- Following our 24/7 campaign, we presented Samaritans with £247,000.

- In an award judged by customers and peers, Costain has retained its silver medal rating in the Financial Times UK's Leading Management Consultants 2023 in the category Construction and Infrastructure.
- We have undertaken working groups to better support our customers with upcoming projects.
- We refreshed our four-year strategic business plan to take into account our customers' changing requirements.
- The use of various engagement channels resulted in closer customer relationships.
- We transferred learning from one sector to another through lessons learned workshops to maximise cross-sector learning.
- We placed increased emphasis on the importance of deliverability.
- We were recognised for our activities by winning awards and accreditations.

- In considering bonus outturns, LTIP share award vesting levels and the quantum of LTIP awards, the Remuneration Committee was mindful of the overall shareholder experience as well as the Company's performance.
- As a result of listening to feedback from the remuneration policy consultation, the Remuneration Committee made appropriate adjustments and our new policy received a vote in favour of over 97%.
- The Board received an update from its financial advisers on market challenges, the competitive landscape and any opportunities for growth.

- Costain continues to rank within the top four of construction's fastest-paying main contractors. This attracts businesses to work with us. We submit our statistics on prompt payment performance publicly every six months.
- Costain continues to support the Supply Chain Sustainability School with their learning platform dedicated to building the skills of managers in the construction industry to accelerate digital adoption. A number of our subject matter experts also support shaping industry training materials.
- Undertaken a review of our strategic supply chain, resulting in a consolidated labour supply chain through the creation of a strategic labour desk.
- Refreshed our list of strategic suppliers.

- The Group's new bank and bonding facilities agreement comprises a sustainability-linked revolving credit facility.
- On NMITE, Costain has agreed to support the ongoing development of this higher education approach, encouraging greater diversity and inclusion.
- Costain's community relations continue to be recognised by the Considerate Constructors Scheme, averaging 45.2 compared to the industry average of 40.3 (out of 50). Every contract has an individual or team responsible for community/stakeholder relations.
- Achieved Platinum level membership through this year's employer audit of the 5% club with over 10% employees 'earning and learning'.

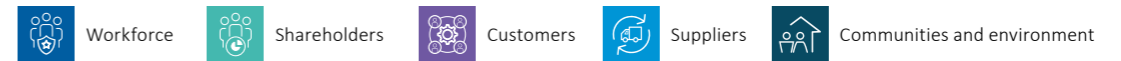
S172 Statement continued

Principal decisions



In making the following principal decisions in 2023, the Board, in accordance with Section 172(1), considered the outcome of stakeholder engagement (as set out on pages 66 and 67), as well as the need to maintain a reputation for high standards of business conduct and to act fairly between the members of the Company.

Key area of activity	Matters considered	Outcomes	Stakeholder group considered
Safety, health and environment	Sustainability and climate change commitment	The Board monitored sustainability and environmental performance in support of the climate change action plan. Information on how Costain has identified and addressed the material sustainability issues that affect the Company and its stakeholders is set out on page 5 of our ESG Report at www.costain.com. The Board received a presentation on ESG reporting and assurance and separately on climate change risk. The Board noted social value from projects, including HS2, together with the focus on carbon reduction on infrastructure projects.	
	Safety	The Board noted the findings of the full investigation report on the 2022 Gatwick fatality. The Board noted how successful implementation of actions arising from this tragic incident would be measured. The Board noted and discussed other safety incidents in the year. The Board monitored progress with legal proceedings in relation to other safety incidents.	
Strategy	Financing	The Board approved new bank and bonding facilities as announced on 26 July 2023, the revolving credit facility of which is sustainability-linked (see pages 6, 42 and 83).	
	Delivery of strategy	The strategy, four-year business plan and 2024 budget were approved by the Board. A strategy day was held in June. The business plan takes into account our customers' changing requirements and Costain's enhanced ways of working resulting from the transformation. The Board reviewed in depth opportunities and risks associated with AMP8, digital, the Energy sector strategy, Costain's property strategy, procurement and supply chain, and certain customers. The Board received updates on progress with the Transformation programme: project design, people, timescales, benefits, risks, KPIs and investment requirements. The Board supported the aim to reduce process complexity, improve systems and deliver efficiencies.	
	Communications strategy	Following the appointment of a new director of corporate affairs and a restructuring of the corporate affairs function, the Board noted the corporate affairs and communications strategic plan.	
	Market conditions and trends, Company valuation and capital allocation	In order to assess the opportunities and risks, the Board received an update from its financial advisers on the market, including for growth, and on financing, capital allocation and investor considerations.	



Key area of activity	Matters considered	Outcomes	Stakeholder group considered
Business and financial performance	Trading updates	At various times in the year, the Board agreed market announcements in relation to trading performance. The chair, CEO, CFO and investor relations director held various conversations with analysts and shareholders to update them on the current position and receive their views and feedback.	
	Risk management	The Board and Audit and Risk Committee, as appropriate, considered the detailed work undertaken in 2023 by the risk and assurance function to further review and define Group risk. The risk appetite framework was also reviewed in detail, including where changes would be required to the matters reserved for the Board. A number of risks were reviewed by the Board. (For more information see pages 43 to 49, 62, 83 and 84). The Audit and Risk Committee reviewed contract judgements and received regular whistleblowing reports.	
	Margin	The Board contemplated the impact of multiple factors on margin.	
	Pension	The Board approved a new contribution plan with the trustee of the defined benefit pension scheme (see pages 6 and 83).	
	Dividends	Having regard to what it considered, in good faith, to be for the benefit of its shareholders, the Board reinstated dividends including the scrip.	
Culture and governance	Board changes	To further align with the strategy and enhance its skillset following a Board competency review, the Board approved the appointments of Steve Mogford and Amanda Fisher as non-executive directors (see Nomination Committee Report on pages 88 to 91). The Board approved actual or potential situational conflicts of interest. As part of these Board changes, Neil Crockett and Jacqueline de Rojas stepped down from the Board.	
	Governance	A comprehensive review of the Company's governance structure was undertaken (see pages 57 and 60). Progress was made in increasing the quality and transparency of information provided to the Board. The Board allotted shares in connection with the Company's share plans and scrip dividend. The effectiveness of the internal and external auditor were reviewed in detail. The Board reviewed and approved the ESG and gender and ethnicity pay gap reports, and the modern slavery statement. The Board received a presentation on public limited company governance by external legal advisers. Internal audit reports were reviewed and progress against actions noted.	
	People	For the first time in four years, the Board made an invitation under the SAYE Scheme with 24% take-up. The Board endorsed the launch of the job architecture, to improve transparency of pay and reward, the launch of our new leadership framework, our female Empower programme and our ethnicity pay listening circles, and piloting our career path framework with our front-line supervisors, giving people more visibility of how to grow their careers at Costain. The Board conducted an in-depth review of talent and succession planning and approved a new diversity and inclusion policy (see Nomination Committee Report on pages 88 to 91).	

Board Diversity

Equality, diversity and inclusion

Costain is committed to maintaining a diverse Board. We recognise that diversity at all levels of the organisation is fundamental to effective decision-making and delivering high performance. Costain is committed to a culture of inclusion and has an Executive team that visibly champions equality, diversity and inclusion.

In 2023, a refreshed diversity and inclusion policy was approved. The Board endorses the objectives and actions set out in the 2021 inclusion strategy, which is located at www.costain.com/our-culture/equality-diversity-and-inclusion. Our inclusion strategy is due to conclude in 2024 and a new plan will be developed to inform the direction of our future progress and will include ethnicity targets up to 2027.

The Board remains committed to maintaining a positive position compared to the targets set out in Listing Rules LR 9.8.6 (9), and chooses a reference date of 31 December (see table below):

- By 2025 women to make up at least 40% of a company’s board positions – achieved by Costain in 2017 and maintained (with a brief dip in 2022).
- At least one of the senior Board positions (chair, senior independent director (SID), CEO or CFO) is a woman – achieved by Costain in 2018 and maintained, with the chair and CFO positions currently held by women.
- At least one member of the Board is from a minority ethnic background – maintained since 2017, currently with one.

The Board places high emphasis on the importance of increasing diversity in senior management and throughout the wider workforce. For 2024, the LTIP grants will include performance metrics relating to the diversity of the c.200 leaders forming employee band A–C (a population that includes our Executive Board, divisional, operational, and functional leaders). Increasing our overall gender diversity is also a KPI linked to Costain’s revolving credit facility.

Employee bands A–C and Executive Board	Baseline		Target		
	31 December 2023	2024	2025	2026	
Female	19%	22%	25%	28%	
Ethnic minority	7%	9%	11%	13%	

Gender representation at 31 December 2023

Employee representation	Number of Board members	Percentage of the Board	Number of senior positions on the Board (chair, SID CEO and CFO)	Number in executive management	Percentage of executive management	Number in senior management
Male	4 of 8	50%	2 of 4	3 of 7	42.9%	19 of 29
Female	4 of 8	50%	2 of 4	4 of 7	57.1%	10 of 29
Other categories	0 of 8	0%	0 of 4	0 of 7	0%	0 of 29
Not specified/Prefer not to say	0 of 8	0%	0 of 4	0 of 7	0%	0 of 29

Note: As at the date of this report, 11 March 2024, gender representation remains unchanged in all categories shown in the table above.

Addressing the underrepresentation of women and people from ethnic minority backgrounds in senior and management roles is fundamental to reducing our gender and ethnicity pay gaps and provides a useful indicator of the progress the business is making to have a workforce reflective of society.

We collate diversity data as part of our onboarding process, asking employees to self-report. We provide a list of detailed categories for employees to select along with an option for employees to self-describe their sexual orientation in the event they do not identify with the categories listed. We provide a ‘prefer not to say’ for non-mandatory fields for those employees who would prefer not to disclose their characteristics.

Initiatives

In 2023 our targeted actions included specific development programmes for diverse talent, such as Empower, our new programme which focuses on the progression of women in the business (see opposite), as well as our Mutual Mentoring scheme, which pairs members of our religion, ethnicity and cultural heritage network with senior leaders in the business to allow for a two-way learning share.

We are actively making our reward and benefits more competitive, such as enhancing our parental and carer leave offering above the industry standard and we mandate diverse shortlists for senior appointments. Progress in meeting the Company’s objectives is monitored by the Board and targets are included in the performance measures of the Executive Board and senior management.

We use both quantitative and qualitative data to inform our approach to inclusion. We are continuing to invest in our data and reporting capabilities as well as maintaining our employee feedback loops to identify targeted actions to address our pay gaps.

We are committed to continuous improvement and regularly benchmark ourselves against external standards to identify opportunities to become a more inclusive employer.

We continue to evolve our way of working to be best practice by being a Stonewall Diversity Champion, a member of Working Families, a Disability Confident Employer, a member of the Valuable 500, a signatory of the Armed Forces Covenant, and a member organisation of Business in the Community (BITC). This year we became a member of the Business Disability Forum to support our commitment to becoming a Disability Confident Leader by the end of 2024.

Ethnicity representation at 31 December 2023

Employee representation	Number of Board members	Percentage of the Board	Number of senior positions on the Board (chair, SID CEO and CFO)	Number in executive management	Percentage of executive management	Number in senior management
Asian/Asian British	0 of 8	0%	0 of 4	1 of 7	14.3%	1 of 29
Black/African/Caribbean/Black British	0 of 8	0%	0 of 4	0 of 7	0%	0 of 29
Mixed/Multiple Ethnic Groups	0 of 8	0%	0 of 4	0 of 7	0%	0 of 29
White British or other White (including minority-white groups)	7 of 8	87.5%	4 of 4	6 of 7	85.7%	21 of 29
Other ethnic groups, including Arab	1 of 8	12.5%	0 of 4	0 of 7	0%	6 of 29
Not specified/Prefer not to say	0 of 8	0%	0 of 4	0 of 7	0%	1 of 29

Note: As at the date of this report, 11 March 2024, ethnicity representation remains unchanged in all categories shown in the table above.

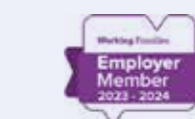
The Empower programme

In 2023 we piloted Empower, a development programme aimed at tackling barriers to women’s progression into senior roles. The programme was a response to our data showing a drop in the ratio of women to men at middle management grades. The content of the programme was drawn from feedback through a survey by our women’s network, highlighting that women in the business wanted a programme that addressed the experiences of women in the industry.

Empower, sponsored by our general counsel and company secretary, Nicole Geoghegan, supported women to more confidently champion themselves, deliver on their potential and be empowered to progress their careers, by:

- recognising the intersectional impacts of ethnicity and gender through speakers and workshops led by women from an intersectional background (the cohort itself was 30% from an ethnic minority background)
- equipping delegates with tools to reflect, challenge imposter syndrome and lean into their strengths
- developing a feeling of being invested in and seen by senior leaders, with a strong support network
- creating connections with inspiring women, learning from their career journeys to define and drive their career success
- engaging line managers to support and advocate for the delegates during and after the programme.

Following the successful pilot in 2023, we have launched another programme in 2024, which we are continually improving based on feedback and perceived impact.



Purpose, Values and Culture

Who we are

PURPOSE

Improving people's lives
(see pages 2 and 16 to 21 for more on purpose and purpose in action)

VISION

To create connected, sustainable infrastructure enabling people and the planet to thrive

MISSION

We shape, create and deliver pioneering solutions that transform the performance of the infrastructure ecosystem

Infrastructure is facing enormous change. There are huge opportunities to update, connect and integrate systems, but challenges including a growing population, climate change, and economic and environmental resilience are more urgent than ever.

Addressing this requires a new kind of company that brings together a unique mix of experts. As construction, consulting and digital partners we engineer solutions to the most complex problems. Together, our people transform the performance of the infrastructure that connects, protects and powers people's lives.

Everything we do is rooted in delivery and organised around our customers, anticipating and solving their challenges across the infrastructure ecosystem.

Our 150-year heritage of pioneering problem solving, together with constant innovation, enables us to deliver sustainable, efficient and practical answers for our customers.

To achieve the best possible solutions and make infrastructure fit for a better future, we collaborate more closely than ever with customers, partners, communities and wider industry. Together we are creating connected, sustainable infrastructure to help people and the planet thrive.

Recognised indicators of culture reviewed by the Board and its Committees include:



Outputs from engagement surveys



See page 75



Whistleblowing reports



See page 86



Internal audit reports and findings



See page 85



Engagement visits to site



See page 74



Health and wellbeing performance



See pages 11, 16 and 17



Safety performance, initiatives and trends, including both leading and lagging indicators



See pages 16, 29 and 45



Progress in respect of diversity and inclusion including gender and ethnicity pay gap reports



See pages 39, 70, 71 and 89



Employee networks



See pages 8, 70 and 71

£247,000

raised for Samaritans helping Samaritans be there 24/7 for anyone struggling to cope



Costain partners with Samaritans as they help millions of people every year in the prevention of suicide. Following the pandemic, Costain wanted teams to reconnect while raising awareness and funds for Samaritans.

The Costain 24/7 fundraising campaign was launched in April 2022 and ran until June 2023. With an ambitious target of raising £247,000, projects and offices appointed 24/7 champions to drive local fundraising activities. Colleagues got together in their teams and individually to raise money for the campaign.

Initiatives included:

- Supply chain walk and talk events.
- The Executive team walked 247km over six weekends.
- Quiz nights and raffles.
- Ride London cycle challenge.
- London Marathon and Great North Run.
- Walk 50 miles with your dog challenge.
- Coronation-themed office parties.

Key outcomes:

- £247,000 could help Samaritans to answer 49,400 calls for help via phone or email.
- Employee education sessions held across Costain.

- Fostered links with local Samaritans branches which saw the Horsham branch providing outreach support to over 200 colleagues on our Gatwick station project.
- The Preston branch managed an outreach stall at the Preston Western Distributor Road stand down day.
- Teams held 'Brew Monday' events to challenge the myth that Blue Monday is the most depressing day of the year.

"We have been overwhelmed by the support of Costain employees across the Group. This latest fundraising campaign to raise £247,000 is a huge achievement and will have a massive impact on our ability to recruit more volunteers and answer calls from people struggling to cope. Throughout the campaign, I've had the privilege of meeting with some fantastic people who have joined in the 24/7 campaign by running marathons, organising bake sales, giving their time as listening volunteers and spreading the message that whatever you're going through a Samaritan will be there to listen."

Julie Bentley
CEO Samaritans



Workforce Engagement

Board engagement
with the workforce

Engagement with and feedback from the workforce are vital to maintaining a sustainable business. This is not limited to Company employees but also includes contractors and agency workers in Costain's extensive supply chain.

In compliance with the 2018 Code, we have adopted a workforce engagement mechanism. This involves direct contact between directors and a diverse cross section of the workforce through a range of engagement activities. Costain aims to inspire and engage our teams, creating interactive two-way dialogue through mechanisms such as the employee networks, engagement surveys and the Your Voice forum. In addition, the Board continues to use a number of recognised indicators of culture (see page 72).



Engagement visits to site

Our non-executive directors carry out engagement visits on our projects and sites to gain further insights into the business, such as health, safety and environmental practices and performance, operational efficiencies and knowledge of customer relationships.

As part of these visits a Q&A session is normally held by the Board member with members of the site team (including employees and representatives of the supply chain and customers). At the end of each visit the non-executive director returns a form to the general counsel and company secretary capturing key information and feedback from the visit. Relevant themes are then discussed at Board meetings and appropriate actions agreed.

The first of our biannual Company-wide leadership impact days, which bring together the whole Company, including joint venture partners, the supply chain and customers, was held in April and was focused on 'my contribution to net zero', in particular how everyone must contribute to reducing carbon emissions and delivering Costain's climate change action plan to support progress towards our 2035 net zero ambition.

The chair, Kate Rock, accompanied Sam White, MD Natural Resources, to Devonport, a joint venture with Babcock, taking part in discussions on environmental issues and a roundtable on how to innovate and improve our approach. The Q&A covered a number of topics from financial results, shareholders, how to work in a joint venture but still feel part of Costain, employee share plan participation and strategy.

Tony Quinlan accompanied Nicole Geoghegan, general counsel and company secretary, to AWE Mensa, again reporting a high level of engagement and a motivated team. The visit led to a broader discussion on more generic developments and on opportunities for efficiencies.

The second 2023 impact day, in October, focused on 'embedding our learning organisation model to eliminate harm'.

This topic was selected following the Company's rapid response to a sharp rise in safety and environmental incidents across the business at the beginning of 2023 which the leadership teams arrested and reversed by taking concerted action to drive improved performance in our key safety, health and environmental leading indicators using our learning organisation model approach.

The impact day therefore celebrated this success and provided practical activities to enable all employees to understand how applying the learning organisation model can help drive even better SHE performance.

Fiona MacAulay accompanied David Taylor, interim MD Transportation and Laura Hughes, energy sector director, at Tideway for this impact day with a wide-ranging and open discussion with the senior leadership team on site and virtually with other centres of the project. Fiona observed the team were receptive to ideas and to recognising areas for potential improvement. There was a lengthy discussion on how the project adopted the joint venture partnership attitudes to safety, health and environment.

Kate Rock also took part in the October impact day, accompanying Sam White and Richard Scott, corporate affairs director, at AWE Mensa. Kate also visited two HS2 sites, Anglian Water SPA, A30, Heathrow and Southern Water during 2023, each time accompanying at least one member of senior management.

In addition, each member of senior management, including Executive Board members, completes a site visit monthly and feeds back all observations to the SHE team. To improve the effectiveness of these visits, they now all include a Q&A and the schedule for these visits is published internally on the intranet to enable strong attendance and engagement.



A 'Very Good Company to Work For'

In 2023, Costain ran its second annual Group-wide engagement survey with Best Companies. The survey helps Costain to measure, recognise and improve levels of engagement, to give colleagues the opportunity to have their say on the business and for Costain to listen and act.

Costain is delighted to have maintained the Best Companies 1-star accreditation, meaning Costain is a 'Very Good Company to Work For'. Costain was measured against Best Companies' eight factors of engagement methodology and scored against the following themes: leadership, the Company, managers, teams, wellbeing, personal growth, giving something back and fair deal. In addition, Costain asked some bespoke questions to obtain feedback on important topics for our business.

The data from the survey has been used to establish our people priorities in 2024 which includes supporting and engaging with middle managers, wellbeing, building team connections and enhancing our listening culture.

Group, divisional, sector and functional results have been communicated and a local review of action plans is underway. In 2023, Costain has responded to feedback and has provided engagement results at project and corporate team level to increase understanding and improve engagement in their teams.

The Board will monitor progress against the actions throughout the rest of 2024. Later in 2024 Costain intends to re-run the survey to measure performance against our 2023 benchmark to ensure continuous improvement.

We are continuing to focus on:

- the wellbeing of our teams
- increasing fairness and transparency of pay
- improving our systems and processes
- increasing visibility of career opportunities and development.

Key highlights

72%

of colleagues responded to the survey (70% in 2022, 69% Big Companies Average, Accreditation 2023)

81%

agree that their line manager exhibits the Costain behaviours (curious, caring, collaborative and courageous) (81% in 2022)

We made the list

Costain was also ranked in the Top 25 of the UK's Best Big Companies to Work For List.

"Our Best Companies to Work For Lists recognise and celebrate all of the organisations who are helping to make the world a better workplace. The Lists represent the commitment that these organisations show every day to their employees and how they have put investing in their people strategies at the forefront of their company culture.

Companies that prioritise their employees and organisational health will inevitably find success. By continuing to innovate their practices, improve their business strategies, and find new ways to show their employees how valued they are, these organisations are leading the way in engagement.

To make the Best Companies List is a remarkable accomplishment and Costain should be proud of all they have achieved this year."

Jonathan Austin

Founder and CEO of Best Companies



94%

agree that health and safety is taken seriously in the organisation (93% in 2022)

78%

agree that they feel included and respected (75% in 2022)

Workforce Engagement *continued*



Employee forum: Your Voice

Our colleague forum Your Voice continued to meet in 2023 and this year was sponsored by Sam White, managing director of Natural Resources.

Your Voice comprises colleagues from across the business representing all sectors and capabilities, along with representatives from the people function, and a rolling Executive Board member. The Group meets quarterly to discuss ideas and share feedback.

In 2023, Your Voice has provided feedback to the business on important changes, including a review of the revised expenses policy and job architecture briefings. Your Voice also listened to feedback from colleagues to identify key themes from across the organisation, sharing this feedback to help make Costain an even better place to work.

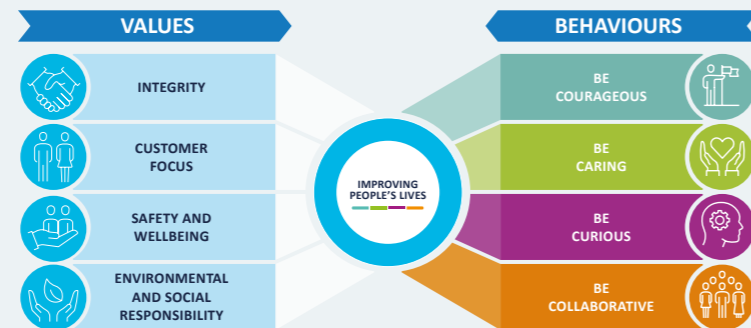


Recognising our colleagues and teams who are making a difference

In 2023, Costain updated its colleague awards to embed the refreshed values and behaviours. Our values reflect what we stand for so it's important that we recognise and reward colleagues who demonstrate our values and make a difference.

Every quarter, our awards panel (comprising employees from across the organisation) reviews, shortlists and chooses its winner for each category.

In 2023, 554 nominations were received across our integrity, customer focus, safety and wellbeing, environmental and social responsibility, and 'being Costain' award categories.



Spotlight on one of our environmental and social responsibility winners

This award recognises people who are helping both the environment and communities to thrive. During a 12-month secondment, Breffni Quinlivan managed a large environmental team covering targets and delivering an ambitious environmental strategy.

She focused on setting up the right support systems and measures to track how the team were improving their environmental performance. The measures that were implemented provided real visibility and drove a clear direction across all site teams. With the support of leadership, Breffni organised a performance and innovation day to highlight environmental compliance.



"All this work during the secondment prepared me for my current role – delivering KPIs for reducing carbon on the project. We have tough requirements and are constantly pushing the bar. For example, a key challenge is to measure concrete specifications for every concrete pour across the project site, and there are hundreds! I believe having a sustainability working group on site is essential. Attitudes have really changed; everyone understands why we need to measure and keep reducing our carbon measures and improve impacts on sustainability."



Leadership briefings and blogs

Every month the CEO holds a briefing call with the senior leadership team. The purpose of the call is to update senior leaders on our business performance and priorities, together with any important messages from our stakeholder engagement processes.

The briefing supports clear and transparent communication cascades throughout the organisation. It starts with a member of the leadership team volunteering a values moment (see our values and behaviours opposite). The format is then a short update from the CEO on such matters as safety, health and environment, customers, bid wins, organisational changes, and from the chief people and sustainability officer on people matters such as the engagement survey and job architecture. The CEO then recognises a number of colleague successes. There follows a discussion and Q&A session involving other members of the Executive Board. Themes and key messages from the Q&A session are communicated to the Board by the CEO via his Board Report and weekly update.

Additionally, there are fortnightly blogs (Costain Connected) from our CEO and other members of the Executive Board to all employees, together with some video briefings.

These blogs and videos covered topics such as:

- Safety and wellbeing.
- Priorities for 2023.
- Engagement survey and outcomes.
- Job architecture.
- Career opportunities and development programmes.
- Transformation updates including on digital.
- Interviews with new senior leaders.
- Importance of integrity, code of conduct training, gifts and hospitality.
- Revised expenses policy.
- ESG Report and ESG programme.
- Costain in the community.
- Project delivery – commercial foresight.
- Launch of the Company's Sharesave plan.
- Feedback from leadership engagement visits.
- Celebrating success – work won, Costain award winners, industry recognition, Samaritans 24/7 campaign.
- End of year performance reviews and objective setting.
- Updates on financial and operating performance.
- Pensions webinars.



Leadership initiatives

Two senior leadership conferences were held in 2023, with a focus on uniting the team around the business plans for 2023 and 2024, shaping and then launching our new leadership framework and developing coaching and communication capabilities.

These face-to-face events have been part of an overall engagement plan for this population and have been well received as a means of building connections across the organisation.

Following on from the launch of our refreshed values and behaviours in 2022, we have brought leaders together from across the organisation to co-create our leadership framework. This provides a clear articulation of the critical leadership capabilities needed to underpin Costain's success moving forward and will enable a strategic approach to leadership recruitment, development, performance management and talent management.



Career pathways

We successfully piloted a comprehensive set of tools to support career development in the organisation with our front-line manager population.

The tools brought to life our new job architecture and included competency assessments, aligned learning and professional development pathways. The tools enabled improved performance, development and talent conversations and will be extended to all colleagues through 2024.

"The career pathways framework has been a valuable asset to me, offering a well-defined path for advancing my career at Costain. This structured approach has given me a clear understanding of the skills and experience required for progression."

Attendance and Composition

Meeting attendance

The Board meets regularly, with seven scheduled full meetings during the year together with a separate strategy session. The directors' attendance record at these meetings and Board Committee meetings for the year ended 31 December 2023 is shown in the table below. Also shown below is the directors' attendance record at a scheduled brief update meeting.

For the Board and Committee meetings, attendance is expressed as the number of meetings that each director attended out of the number they were eligible to attend as members. The table below does not indicate regular attendance as non-members. No director attended the Remuneration Committee for discussions on their own remuneration.

Board attendance	Scheduled full Board and strategy meetings Maximum 8	Other brief update Board meetings Maximum 1	Audit and Risk Committee Maximum 4	Remuneration Committee Maximum 2*	Nomination Committee Maximum 2*
Executive directors					
Alex Vaughan	8/8	1/1	–	–	–
Helen Willis	8/8	1/1	–	–	–
Non-executive directors					
Kate Rock	8/8	1/1	–	–	2/2
Bishoy Azmy ¹	0/8	0/1	–	–	0/2
Neil Crockett ²	6/6	1/1	3/3	1/1	1/1
Jacqueline de Rojas ²	6/6	1/1	3/3	1/1	1/1
Amanda Fisher ³	1/1	–	1/1	1/1	1/1
Fiona MacAulay	8/8	1/1	4/4	2/2	2/2
Steve Mogford ⁴	2/2	–	1/1	1/1	1/1
Tony Quinlan	8/8	1/1	4/4	2/2	2/2

* Matters in relation to the executive share plan grants in April 2023 were agreed by written circulation.

Matters in relation to the Board refresh were agreed by written circulation. In addition, the Committee reviewed Executive Board talent and succession as part of the August 2023 Board meeting.

1 Bishoy Azmy, who is Dubai-based, is the designated representative director of our largest shareholder, ASGC Construction L.L.C. (ASGC). He is a non-independent director. Following an accident in early 2023 and a period of recovery, in September 2023 Mr Azmy appointed Kate Teh, the London-based general counsel and company secretary of Innovo Holding Limited, a company connected to ASGC, as his representative to attend Costain meetings where he was unable to attend. This has enabled ASGC to continue to input at meetings. Ms Teh, who does not vote at meetings, attended two Board meetings and one Nomination Committee meeting in the relevant period. Bishoy has continued to meet with Board members on a number of matters and accordingly his knowledge and experience have been available to Costain to support delivery of the strategy. Bishoy has decided to step down from the Board with effect from 31 March 2024. This does not impact ASGC's right under the relationship agreement between it and the Company to nominate a representative director.

2 Stepped down from the Board on 31 October 2023 and was not eligible to attend any meetings after that date.

3 Joined the Board on 1 December 2023 and was not eligible to attend any meetings prior to that date.

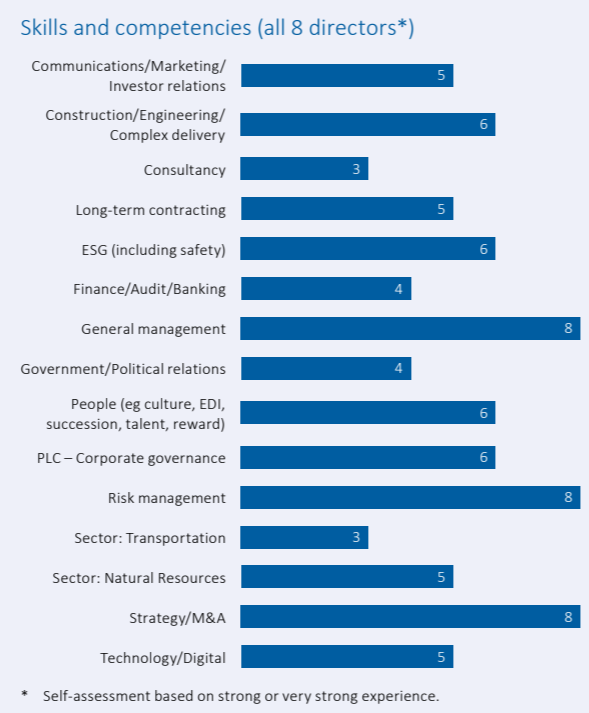
4 Joined the Board on 1 November 2023 and was not eligible to attend any meetings prior to that date.

Board composition

The Board currently comprises the chair, two executive directors, four independent non-executive directors and one non-independent non-executive director. The membership of the Board and biographical details of all the directors can be found on pages 52 and 53.

The non-executive directors, following a refresh in 2023 (see Nomination Committee Report on pages 88 to 91), have a range of business, construction, risk management, sector and financial experience that is relevant to the Company to support the delivery of the strategy. The Board is enhanced by the varying lengths of service, gender and ethnicity balance and expertise of all the directors, together with the mix of skills and experience as depicted in the adjacent chart.

The non-executive directors provide constructive challenge, strategic guidance and specialist advice. They hold management to account and independent directors are sufficient in number to counter any potential imbalance associated with the number of non-independent directors. The balance between executives and non-executives is reviewed regularly.



Board independence

Having due regard to the conduct of directors, the Board considers that each of its independent non-executive directors standing for election or re-election continues to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the judgement of such independent non-executive directors. The Board confirms that the directors continue to perform effectively, that they demonstrate commitment to their particular roles, that they ensure proper time is devoted to Board and Committee meetings and should therefore be elected or re-elected at the forthcoming AGM.

Bishoy Azmy is a non-independent non-executive director and represents the shareholder ASGC (see opposite for more information).

The current terms of appointment of all the directors are set out in the Directors' Remuneration Report on page 114.

At the time of her original appointment as a director in November 2022, Kate Rock, chair, was considered independent by the Board.

Board induction

On appointment, new members of the Board take part in a tailored induction programme, organised by the general counsel and company secretary.

The induction programme for new non-executive directors covers the following activities and meetings:

1. Meetings with Board members and other external stakeholders

As part of the on-boarding process, a newly appointed director has meetings with each of their Board colleagues, the Board's advisers and stakeholders, including the Company's auditor, Remuneration Committee advisers, financial advisers and brokers. This induction programme builds up their understanding of Costain's business and its markets, including risks and opportunities, and helps new Board members understand the culture of the Company. Steve Mogford and Amanda Fisher have each undertaken a comprehensive, formal induction programme tailored to their needs and which has taken into account their bespoke requests for meetings and more information.

2. Meetings with senior management and employees

A newly appointed director will spend time meeting the chief executive officer and chief financial officer. As both Steve and Amanda joined at the time of the business planning and budget cycles, additional meetings were held with them to update them on the process and outputs for these documents. They will also have meetings with the other members of the Executive Board and members of the senior leadership team.

Following feedback from Steve and Amanda, for future appointments adjustments will be made to the timing of some induction meetings.

3. Understanding the business

A newly appointed director (accompanied by the relevant managing director) will carry out engagement tours at various operational sites. These tours will involve meeting with members of the project team, including at some sites the supply chain. They learn about the nature of each of the projects including health and wellbeing, safety and environment aspects, and obtain insights from the workforce. A feedback form is then returned to the general counsel and company secretary (see page 74).

4. Training

An electronic induction pack is provided to ensure a thorough understanding of the role of the newly appointed director and the framework within which the Board operates. This is coupled with a training session arranged by the general counsel and company secretary covering directors' duties, the Market Abuse Regulation (which is supplemented by a meeting with expert external legal advisers) and the Group's corporate governance practices and procedures. Newly appointed directors also undertake the Company's online health and safety, inclusion, information security, competition law and anti-bribery and corruption awareness training modules.

Ongoing Board training

As regards the continuing professional development of the executive and non-executive directors, independent of any formal training arranged by the Company, they are encouraged to attend seminars and conferences on issues relevant to their appointment as directors of a public company, particularly matters concerned with corporate governance, ESG, audit, risk and remuneration issues. In addition, Board site visits are considered essential to ensure that directors have a thorough understanding of business operations and issues that affect the Group and its workforce.

Other Board Matters

Operation of the Board

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

Senior executives and high potential employees below Board level are invited to attend Board and Committee meetings from time to time to deliver presentations on issues that are relevant to their particular business sector or function (see pages 58, 59 and 63).

Between Board meetings, the chair and non-executive directors have access to the chief executive officer, chief financial officer and general counsel and company secretary to progress the Company's business. The chair and non-executive directors also receive a weekly report from the chief executive officer, monthly management accounts, internal audit reports and regular management reports and information, which enable them to scrutinise the Group and management's performance against agreed objectives. The Board is also kept up to date on legal, regulatory and governance matters by both the general counsel and company secretary and external advisers.

The general counsel and company secretary is responsible for ensuring that Board procedures and applicable rules and regulations are followed. The appointment and removal of the general counsel and company secretary is a matter reserved for Board approval.

The Board also obtains advice from professional advisers as and when required at the expense of the Company.

Corporate responsibility

The Board receives reports on corporate responsibility and monitors progress on a regular basis.

Directors' external appointments

The non-executive directors may serve on a number of other company boards provided they continue to demonstrate the requisite commitment to discharge their duties to the Company effectively. Such external appointments are seen as being beneficial to the overall decision-making process of the Board as a whole. The Company may encourage, when appropriate, the executive directors to take up non-executive positions, with the prior consent of the Board, in the belief that such appointments broaden their skills and enhance the contribution which they can make to the Company's performance. Generally, no more than one such appointment may be undertaken by the executive directors. At present neither executive director has such an appointment.

Remuneration

Following a consultation with our largest investors and their representative bodies in March 2023, our new remuneration policy was approved by shareholders at the AGM in 2023 with a 97.17% vote in favour. Details of how the Company has implemented its policy in 2023, together with the activities of the Remuneration Committee, can be found on pages 101 to 117 of the Directors' Remuneration Report.

Shareholder communication and engagement

The Company remains committed to maintaining good relationships with both institutional and private shareholders. There continues to be regular dialogue with institutional investors through our CEO, CFO and investor relations director, and our chair meets with some of our largest shareholders. In September 2023 we hosted a Water sector seminar with current and potential investors and analysts. David Black, CEO of Ofwat and Sam White, MD Natural Resources, gave updates ahead of a facilitated Q&A session.

Fiona MacAulay also met with shareholders in the year, in respect of the 2023 remuneration policy review. Additional details of how the Company engages with shareholders can be found on pages 61, 66 and 67.

The chair is available to discuss strategy and governance issues with shareholders. The senior independent director, Tony Quinlan, is available to shareholders if they have any concerns that have not been, or cannot be, addressed through the normal channels of chair, chief executive officer or chief financial officer.

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

The AGM is an important opportunity to communicate directly with shareholders. The AGM provides shareholders with an opportunity to ask questions of the directors during the meeting. The AGM has also given shareholders an opportunity to listen to a presentation from the chief executive officer on the current trading performance and developments within the business. Our recent AGMs have seen low attendance rates and so we have decided to hold the meeting at our offices in Maidenhead in 2024.

At any time, shareholders may raise issues or concerns by contacting investor relations (see contact details on page 189).

Accountability

Financial and business reporting

The Board is required by the 2018 Code to present a fair, balanced and understandable assessment of the Company's position and prospects and reference is made to the statement of directors' responsibilities on page 124 together with the statement on the status of the Company as a going concern in note 2 to the financial statements on page 143 and the financial viability statement on page 50.

As can be seen on page 85, the preparation of this annual report involved input from a number of functions across the Group. The Board was involved to enable review, challenge and discussion ahead of approving the final content.

The Board also recognises that its responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive reports that the Company may publish from time to time, for example our announcement on 30 June 2023 regarding a new payment plan with the final salary pension scheme trustee (see page 6).

Business model

The Overview and Strategic Report on pages 1 to 51 give details of the Company's business model.

Going concern and viability

As mentioned above, the Group's going concern statement is detailed in note 2 to the financial statements on page 143 and the long-term viability statement is set out on page 50.

Risk and internal control

Risk management

The Board is responsible for undertaking a robust assessment of the principal risks facing the Group. This includes those risks that would threaten its business model, sustainability, future performance, solvency and liquidity and ensuring that appropriate mitigating actions are in place to manage them. The Group's approach to risk management ensures that, on an ongoing basis, the risks to the Group's objectives are identified, assessed and managed.

The Board and Audit and Risk Committee, as appropriate, considered the detailed work undertaken in 2023 of the risk and assurance function to further review and define Group risks. This included the approach to principal risk selection and details of the underlying Group risks including mitigations, together with contract risk assurance. In respect of the latter, risk assurance reviews will be conducted for contracts which are not covered by other measures such as an internal audit, all contracts having been subject to a risk profile assessment.

The risk appetite framework was also reviewed in detail, leading to some changes to the matters reserved for the Board. These review processes and outcomes are described in more detail on pages 43 to 49 of the Strategic Report and in the Audit and Risk Committee Report on pages 82 to 87.

Internal control

The Board is responsible for the Group's systems of risk management and internal control and is required to regularly review their effectiveness. The Audit and Risk Committee has undertaken this review in accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, published by the Financial Reporting Council (FRC), throughout the year and up to the date of this annual report. Further details can be found on pages 85 and 86 of the Audit and Risk Committee Report.

The Group uses the Costain Way as the framework for the systems and controls in place to ensure that exposure to significant risks is managed appropriately. The Board recognises that such a system can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group also has an independent internal audit function outsourced to Mazars which undertakes a programme of risk-based audits across our operations throughout the year. All audit reports are shared with the relevant business owners who are accountable for implementing appropriate measures to address any risk or control weaknesses, together with the CEO and CFO. The reports are also shared with the Audit and Risk Committee and the external auditor. The Audit and Risk Committee scrutinises the internal audit activity. Further details can be found on page 85 of the Audit and Risk Committee Report.

Audit and Risk Committee Report

The Committee has open and challenging dialogue with management and the internal and external auditors, and has an appropriate level of scrutiny.



“On behalf of the Board, I am pleased to present my report as chair of the renamed Audit and Risk Committee, which describes how the Committee carried out its responsibilities during the year. This year the Committee continued its focus on key contract judgements, and on risk management and internal controls.”

Tony Quinlan
Committee Chair

Meetings held

4

Committee members	Attendance
Tony Quinlan	100%
Neil Crockett ¹	100%
Jacqueline de Rojas ¹	100%
Amanda Fisher ²	100%
Fiona MacAulay	100%
Steve Mogford ³	100%

¹ Stepped down from the Board on 31 October 2023.

² Joined the Board on 1 December 2023.

³ Joined the Board on 1 November 2023.

Governance of the Committee

I have been chair of the Audit and Risk Committee, previously known as the Audit Committee (the Committee), which is comprised of independent non-executive directors, since May 2021. The members of the Committee and details of their attendance at Committee meetings are given below and on page 78 and their biographies are shown on pages 52 and 53. The general counsel and company secretary is secretary to the Committee.

The Board considers that I possess the necessary recent and relevant financial experience to effectively chair the Committee and am competent in accounting and auditing. In addition, the Committee as a whole possesses relevant skills and competence and sector knowledge to meaningfully discharge the responsibilities of the Committee.

The meetings of the Committee are normally also attended by the Group chair, the chief executive officer, the chief financial officer, the lead internal audit partner and another senior representative from Mazars (the Group's internal auditor), the risk and assurance director, the Group director of finance and the external auditor. Other senior executives attend as required to provide information on matters being discussed which fall within their remit. In 2023, the Committee met privately, with no management present, with the external auditor and the lead internal audit partner immediately after each Committee meeting. The Committee typically meets four times a year.

This report sets out primary areas of the Committee's focus in 2023.

Activities

In accordance with its terms of reference and in compliance with the 2018 Code, on behalf of the whole Board, in 2023 the Committee:

- monitored the integrity of the Group's financial statements and formal announcements relating to the Group's performance, and reviewed significant financial judgements contained in them, having also received reports from the external auditor on the outcome of its audit and review

- provided advice on whether the annual report, taken as a whole, was fair, balanced and understandable, and provided the information necessary for investors to assess the Company's position and performance, business model and strategy
- reviewed the Company's internal financial controls and internal control and risk management systems, and the processes for management of the principal risks facing the Group
- monitored and reviewed the effectiveness of the internal audit function
- reviewed the effectiveness of the external audit process and made recommendations to the Board in relation to the reappointment and remuneration of the external auditor
- ensured that an appropriate relationship between the Group and the external auditor was maintained, and reviewed non-audit services and fees and the external auditor's independence
- reviewed its terms of reference, which resulted in its name being changed to the Audit and Risk Committee to better reflect the content of the existing terms of reference and duties of the Committee. The change is also consistent with more frequently seen market practice (see also page 57).

In addition, the Committee expended time as follows:

Provisions

The Committee reviewed the significant judgements relating to provisions, including the rectification provision discussed in the Significant accounting matters below, litigation and other risks. The Committee received detailed reports including relevant legal advice.

Banking arrangements

As announced on 26 July 2023, the Company successfully concluded negotiations with its bank and surety facility providers for a new three-year agreement of its bank and bonding facilities (see pages 6 and 42). Its facilities agreement now comprises an undrawn £85m sustainability-linked revolving credit facility and surety and bank bonding facilities totalling £270m, with the reduction in facilities reflecting the Group's positive cash generation and cash position.

The sustainability linkage includes three key performance indicators relating to reduction in greenhouse gas emissions, spend with small, local businesses and charities, and an increase in gender diversity.

Materiality

The Committee considered the auditor's year-end materiality benchmark. PricewaterhouseCoopers LLP (PwC) set this at £5.3m taking into account the sector and nature of the Company's contracting activities.

Pension

At the end of June 2023, Costain announced an agreement had been reached with the trustee of the Company's defined benefit pension scheme on the 31 March 2022 triennial actuarial funding valuation and ongoing contributions to the scheme. The new contribution plan from the Group to the scheme runs from 1 July 2023 to 31 March 2027 and is for a payment of £3.3m per year, payable in monthly instalments, which will increase in line with inflation (CPI) each 1 April. This replaces the previous contribution plan to the scheme, which from April 2023 had increased to an annual payment of £11.98m paid in monthly instalments. More specific details of the agreement, including the 'dividend parity' arrangement, are set out on page 42.

Risk management

During 2023, the Group's principal risks (including emerging risks) were fully refreshed and reviewed by the Committee, along with developments to the risk management framework (see pages 43 to 49). This refresh has enabled the Group to further shape its risk mitigation priorities. Deep dive principal risk presentations, identifying controls, mitigations and action owners, were received by the Board, for example at its May meeting on 'people', in July on 'climate change', in October on 'plan, set up, mobilise and deliver our projects and programmes successfully' and in December on 'disruption to our operating system and unauthorised access to data'.

Audit and Risk Committee Report continued

During 2023, the Committee considered the outcome of a project to further refine the Group's risk appetite. This project considered customer and market, contract and commercial, technical, safety, health and environment, cyber and investment risks. The outcomes were approved by the Board in December and promote a clear and consistent approach to risk, with defined escalation routes for identified risk triggers across the Group's activities.

From 2024, a new 'risk community of practice', a forum for people within Costain who have risk management responsibilities, covering both contract and project delivery, has been established. The community will focus on specific risk topics, areas of concern and improvement, best practice and sharing risk solutions.

Significant accounting matters

The Committee, or the Board where scheduling of meetings was more suited, spent a substantial amount of time considering key accounting issues, matters and judgements in relation to the Group's financial statements and disclosures relating to:

(A) Material contract judgements

As detailed in note 2 on pages 150 to 151 of the financial statements, a significant proportion of the Group's activities is undertaken via long-term contracts. These contracts are accounted for in accordance with IFRS 15, Revenue from Contracts with Customers, which requires that revenue is only recognised when it is considered highly probable not to reverse.

Management uses detailed contract valuations and cost forecasts when formulating its judgements of costs and revenues and its assessments of the expected outcome of each long-term contractual obligation. Given the Group's portfolio of contracts, the Committee spent considerable time during the year reviewing the positions and judgements taken by management on a number of material contracts. This included consideration of inflation impacts on both costs and revenues. As a result of its review and having discussed this area in detail with management and with the external auditor, the Committee concluded the accounting position taken in the Group's long-term contracts to be appropriate.

In 2021, Costain recognised a provision in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where the Group had been prime contractor. As at 31 December 2022, the Group's best estimate of the cost of the single most likely rectification solution was £17.0m, of which costs of £4.8m had been incurred and accordingly, a provision of £12.2m was recognised. During 2023, progress in design and procurement has enabled management to validate the assessed programme and the revised estimated total cost is £19.3m. Costs of £7.7m have been incurred to date and therefore the provision recognised in the statement of financial position at 31 December 2023 is £11.6m. The Committee has reviewed the assumptions used to estimate the required level of provision and considers that both the provision and the related disclosures regarding estimation uncertainty are appropriate.

As reported in 2022, Costain has engaged with its insurers and has received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers continue to make interim payments on account during 2023. Accordingly, an insurance receivable of £12.7m is recognised in the statement of financial position in accordance with IAS 37 on the basis that recovery is considered virtually certain.

The Committee has critically reviewed whether the 'virtually certain' criteria has been met and having discussed this both with management and the external auditor continues to consider this to be the appropriate judgement.

(B) Pension

The Group's defined benefit pension scheme requires significant judgements to be made in relation to the assumptions for inflation, future pension increases, discount rate and member longevity, which underpin the valuation. Each year, in selecting the appropriate assumptions, the Company takes written advice from an independent qualified actuary. The Committee has critically reviewed these assumptions and considers them to be reasonable. These assumptions and sensitivities are set out in note 21 on pages 174 to 177 of the financial statements.

(C) The carrying value of goodwill

As set out in note 12 on page 161 of the financial statements, the Group's statement of financial position includes goodwill of £45.1m, which is allocated across both the Natural Resources and Transportation segments, and is subject to an annual impairment assessment. The Committee focused on the carrying value of goodwill within each segment and critically reviewed the key assumptions in relation to forecast operating margin, the discount rate and long-term growth rates. The Committee agreed with management's assessment that no impairment was required and that there was no reasonable possible change in assumptions that would give rise to an impairment.

(D) Going concern and viability statement

The Committee considered the requirements of the 2018 Code as it applies to the Group's viability statement including the three-year period of assessment which aligns with the Group's planning horizon and the processes supporting the viability statement. The Committee considered the various scenarios that were presented as part of the viability assessment, which included a reverse stress test, mitigations and severe but plausible scenario analysis relating to the Group's principal risks.

The Committee assessed the appropriateness of the downside scenarios and determined that there was sufficient headroom to agree with the Board's confirmation that the Group has a reasonable expectation to continue in operation and meet its liabilities as they fall due over the viability period. Alongside the liquidity and debt positions of the business, the Committee determined that the three-year measurement period continued to be appropriate and that the viability statement (see page 50) should be recommended to the Board for approval. Please see note 2 on page 143 of the financial statements for going concern information.

(E) Adjusting items

As set out in notes 2 and 3 of the financial statements from pages 146 to 153, management has used judgement to determine the items classified as adjusting items. The Committee has robustly reviewed and challenged each of the adjusting items, including as to the details of each item and whether they were genuinely exceptional, and discussed these with the Company's external auditor to inform the judgement.

(F) Accounting and other regulatory developments

There are no changes to the Group's accounting policies in 2023. In relation to IFRS 17 'Insurance Contracts', effective for years beginning on or after 1 January 2023, there is no material effect of the introduction of the standard. IFRS 17 replaces IFRS 4 and, therefore, the Group has elected to apply IFRS 9 to guarantee contracts previously accounted for under IFRS 4 but, given the nature of the guarantees, there is no material impact to these financial statements.

The Company has adopted Financial Reporting Standard 101 'Reduced Disclosure Framework' in 2023, permitting certain disclosure exemptions in this annual report (see note 2 on page 142).

There are no other new standards in 2023, only amendments to existing standards (as disclosed in note 2). These amendments did not have any impact on the amounts recognised in prior or current periods and are not expected to significantly affect future periods.

Fair, balanced and reasonable

The process to ensure the Group's financial statements, taken as a whole, are fair, balanced and reasonable is:

- comprehensive guidance issued to all contributors
- verification process dealing with the factual content of the report
- review of the disclosure judgements made by the contributors from various functions
- comprehensive reviews undertaken to ensure consistency and overall balance
- review undertaken by the Committee prior to recommendation to the Board.

Audit, risk and internal control

The Board assumes ultimate responsibility for the effective management of risk across the Group. However, the Committee supports the Board in its monitoring of the Group's internal financial controls and internal control and risk management systems, and monitoring and reviewing the work of the internal audit and risk functions.

Internal audit

The internal audit and risk functions have an integral role in the Company's governance structure, providing independent assurance and advice to help the Group achieve its strategic priorities. The Committee agreed the 2023 audit plan to be undertaken by the internal audit team and assessed the adequacy of the budget and resources.

The audit plan is based on risk, strategic priorities and consideration of the control environment. Progress against the plan is monitored. The Committee reviews the results of the internal audit reports at each meeting.

Management is responsible for closing out actions to address issues raised by internal audit within the agreed timetable and the timely completion of such actions is reviewed by the Committee. Where internal or external circumstances give rise to an increased level of risk, the audit plan will be modified accordingly during the year, if appropriate.

The lead internal audit partner from Mazars reports to the CFO and has a direct relationship with the Committee chair with whom he has regular briefings without management present. The CFO line manages the risk and assurance director, who also has a direct relationship with the Committee chair. During the year the Committee received the results of the review of the effectiveness of the internal audit function (see below).

At the December meeting, the Committee received a report from Mazars which covered progress against the 2023 audit plan together with the reasons certain audits had been paused or reprioritised, the status of management actions in response to audit findings and the proposed content of the 2024 audit plan, which was approved by the Committee.

The effectiveness of internal audit is assessed by the Committee by: reviewing the results of an annual questionnaire completed by individuals who have exposure to and contact with the internal audit function; evaluating internal audit reports; and meetings with the chair of the Committee and with the Committee without management present. The 2023 review concluded positive progress had been made in Mazars' first year as internal auditor with a constructive relationship with management and production of audit reports of a high standard, with such reports benefitting from Mazars' independent perspective. Areas for further focus have been identified such as speed of delivery of reports and enhanced focus on action completion to agreed timescales, together with increasing the profile and visibility of Mazars.

The Committee is satisfied the function is competent to deliver the 2024 internal audit plan.

Internal control and risk

Details of the Group's internal control and risk management framework are more fully set out on pages 43 and 44 in the Strategic Report and on page 81 in the Governance Report. The Group's principal risks are set out on pages 45 to 49.

The Committee has evaluated the effectiveness of the systems operated within the Group pursuant to the FRC's guidance on internal control. The evaluation covered all material controls. These included financial, operational and compliance controls. They encompassed a review of: the management confirmation reports submitted by all senior management; assurance results; reports on malfeasance allegations; the Group's approach to anti-bribery and corruption, and whistleblowing; and reports from both the internal and external auditors.

Audit and Risk Committee Report continued

The review did not identify any significant weaknesses in the system of internal control and risk management.

Improvements introduced in 2023 were as follows:

- Direct support to live contracts to improve understanding of risk and ensure robust mitigation strategies. This has included risk identification, analysis and preparations to support customer contract delivery.
- Major bid risk support to ensure thorough evaluation, planning and pricing of risk including confidence modelling (quantitative cost and schedule risk analysis), including support to certain large bids.
- Introducing a risk-based approach to assess our main contracts (considering contract, technical, deliverability and reputational factors) and using this to shape assurance coverage and priorities, including internal audit and assurance, and to plan 2024 activities.

External auditor

The Company's external auditor is PwC. The audit partner is Andrew Paynter. After a competitive tender process in 2016, PwC were appointed as auditor from the 2017 audit.

Any issues in relation to the financial statements have been communicated to the Committee by the Auditor and addressed.

There were no interactions with the FRC's Corporate Reporting Review team or Audit Quality Review team in the year.

Effectiveness of the external audit process

Following the end of the 2022 financial year, the Committee considered the effectiveness of PwC as external auditor. As part of this process, external audit effectiveness questionnaires were completed by members of the Committee, the executive directors, other members of the Executive Board and certain members of the finance and risk functions. Based on the responses to the questionnaires, the general counsel and company secretary produced a report for consideration by the Committee. The Committee confirmed that it remained satisfied with the efficiency and effectiveness of the external audit in respect of the year ended 31 December 2022. It was noted there was strong cooperation between PwC and Costain and that both PwC and Costain were committed to bringing continuous improvement to the process.

During the year, the Committee kept under review the ongoing effectiveness of PwC as the Company's external auditor, for example, through the quality of the external auditor's reports and the audit partner's interaction with the Committee.

At its meeting in December 2023, the Committee considered and approved the external audit plan for the audit of the Group for the year ended 31 December 2023. The Committee considered significant risk areas for the audit, the proposed scope and the materiality threshold. 11 subsidiary companies sought exemption from audit for 2023 as permitted under the relevant regulations, thereby improving Costain's efficiency.

Auditor independence and objectivity

Auditor independence and objectivity are an essential part of the audit framework and the assurance it provides. The auditor's independence is therefore monitored throughout the year. For example, the Committee has reviewed PwC's own policies and procedures for safeguarding its objectivity and independence and the arrangements that PwC has in place to identify, report and manage conflicts of interest. PwC is required to rotate the lead audit partner every five years to ensure a fresh outlook without sacrificing institutional knowledge. Andrew Paynter became lead audit partner effective for the 2021 audit.

The Committee is not aware of any relationships between the external auditor, the Company or members of the Committee, that bear on the external auditor's integrity, independence and objectivity. The Committee reviews all services being provided by the external auditor annually to assess its independence and objectivity. The Committee takes into consideration relevant performance and regulatory requirements to ensure these are not impaired by the provision of permissible non-audit services (see below).

The Committee believes the independence and objectivity of PwC and the effectiveness of the audit process remains strong and has therefore recommended the reappointment of PwC for 2024.

Non-audit fees

The policy on the provision of non-audit services by the external auditor (which, as above, ensures that such services do not impair the independence or objectivity of the external auditor) was adopted in 2021. The policy sets out a number of key principles that underpin the provision of non-audit services by the external auditor: the external auditor should not audit its own firm's work; make management decisions for the Group; have a mutuality of financial interest with the Group; or be put in the role of advocate for the Group.

In 2023, the value of non-audit work performed by PwC for the Group was less than £0.1m (2022: less than £0.1m) other than in relation to the review of the half-year financial statements.

Whistleblowing and counter-fraud/integrity

Costain's internal specialist fraud investigator continues the valuable work of whistleblowing investigation, promoting Costain's 'integrity' value and mitigating risk of malfeasance.

During 2023, including as part of the onboarding of all new staff, a refreshed code of conduct training was rolled out Company-wide, which included details of the Company's whistleblowing line provided by an independent third party. This included a module on changes to the gifts and hospitality policy. The communication cascade included a video from the general counsel and company secretary setting out the importance of the training and highlighting the changes to the policy.

During 2023, the Committee received six-monthly reports on the nature and number of referrals to the whistleblowing line, the outcomes of the resulting investigations and any process improvements that were recommended. There were 34 reports, most of which were made via the whistleblowing line, in 2023.

Committee effectiveness review

As described on page 63, the planned external review of the effectiveness of the Board and its Committees was deferred until 2024 to enable sufficient time for the newly appointed non-executive directors to settle into their role.

Below is a summary of the agreed areas of focus that arose from the internal review of the Committee in 2022 and the actions taken in 2023.

Area of focus	Actions taken
Continue to challenge the Company's approach to identification and mitigation of risk (to ensure continuous improvement)	A review of the restructuring of risks and risk assurance framework was undertaken in May. Work was then undertaken to refine the risks and assess the effectiveness of mitigations. Various presentations were received at the PLC Board on specific Group risks (see pages 58 and 59, and 83).
Ensure management continues to improve financial reporting on contract risks and contingencies	New quarterly forecast 'deep dive' presented to the Board in May, August and November 2023. The internal auditor selected several contracts for audit and a new contract risk rating process was agreed at the May Committee meeting.
Monitor closely the effectiveness of the counter-fraud function	Whistleblowing report received six-monthly, and Committee conversations held regarding the holistic steps taken to support business integrity. The Committee chair met with the internal specialist fraud investigator to update on his work and findings. The internal specialist fraud investigator has been facilitating workshops with different functions in Costain to identify Costain's fraud risks, their probability and consequence and any material gaps in controls. The outcome of this work to be submitted to the Committee in spring 2024. Code of conduct training, including a new approach to gifts and hospitality, has been rolled out Costain-wide, including to Board members. The Committee noted the positive progress made in the collaboration between the risk, internal audit, whistleblowing and continuous improvement functions.

Tony Quinlan

Committee Chair

11 March 2024

Nomination Committee Report

In 2023 the Committee reviewed Board skills and competencies resulting in a refreshed Board well placed to support our growth.



Meetings held

2*

* In addition, the Committee reviewed Executive Board talent and succession planning at the August 2023 Board meeting.

Committee members	Attendance
Kate Rock	100%
Bishoy Azmy ¹	0%
Neil Crockett ²	100%
Jacqueline de Rojas ²	100%
Amanda Fisher ³	100%
Fiona MacAulay	100%
Steve Mogford ⁴	100%
Tony Quinlan	100%

¹ Bishoy Azmy is the designated representative director of our largest shareholder, ASGC Construction L.L.C. Mr Azmy appointed Kate Teh as his representative and she attended the December meeting of the Committee (see page 78 for more information).

² Stepped down from the Board on 31 October 2023.

³ Joined the Board on 1 December 2023.

⁴ Joined the Board on 1 November 2023.

The composition of our Board and Executive Board can be found on pages 52 and 53, and 54 and 55 respectively of this annual report.

Governance of the Committee

The Nomination Committee (the Committee) is comprised of myself as chair together with the other non-executive directors. The members of the Committee, together with their biographies, are shown on pages 52 and 53 and details of their attendance at Committee meetings is shown here and on page 78. Neil Crockett and Jacqueline de Rojas stepped down from the Board and as members of the Committee on 31 October 2023. Steve Mogford and Amanda Fisher became members of the Committee on joining the Board on 1 November 2023 and 1 December 2023 respectively. The general counsel and company secretary is secretary to the Committee.

Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the chief executive officer, chief financial officer, chief people and sustainability officer, members of senior management and external advisers may be invited to attend meetings as and when appropriate.

The outcome of all Committee meetings is reported to the Board for its consideration. The Committee may take independent professional advice on any matters covered by its terms of reference at the Company's expense.

Role of the Committee

In accordance with its terms of reference, which remain unchanged following an in-depth governance review in autumn 2023 (see page 57), and in compliance with the 2018 Code, the Committee is responsible for:

- reviewing the overall size, structure and composition of the Board
- identifying and nominating candidates, for the Board's approval, to fill Board vacancies as and when they arise
- receiving notifications from directors of situations, such as proposed external appointments, in which a potential conflict of interest might arise and/or their time commitment to the Board could be compromised

- recommending to the Board the reappointment of those directors who are offering themselves for re-election at the Annual General Meeting following due consideration of the Board's policy on independence and the results of periodic Board performance reviews
- formulating plans for succession for both the executive directors and non-executive directors
- reviewing succession planning arrangements and development plans for other senior employees
- reviewing periodically the effectiveness of the Committee's own performance, which forms part of the regular evaluation and development work conducted by the Board to ensure it continues to improve its overall effectiveness.

Board diversity

The Company recognises the importance of diversity at the Board and all levels of the Group. In December 2023, the Committee approved a refreshed diversity and inclusion policy to reflect the 2023 FTSE Women Leaders Review and changes to the Listing Rules. The policy applies to the Board Committees and covers broader diversity aspects such as sexual orientation, disability and socio-economic background. Further details of the work undertaken to support the development of a diverse pipeline, our measurable objectives that have been set for implementing the policy, and progress made in achieving these objectives, can be found on pages 70 and 71.

Over the last few years, we have increased the diversity of our workforce, reduced our gender pay gap and created a more inclusive environment. However, while progress has been made and strengths recognised, there continues to be a lack of ethnic diversity in Costain senior leadership roles, together with lower levels of diversity in contract leadership roles. This is a trend reflected across the industry. However, across the total workforce, our diversity is improving. The limited diversity within the talent pools identified for senior management succession emphasises the need for our continued focus on our equality, diversity and inclusion (EDI) targets and ambition, and why we have decided to extend the EDI targets in our 2024 LTIP to a wider leadership population (see page 110 of the Directors' Remuneration Report).

By appreciating and celebrating our differences, we are creating a more dynamic and inspiring workplace for our employees. We work hard to ensure our workforce reflects the diverse communities we serve, and that we create an inclusive culture where each employee can truly thrive and be themselves at work. Embracing diversity underpins our commitment to providing equal opportunities to our current and potential employees and applying fair and equitable employment practices.

For more information on our ethnicity and gender pay gaps, please see page 39 and our separate integrated gender and ethnicity pay gap report at www.costain.com.

Following changes in the year, female representation at Board level remains at 50% and the representation of ethnic minorities has decreased to 12.5%.

Our principles on Board diversity also apply to the Executive Board and currently 57% (four of seven) of our Executive Board are female. This will decrease to 50% on the appointment of Jonathan Willcock as MD, Transportation, who will join the Company in April 2024.

Committee effectiveness review

As described on page 63, the planned external review of the effectiveness of the Board and its Committees was deferred until 2024 to enable sufficient time for the newly appointed non-executive directors to settle into their role.

Following the 2022 internal review of the Committee's effectiveness, areas identified for additional focus by the Committee in 2023 were as follows:

- continue to test whether the Board has the right mix of skills and experience to support Costain's strategy
- talent and succession planning and pipeline for the Executive Board, including increased engagement by the Board with management and emerging leaders.

Progress against these actions is set out overleaf.

Nomination Committee Report continued

Activities in 2023

The focus of the Committee during the year has been on considering the Board's structure and composition, and reviewing the alignment of skills and competencies of the Board with the strategic direction of the Group. At our meeting in March 2023, we identified the need for increased competencies of the Board specifically in relation to construction and contracting skills and experience. The Board also took into account the impending expiry of Jacqueline de Rojas' second term in office.

Following a rigorous search and recruitment process (see opposite), the Committee recommended the appointment of Steve Mogford and Amanda Fisher as independent non-executive directors and members of the Audit and Risk, Nomination and Remuneration Committees from 1 November 2023 and 1 December 2023 respectively. As part of these changes, Neil Crockett and Jacqueline de Rojas stepped down from the Board on 31 October 2023. Our new directors are immediately bringing fresh insights, perspectives and constructive challenge and, accordingly, the refreshed Board is well placed to support our growth and delivery of our business plan.

The Committee has also reviewed Executive Board composition, succession and development, ensuring we have the right balance of skills, experience and diversity at the most senior levels of the business. The Committee (by means of attendance at the August Board meeting as there was no scheduled Nomination Committee meeting at that time) was updated on actions taken to develop a robust pipeline of talent to support internal succession planning within the leadership population. There have been a number of changes in the senior leadership population reflecting a commitment to have the right leadership capability in place to deliver the business plan and meet the strategic ambitions of the Group. The Committee was also updated on progress with further key management hires, including Jonathan Willcock as MD, Transportation.

The Board and Committee reviewed succession gaps, readiness for promotion and 'emergency succession' and confirmed succession plans are based on merit and objective criteria and promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. Costain has a renewed focus on ensuring that robust development plans are in place to underpin performance, delivery and retention, and to accelerate development and potential where possible.

Election and re-election of directors

At the 2023 and 2024 AGMs, all our directors in post at the time stood or are standing for election or re-election, as required by the 2018 Code.

The Committee considered all Board members' other appointments and commitments and the impact on their time availability in view of general investor concerns regarding overboarding. Similarly, all new external appointments have been approved by the Board, as required under the 2018 Code, as have any actual or potential conflicts of interest.

For example, in 2023, Fiona MacAulay advised the Committee that she would step down as non-executive chair of IOG plc at its forthcoming AGM. Ms MacAulay sought the Committee's formal approval, for recommendation to the Board, to her appointment to the board of Dowlais Group plc from April 2023. This change represented a reduction overall in Ms MacAulay's time commitments. On the recommendation of the Committee, the Board approved Ms MacAulay's appointment to the board of Dowlais Group plc.

The Committee, on behalf of the Board, is satisfied that Board members have sufficient time, knowledge and commitment to discharge their roles at Costain effectively. This has been evidenced during the past year when Board members have again contributed fully and effectively. Please see page 78 for specific information relating to Bishoy Azmy, non-independent non-executive director representing ASGC.

Appointment of directors

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board, examples of which are detailed opposite.

Kate Rock

Committee Chair

11 March 2024



Steve Mogford

Independent
Non-Executive Director



Amanda Fisher

Independent
Non-Executive Director

Non-executive director succession

Steve Mogford and Amanda Fisher were appointed to the Board on 1 November 2023 and 1 December 2023 respectively to further strengthen the Board, align its skills, knowledge and experience to the strategy and create the optimal balance of competencies. Details of their recruitment and appointment process are set out below.

- Following a comprehensive review of the skills and competencies of the Board, noting the expiry dates of current letters of appointment and the skills required to support Costain's strategy, the chair, on behalf of the Committee and supported by the chief people and sustainability officer, agreed:
 - a specification for the role and responsibilities for a non-executive director with construction and contracting skills, and sector experience, as shared with the Board at its May meeting
 - to appoint Lygon Group, which has no other connection with the Company or individual directors other than previous recruitment assignments, as the external search partner
 - an interview and selection process.
- Lygon Group provided a long-list of candidates.
- The chair and chief people and sustainability officer participated in a meeting at the end of May 2023 where they considered the formal appraisals of the candidates and agreed a diverse short-list of three candidates to progress to interview.
- The chair and senior independent director undertook first interviews and then recommended that certain other directors meet and interview the candidates. Interviewer and interviewee feedback was collated.
- Over a period of two months, the remaining members of the Board then met with the preferred two candidates and reported back to the chair and chief people and sustainability officer on their views.
- In July and August 2023, the Board considered further the strategy of the Group and it was agreed that, to support the delivery of the business plan, it would be beneficial to appoint two new directors with construction and/or contracting experience, together with customer relationship expertise.
- On 11 October 2023, following individual conversations between the chair and all Board members, the Committee agreed by written circulation to recommend to the Board the appointment of Steve Mogford and Amanda Fisher as independent non-executive directors. Steve and Amanda bring a wealth of experience in key markets, including Energy, Water, Highways and Rail and have driven improved profitability and increased market share as former chief executive officer of United Utilities Group PLC (UU) and Amey respectively (see biographies on page 53). In addition to having the right skills, knowledge and experience, careful consideration was given to whether each could devote sufficient time to their role.
- The Board, also by written circulation on 11 October 2023, approved the appointments in principle and delegated authority to the chair to finalise the appointments and announcement. In making its decision, the Board noted that Steve had signed a letter from UU, a customer of Costain, confirming he will not breach any confidentiality in relation to UU and will absent himself from certain discussions. Steve also signed a letter from Costain to ensure there would be no adverse impacts in connection with the Utilities Contracts Regulations 2016, Costain's articles of association and other relevant legislation in relation to any potential situational conflicts.
- In the evening of 16 October 2023, the chair confirmed all aspects of the appointments had been concluded including execution of letters of appointment. The chair had also received, and now accepted, letters of resignation from Neil Crockett and Jacqueline de Rojas.
- On 17 October 2023, we announced the appointments of Steve Mogford and Amanda Fisher as independent non-executive directors and members of the Audit and Risk, Nomination and Remuneration Committees from 1 November 2023 and 1 December 2023 respectively and that, as part of these changes, Neil Crockett and Jacqueline de Rojas would step down from the Board on 31 October 2023.
- Having successfully secured two experienced and highly regarded candidates and discharged its announcement obligations, the Committee tasked the general counsel and company secretary with preparing and executing a detailed and tailored induction plan for both Steve and Amanda (see page 79).

Directors' Remuneration Report

Remuneration at a Glance

Actual remuneration of our executive directors for 2023 and application of policy for 2024

	CEO – Alex Vaughan		CFO – Helen Willis	
Base salaries	2023	£468,800	2023	£389,300
	2024	£515,700	2024	£428,300
Pension	10% of salary in line with wider workforce		10% of salary in line with wider workforce	
AIP – maximum opportunity	2023: 150% of salary 2024: 150% of salary		2023: 150% of salary 2024: 150% of salary	
LTIP – maximum opportunity	2023: 100% of salary 2024: 100% of salary		2023: 100% of salary 2024: 100% of salary	
Single figure total for 2023	£1,358,611		£ 1,137,692	

How was our performance reflected in executive director pay for 2023?

AIP – Award earned by executive directors for 2023

	Adjusted operating profit ¹ (max opportunity: 40%)	Profit secured for 2024 (max opportunity: 15%)	Cash flow ² (max opportunity: 15%)	Safety, health and environment (max opportunity: 10%)	Personal performance (max opportunity: 20%)	Total achieved (% max)	Actual pay-out (% of salary) ³
Alex Vaughan	32.2%	7.2%	15.0%	8.4%	15.0%	77.8%	116.7%
Helen Willis	32.2%	7.2%	15.0%	8.4%	15.0%	77.8%	116.7%

LTIP – Award vesting for performance over the three years ending 31 December 2023

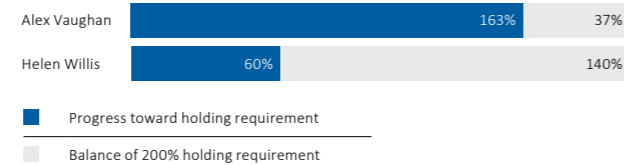
	Aggregate adjusted EPS ⁴ for financial years ended 31 December 2021, 2022 and 2023 (two thirds of the award)	Cash conversion (one third of the award)	Total Achieved
Alex Vaughan	30.4 pence	158%	74.5%
Helen Willis	(maximum vesting level: 32.4p or more)	(maximum vesting level: 100% average cash conversion)	

Ensuring shareholder alignment

33% of AIP bonus is automatically deferred into Costain shares with a two-year holding period.

Subject to performance targets being met, LTIP shares vest after three years but will only be released after five years.

Share Ownership Guidelines are set at 200% of salary for the executive directors.



1 See definition on page 96. Previously known as adjusted EBITA. Target underpinned by 90% cash conversion.
 2 Measured as average month-end cash balances, pre-acquisition and investments.
 3 33% of the value of the AIP award for 2023 will be deferred into shares under the Share Deferral Plan (SDP).
 4 Measured as adjusted basic earnings per share (see definition on page 96), further adjusted to exclude pension scheme interest.

Alignment of our Remuneration Policy with our strategy



Executive directors' role-specific objectives under the AIP are linked to talent development, succession, engagement and progressing the Group's inclusion strategy.

Having an equality, diversity and inclusion (EDI) measure in the LTIP is aligned with our goal to enhance the proportion of female and ethnically diverse talent in senior leadership roles.



We hold ourselves accountable to the highest safety, health and environment standards and are committed to operating sustainably, ethically and inclusively.

The incorporation of carbon reduction targets in the LTIP reflects our long-term vision of creating connected, sustainable infrastructure enabling people and the planet to thrive.



Our core financial and strategic objectives, critical to the success of our long-term strategy, are embedded within the executive remuneration framework through the AIP and LTIP.

AIP performance metrics – 2024



- 40% Adjusted operating profit with 90% cash conversion¹
- 15% Profit secured for 2025
- 15% Cash flow²
- 10% Safety, health and environment
- 20% Personal performance

LTIP performance metrics – 2024



- 50% Aggregate adjusted EPS⁴
- 25% Absolute TSR
- 15% Carbon emissions reduction
- 10% Social: EDI

Wider workforce

All employee share plan – first SAYE (Sharesave) Scheme grant since 2019 with 24% take-up of eligible employees.

Following our one-off response to the cost-of-living crisis in 2023, the annual salary review budget for April 2024 has returned to more normal levels, to 4% overall, with targeted higher increases for those who have been identified in the new job architecture as underpaid, and those with higher performance.

Promotions in 2023: 15%.
 Number of people redeployed in 2023: 343.

We are committed to paying the real living wage to all employees.

Achieved Best Companies 1-Star status for the second consecutive year – a 'Very Good Company to Work For' with 94% of employees agreeing that health and safety is taken seriously and 81% of employees agreeing that their line manager exhibits the Costain behaviours (see page 75 in the Governance Report for more information).

Percentage of females in senior management positions: 34% at 31 December 2023 (see page 70).

Launched career path framework and leadership framework to increase visibility of career opportunities and define leadership behaviours (see page 77).

2024 target: Disability confident level 3; 22% female and 9% BAME in wider leadership positions.

Pilot for Empower programme (see page 71).

Directors' Remuneration Report continuedAnnual Statement by Chair of
the Remuneration Committee

“Our remuneration policy is designed to be simple and transparent, aligned with delivering our strategy to transform the Group, and ultimately supporting the creation of long-term sustainable shareholder value. Our aim is to always consider the wider workforce, our shareholders and other stakeholders by taking a fair, prudent and balanced approach to remuneration.”

Fiona MacAulay

Chair of the Remuneration Committee

I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2023. Our report explains the work of the Committee and how we have implemented our remuneration policy. A summary of how the pay for our executive directors is aligned with delivering our strategy and our performance in 2023 is shown in the 'Remuneration at a glance' section on pages 92 and 93.

The Annual Report on Remuneration (on pages 101 to 117) describes how the policy has been applied for the period ended 31 December 2023, and how we intend to implement the policy for the 2024 financial period and is subject to an advisory vote at the 2024 AGM.

2023 remuneration in the context of our business performance and outcomes for our key stakeholders

Our new remuneration policy was approved at the 2023 AGM with over 97% of the votes cast in favour of it. We were pleased to see similarly strong support for the 2022 Directors' Remuneration Report, with 99% of votes cast in favour of it. Our policy is designed to be simple and transparent, aligned with delivering our strategy, and ultimately supporting the creation of long-term sustainable shareholder value.

The Committee has as usual considered executive remuneration in the light of outcomes for the wider workforce, our shareholders and other stakeholders by taking a fair, prudent and balanced approach to remuneration.

- Our revenue performance in 2023 reflects growth in Natural Resources and a resilient operating performance in Transportation, with a reduction in volumes due to the rephasing and rescoping of certain projects in the division.
- Our growth in adjusted operating profit reflects growth and increased margin in Natural Resources, benefits from our Transformation programme, with a consistent margin performance in Transportation.
- Strong adjusted free cash flow reflects increased operating cashflow and financial income, together with positive working capital movements in FY23, resulting in an increased FY23 net cash position to £164.4m (FY22: £123.8m).
- The Board resumed dividend payments.
- We value the health and wellbeing of our people, and the safety of everyone working with us and around us is one of our core values. Our LTIR rate was 0.12 (FY22: 0.09), maintaining our industry-leading performance.
- Costain's long-term net zero targets were approved in February 2024 by the Science Based Targets initiative (SBTi) and we are working towards our 2035 net zero ambition.
- We have seen increased participation in our engagement survey in 2023 and feedback from our engagement surveys and employee engagement channels indicates that employee engagement and satisfaction scores remain high. The results of our Best Companies survey determined for the second consecutive year that Costain is a 'Very Good Company to Work For'.
- The all-employee pay rise for 2023 was 6% (excluding promotions, the graduate half-year review and the structured increases for our apprentices). Increases were targeted to provide meaningful awards with a focus on delivering higher increases to those on lower incomes. Our latest all-employee engagement survey showed our scores for 'a fair deal', related to pay and reward, had increased.

Executive director base salary increases and variable pay outcomes for the year ended 31 December 2023

Alex Vaughan and Helen Willis received salary increases for 2023 of 5%, below the increases awarded to the wider workforce. As set out in the Directors' Remuneration Report last year, Alex's base salary is positioned at the lower end of the market, and he declined an increase in line with or slightly ahead of the wider workforce rate for 2023 (see opposite for current market positioning of Alex's salary).

The 2023 AIP was subject to a mixture of financial and non-financial performance measures aligned with key strategic priorities. For FY23, a rebalancing of the performance measures applied such that 70% was based on financial measures (adjusted operating profit (previously known as adjusted EBITA), profit secured for 2024 and cash flow), and 30% on non-financial measures (safety, health and environment and personal performance). An increased weighting on measurable and robust personal objectives (from 10% of the award to 20%) provided a focus on the execution of our strategic priorities and is aligned with our Transformation programme.

Based on performance against these measures, Alex Vaughan and Helen Willis each earned an AIP equal to 116.7% of salary. One third of the AIP earned will be deferred into shares for two years. Further details are set out on pages 104 and 105.

The LTIP award granted in April 2021 was subject to adjusted EPS performance for two thirds of the award and cash conversion performance for the balance of the award. Aggregate adjusted EPS performance over 2021, 2022 and 2023 was 30.4p and as a result 61.8% of this element vested. Average cash conversion over the period was 158% and as a result 100% of this element vested. The 2021 LTIP award is therefore due to vest at 74.5% in April 2024. LTIP awards which vest will be subject to a two-year holding period. Further details are set out on page 106. The Committee is satisfied that no windfall gains occurred in respect of the 2021 LTIP as the share price at grant (61p) was higher than the price in the previous year. As such, no adjustments have been made.

In line with good practice, these incentive outcomes were reviewed in the broader context of the stakeholder experience. The Committee considered that these outcomes are a fair reflection of the Group's underlying financial performance achieved in 2023 and the past three years. The Committee also noted the good progress made on our journey to transform the business, reduce risk and improve returns for the benefit of our shareholders, employees, suppliers, customers and communities. As a result of these factors, the Committee determined the outcomes as set out above to be appropriate and therefore no discretion was exercised.

2023 LTIP awards

LTIP awards were granted to the executive directors in April 2023 at a level of 100% of salary. Awards are subject to adjusted EPS performance as regards 50% of the award, absolute TSR performance as regards 25% of the award and ESG performance as regards 25% of the award. Further details, including the performance targets, are set out on pages 107 and 108. The Committee retains the discretion to reduce the extent of vesting if it considers that any of the value at vesting represents a windfall gain.

Reward for the year ending 31 December 2024**• Executive Director base salary increases:**

- During the year, the Committee reviewed executive director salaries in light of Company performance, changes to scope of role, individual performance, market competitiveness and the approach for the wider workforce. For 2024, the annual salary review budget for the wider workforce is 4% with targeted higher increases (up to 9%) for those identified as being paid below market and high performers, in line with our new salary budget matrix.
- As highlighted in recent Directors' Remuneration Reports, Alex Vaughan's salary is positioned at the lower end of the market compared to both companies of a similar size and complexity and against sector peers and does not reflect his strong performance and experience gained in role. When he was appointed as CEO in May 2019, his base salary was set lower than his predecessor's. For 2020, 2021, 2022 and 2023 the base salary increases for Alex were 0%, 2%, 3% and 5% respectively, below the increases for the wider workforce each year. Alex has previously declined higher increases proposed by the Committee which has resulted in his salary continuing to fall below a market competitive level. It is clear from the review in 2023 that Alex's base salary remains significantly below the market competitive rate. The Committee believes it is important for executive director pay to reflect individual performance, experience and responsibilities. Recognising Alex's strong performance despite challenging market conditions and his positioning against the market, the Committee has chosen to implement a stepped increase of 10% in 2024 (base salary of £515,700 effective from 1 April 2024) and a further 4% in 2025 (even if that is below the wider workforce increase in 2025).
- During 2023, Helen Willis' role expanded to include responsibility for the internal IT function. In recognition of the increased scope of her responsibilities and exceptional performance, the Committee concluded it was appropriate to award a 10% increase for 2024 (base salary of £428,300 effective from 1 April 2024).

Directors' Remuneration Report continued

- **AIP:** The maximum AIP opportunity for executive directors will be 150% of salary. The AIP will continue to be weighted 70% on financial measures, 10% safety, health and environment and 20% personal performance. Details of the AIP performance measures are provided on page 109 and targets with performance against them will be provided in the 2024 Directors' Remuneration Report. One third of the AIP earned will be deferred into shares for two years.
- **LTIP:** The maximum LTIP opportunity for executive directors will be 100% of salary. Vesting will be subject to adjusted EPS performance as regards 50% of the award, TSR performance as regards 25% of the award and ESG performance as regards 25% of the award. Details of the LTIP performance measures and targets are provided on pages 109 and 110. LTIP awards which vest are subject to a two-year holding period, thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

Conclusion

We remain committed to a responsible approach to executive pay and believe the policy operated as intended during the year. The decisions made as a Committee as regards remuneration earned in respect of 2023 demonstrate our commitment to ensuring that executive directors' reward is aligned with performance and the outcomes for all our stakeholders.

We look forward to receiving your support at our 2024 AGM, where I will be available to respond to any questions that shareholders may have on this report, or our intended approach to reward for 2024.

Fiona MacAulay

Committee Chair

11 March 2024

Definitions used in this report

AIP: Annual Incentive Plan.

Adjusted operating profit (previously known as adjusted EBITA): Adjusted operating profit excludes adjusting items, which are significant items of income and expenditure that the Board considers do not reflect the long-term performance of the Group. See notes 2 to 4 of the financial statements on pages 142 to 155 for adjusted metric details and definitions.

Adjusted EPS: Adjusted earnings per share is calculated using adjusted profit. See notes 2 to 4 of the financial statements on pages 142 to 155 for adjusted metric details and definitions. Underlying earnings per share is then further adjusted by the Remuneration Committee to exclude pension interest to ensure that the performance measures are assessed on a consistent basis year-to-year.

LTIP: Long-Term Incentive Plan (and including where relevant the plans approved in 2014 and 2023).

SDP: Share Deferral Plan (and including where relevant the plans approved in 2014 and 2023).

Remuneration disclosure

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

In this report we describe how the principles of good governance relating to directors' remuneration, as set out in the 2018 UK Corporate Governance Code, are applied in practice. The Committee, when determining the policy, addressed the factors in Provision 40 of the Code as follows:

- **Clarity** – remuneration arrangements are simple and transparent and take account of pay policies for the wider workforce.
- **Simplicity** – we follow a conventional UK market approach to remuneration with established incentive plans that operate on a clear and consistent basis.
- **Risk** – performance targets are set to reward sustainable business performance, while not encouraging inappropriate business risks to be taken.

- **Malus and clawback provisions** – apply to AIP and LTIP awards, and the Committee has the means to apply discretion and judgement to vesting outcomes. The post-employment shareholding requirements further align the interests of executive directors with those of shareholders following the end of employment.
- **Predictability** – details of the potential values that may be earned by executive directors through their remuneration arrangements are set out in the policy.
- **Proportionality** – the AIP and LTIP performance measures are clearly aligned to the Group's strategic objectives. The Committee takes into account underlying business performance and the experience of shareholders and the wider workforce when determining vesting outcomes, ensuring that poor performance is not rewarded.
- **Alignment to culture** – the Committee's intent is that the policy drives the right behaviours, and reflects the Group's purpose, values and strategy. The Committee regularly reviews the remuneration framework to ensure that this continues to be the case.

This report is unaudited unless otherwise stated.

Directors' Remuneration Policy

Our remuneration policy was approved by shareholders at our AGM on 11 May 2023, supported by over 97% of the votes cast. We have set out below the policy table and the full remuneration policy is available in the 2022 Annual Report on the Company's website at www.costain.com.

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
Salary	<ul style="list-style-type: none"> • To attract and retain high-calibre individuals. • Reflects skills, experience and performance in role. • Provides an appropriate level of basic fixed income while avoiding excessive risk arising from over reliance on variable income. 	<ul style="list-style-type: none"> • Generally reviewed annually (with any change usually effective from 1 April) but exceptionally at other times of the year. • Set with reference to individual performance, experience and responsibilities. • Reflects the market rate for the individual and their role, determined with reference to remuneration levels in companies of similar size and complexity, taking into account pay levels within the Company in general. • Increases will usually not exceed the average salary increases for the wider workforce (in percentage terms). • Higher increases may be awarded in appropriate circumstances, which include but are not limited to, where an individual is promoted or changes role or where an individual is appointed on a below market salary with the expectation that their salary will increase with experience and performance. 	<ul style="list-style-type: none"> • n/a 	<ul style="list-style-type: none"> • To avoid setting expectations of future salary increases there is no maximum salary value set under the policy.
Annual Incentive Plan	<ul style="list-style-type: none"> • To incentivise the achievement of key financial and strategic targets for the relevant year without encouraging excessive risk taking. • Promotes greater alignment with shareholders. • To facilitate share ownership. 	<ul style="list-style-type: none"> • Two thirds paid in cash. • Deferral into shares of one third of earned AIP; this vests following the end of a two-year deferral period, which ordinarily ends on the second anniversary of grant (subject, ordinarily, to continued employment and not being under notice of termination, either given or received, on the date of vesting). Deferred share awards may be granted as conditional awards or nil or nominal cost options. • The Committee may decide not to operate deferral where the amount of the bonus otherwise to be deferred would, in the opinion of the Committee, be so small as to make deferral unduly administratively burdensome. Executives may, with the approval of the Committee, elect for a greater proportion of the AIP award to be deferred into shares. • Deferred share awards may include the right to receive a benefit determined by reference to the value of dividends that would have been paid by reference to dividend record dates ending on the date on which shares can first be acquired. The benefit may assume the reinvestment of dividends into Costain's shares on such basis as the Committee determines. • Shares provided under the AIP are typically purchased by a trust on behalf of the Group so as to not lead to any dilution of shareholder interest. • Awards may be subject to malus and clawback as described below. • Not pensionable. 	<ul style="list-style-type: none"> • The Committee considers and approves the performance measures and targets each year and ensures they are aligned with business strategy and are sufficiently stretching. • Financial metrics will comprise at least 50% of AIP opportunity. Any balance of the AIP opportunity will be based on financial metrics and/or non-financial metrics such as safety and health targets and personal objectives. • In setting financial parameters, the Committee takes into account the Company's internal budgets and, where applicable, brokers' forecasts. The targets applying to financial measures are based on a sliding scale between 0% and 100%. Subject to the discretion to amend the pay-out as referred to below, up to 60% of the maximum potential will be earned for on-target performance. The targets applying to non-financial measures are based on a sliding scale between 0% and 100%. • The Committee may amend the pay-out if it considers that the level of vesting that would otherwise apply is not appropriate, including where that level would materially deviate from the intention of the policy, is unreflective of underlying financial or non-financial performance of the Group or executive director over the relevant period or is not appropriate in the context of unexpected or unforeseen circumstances. 	<ul style="list-style-type: none"> • Maximum: 150% of salary. • The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary.

Directors' Remuneration Report continued

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
Long-Term Incentive Plan	<ul style="list-style-type: none"> Aligned to main strategic objectives of delivering sustainable performance which in turn should deliver enhanced returns. 	<ul style="list-style-type: none"> Annual grant of performance shares, which vest subject to performance measured, usually over three years. Awards may be granted as conditional awards or nil or nominal cost options or, as referred to below in relation to 'Qualifying LTIP' awards, as options with an exercise price equal to the market value of a share when the option is granted. Awards are subject to a further holding period of two years following the end of the performance period before they are released. LTIP awards may include the right to receive a benefit determined by reference to the value of dividends that would have been paid on vested shares by reference to dividend record dates in the period ending on the date on which the vested shares can first be acquired. The benefit may assume the reinvestment of dividends into Costain's shares on such basis as the Committee determines. Awards may be subject to malus and clawback as described below. The Committee may, at its discretion, structure an LTIP award as a 'Qualifying LTIP' award consisting of a tax-qualifying option with an exercise price equal to the market value of a share when the option is granted, and an 'ordinary' LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on the exercise of the tax-qualifying option. The provisions of this policy will apply to a tax-qualifying option with any amendments necessary to take account of the applicable tax legislation. 	<ul style="list-style-type: none"> The performance condition will be based on one or more key metrics aligned to the business strategy, including but not limited to EPS, return measures, cash-based measures, strategic/transformation measures and/or environmental measures. At least 75% of the opportunity will be subject to financial and/or share price measures. Subject to the discretion to amend the pay-out as referred to below, up to 25% of the maximum is earned for threshold performance, rising to 100% for maximum with straight-line vesting usually applying between these points. The Committee has discretion to vary the formulaic vesting outturn if it considers that the level of vesting that would otherwise apply is not appropriate, including where that level would materially deviate from the intention of the policy, is unreflective of underlying financial or non-financial performance of the Group or executive director over the vesting period or is not appropriate in the context of circumstances that were unexpected or unforeseen at the grant date. 	<ul style="list-style-type: none"> LTIP awards with a face value of not more than 150% of salary. The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary. If a Qualifying LTIP award is granted, the value of shares subject to the tax-qualifying option will not count towards the limits referred to above, reflecting the provisions for the scale back of the ordinary LTIP award.
SAYE Scheme	<ul style="list-style-type: none"> Offered to all UK employees, to facilitate share ownership and provide further alignment with shareholders. 	<ul style="list-style-type: none"> Periodic grants which normally vest after three or five years subject to continued service. Operated under HMRC requirements as a tax-qualifying plan. 	<ul style="list-style-type: none"> Not subject to performance conditions in line with usual practice. 	<ul style="list-style-type: none"> Participation on the same basis as all other employees.
Pension	<ul style="list-style-type: none"> To aid retention and remain competitive in the marketplace. 	<ul style="list-style-type: none"> Annual pension allowance. Paid as a cash contribution to the Defined Contribution pension scheme, personal pension arrangements and/or a cash supplement. 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> A percentage of base salary not exceeding the pension contribution available to the majority of the wider workforce (which is currently 10%).
Other Benefits	<ul style="list-style-type: none"> To aid retention and be competitive in the marketplace. Healthcare benefits to minimise business disruption. 	<ul style="list-style-type: none"> Company car (or car allowance) and fuel allowance. Medical insurance. Life assurance. Other benefits as appropriate, for example, relocation expenses and travel and subsistence. 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> n/a

Share ownership guidelines

The Company has adopted share ownership guidelines to provide further alignment between the interests of the Board and the Company's shareholders. During employment, executive directors are expected to build and maintain a shareholding worth not less than 200% of base salary. Shares subject to LTIP awards for which the performance period has ended (ie which are in a holding period, or which have been released but which are not exercised) and shares subject to SDP awards count towards the shareholding guideline, on a net of assumed tax basis. Executive directors are required to retain half of the shares acquired pursuant to the LTIP and SDP (after sales to cover tax) until the shareholding guidelines are met.

The Committee has adopted a post-employment shareholding requirement. Shares are subject to this requirement only if they are acquired from share plan awards (LTIPs and SDP awards) granted after 1 January 2023. Following employment, an executive director must retain:

- for the first year after employment, such of their shares which are subject to the post-employment requirement as have a value for these purposes equal to 200% of salary;
- for the second year after employment, such of those shares as have a value for these purposes equal to 100% of salary;

or in either case and if fewer, all of those shares. The Committee retains discretion to vary the application of the post-employment shareholding requirement in compassionate circumstances.

Notes

Performance measures

The choice of the performance metrics applicable to the AIP reflects the Committee's aim that our annual incentives should balance the delivery of stretching financial performance with non-financial indicators. For 2023 and 2024, these non-financial indicators include safety, health and environment targets, and personal objectives, with further information on pages 93, and 104 and 105.

As set out above, at least 75% of the LTIP opportunity will be subject to financial and/or share price measures, with any balance based on strategic/transformation measures and/or environmental measures. For 2023 and 2024, the LTIP financial/share price metrics which apply to 75% of the awards in aggregate are based on long-term earnings performance which is aligned with the financial performance expected by our shareholders, and a TSR measure in order for there to be a clear alignment of executive directors' interests with value created for shareholders and having regard to the importance of execution of the strategy translating to increases in Costain's share price. The balance of the 2023 and 2024 awards are based on environmental and social measures, with further information on pages 107 to 110.

AIP and LTIP performance measures may be adjusted if the Committee considers that it would be appropriate to amend the performance measures (eg to take into account a material acquisition or divestment) so that they achieve their original purpose.

Recovery provisions

The AIP (including the deferred awards delivered under the SDP) and LTIP awards are subject to 'malus' and 'clawback' provisions as follows.

For up to two years following the payment of the cash element of an AIP award, the Committee may require repayment of all or part of the bonus in the event of a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus or in the event of dismissal due to gross misconduct, or in the event of criminal behaviour, serious reputational damage or serious corporate failure. Some or all of a deferred share award under the SDP may be clawed back (via a cancellation of the award) prior to vesting in equivalent circumstances.

For up to two years following the vesting of an LTIP award (or part of an LTIP award) the Committee may require the repayment of all or part of the award (which may be effected by the cancellation of unvested LTIP awards or vested but unreleased LTIP awards) in the event of a material misstatement or error in assessing performance measures which has led to an award vesting to a greater degree than would otherwise have been the case or in the event of dismissal due to gross misconduct, serious corporate failure or serious reputational damage.

Incentive plan operation

The Committee will operate the AIP, SDP, LTIP and SAYE Scheme according to their respective rules.

Share awards under the SDP, LTIP and SAYE Scheme (and any applicable performance conditions) may be adjusted in the event of a variation of the Company's share capital or a demerger, special dividend or other event which affects the market price of a share. Share awards under the SDP and LTIP may be satisfied, in whole or in part, in cash, although the Committee has no intention to settle any executive director's award in cash and would do so only in exceptional circumstances, such as where there was a regulatory restriction on the delivery of shares, or to settle tax liabilities arising in connection with the acquisition of shares. Awards may vest early, in accordance with the plan rules, in the event of a change of control or other relevant event (such as a winding-up or demerger). Where an LTIP award vests early, the extent of vesting will be determined taking into account the extent to which the performance condition has been satisfied (as assessed by the Committee) and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed.

Directors' Remuneration Report continued

Remuneration policy for chair and non-executive directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees and relevant benefits	Attract and retain high-performing individuals.	<ul style="list-style-type: none"> Remuneration for non-executive directors, other than the chair, is determined by the Board, following consultation between the chair and the chief executive officer. The chair's fee is determined by the Board following consultation between the Committee and the CEO. Fees are typically reviewed annually and any increase is usually effective from 1 April. Remuneration for non-executive directors, other than the chair, comprises a basic annual fee for acting as non-executive director of the Company and additional fees for undertaking other roles such as senior independent director, and chair of the Audit and Risk and Remuneration Committees. Additional fees may also be paid for additional time commitments. Overall fees will remain within the limit set out in the Company's articles of association. The chair and non-executive directors do not participate in any variable pay or share scheme arrangement, although their fees may be paid in cash or shares. May be entitled to benefits such as travel and subsistence and secretarial support, or other benefits as appropriate. 	<ul style="list-style-type: none"> n/a

Legacy arrangements

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the policy in this report where the terms of the payment were agreed before the policy came into effect provided, in the case of a payment whose terms were agreed after 7 May 2014 (the date of approval of the Company's first Directors' Remuneration Policy) and before this policy came into effect, the payment was permitted under the policy applying at the date the payment was agreed. For these purposes, 'payment' includes the satisfaction of awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Consideration of employee views

There is no employee representation on the Committee. However, the Company liaises actively with employees through engagement surveys, site visits with Q&A sessions and the employee forum 'Your Voice'. The chief people and sustainability officer briefs the Board on employees' views, ensuring that the Committee's decisions are taken with appropriate insight to employees' views.

Consideration of shareholder views

The Committee consulted with shareholders in relation to the development of this policy. On an ongoing basis, the Committee considers shareholder feedback received in relation to the AGM each year at a meeting following the AGM. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Committee's annual review of remuneration policy.

When there are material issues relating to executive remuneration or proposed changes in policy, we engage actively with major shareholders to ensure we understand the range of their views. When significant changes are made within the policy, the Committee chair will inform shareholders of these.

Annual Report on Remuneration

The Annual Report on Remuneration set out on pages 101 to 117 provides details of how our remuneration policy was implemented in the year ended 31 December 2023 and how we intend for it to apply for the year ending 31 December 2024. This Annual Report on Remuneration will be subject to an advisory vote at the 2024 AGM.

Governance of the Committee

The Remuneration Committee is comprised exclusively of independent non-executive directors. The members of the Committee, together with their biographies, are shown on pages 52 and 53 and details of their attendance at Committee meetings is shown below. The Committee is chaired by Fiona MacAulay. The general counsel and company secretary delegates to the deputy company secretary all company secretarial matters in relation to this Committee.

Committee members

Director	Attendance
Fiona MacAulay	100%
Neil Crockett ¹	100%
Jacqueline de Rojas ¹	100%
Amanda Fisher ²	100%
Steve Mogford ³	100%
Tony Quinlan	100%

¹ Stepped down from the Board on 31 October 2023.

² Joined the Board on 1 December 2023.

³ Joined the Board on 1 November 2023.

Terms of reference

The Committee's terms of reference, which remain unchanged following a governance structure review in autumn 2023 (see page 57), are available on the Company's website at www.costain.com.

Remuneration Committee activity

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

Date	Key agenda items
7 February 2023	<p>Reviewed responses to the remuneration policy consultation from large investors and the proxy voting advisory agencies and received an update from the Committee chair on her meetings with certain investors, held at their request in relation to the consultation.</p> <p>Consideration given to the extent to which the performance measures were likely to have been met with regard to the LTIP granted in 2020.</p> <p>Determined the level of pay-out of the 2022 AIP, including exercising the Committee's discretion to reduce the safety, health and environment outturn to zero in recognition of the fatality at Gatwick.</p> <p>Approved the 2023 AIP performance measures and list of participants.</p> <p>Approved in principle performance targets for the 2023 LTIP grant.</p> <p>Reviewed and approved the executive directors' and senior executives' salary increases for 2023 against benchmarked data.</p> <p>Noted the results of the 2022 employment engagement survey, which set out the workforce experience, including reward and compensation.</p> <p>Reviewed the draft Directors' Remuneration Report in the 2022 Annual Report.</p>
6 April 2023 (by written circulation)	<p>Approved the grant of awards under the 2023 LTIP and determined quantum, performance targets, participants and other terms.</p> <p>Approved the grant of awards under the 2023 SDP in relation to the 2022 bonus pay-out.</p>

Directors' Remuneration Report continued

Date	Key agenda items
12 December 2023	<p>Received a governance update and market trends paper from the Committee's advisers.</p> <p>Determined 4.0% annual salary increase for the wider workforce for 2024.</p> <p>Received benchmarking data for the CEO, CFO and senior managers.</p> <p>Reviewed potential CEO and CFO salary increases for 2024 for further consideration at the February 2024 meeting.</p> <p>Considered pay increases to those senior managers with additional interim responsibilities pending the arrival of a new senior hire.</p> <p>Considered the treatment of executive share awards to departing senior managers.</p> <p>Consideration given to the extent to which the performance measures were likely to have been met with regard to the LTIP granted in 2021 due to vest in April 2024, together with progress meeting the performance measures of other outstanding LTIPs.</p> <p>Reviewed and discussed the proposed performance targets for the 2024 LTIP and preliminary list of participants.</p> <p>Approved the 2024 AIP structure and preliminary list of participants, with targets to be finalised at the next meeting.</p> <p>Noted the summary results of the 2023 employment engagement survey, which set out the workforce experience, including reward and compensation. Noted improvements in some scores reflected targeted action during 2023 and noted planned actions for 2024.</p> <p>Agreed no changes required to the Committee's terms of reference or its membership.</p>

Committee effectiveness review

As described on page 63, the planned external review of the effectiveness of the Board and its Committees was deferred until 2024 to enable sufficient time for the newly appointed non-executive directors to settle into their role.

The area the Committee identified for additional focus in 2023 was in relation to concluding the consultation on the remuneration policy and finalising the remuneration framework for approval by shareholders at the 2023 AGM. The objective was achieved successfully with a vote in favour of the new policy of over 97%.

Advice provided to the Committee

Advice was sought, where appropriate, from a number of sources. During the course of the year, the chief executive officer, the chief financial officer, the Group's chair and the chief people and sustainability officer were invited to attend meetings of the Committee. No individual was present when their own remuneration was being discussed.

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

It is the policy of the Committee to put the remuneration consultant function out to tender, or to review its services and fees, on a periodic basis to ensure that the Committee continues to receive independent support and advice of a high standard. Deloitte LLP was appointed in 2014 following a competitive tender process to act as the Committee's remuneration consultants. Deloitte LLP received fees of £33,120 charged on a time and materials basis (2022: £44,214) for the year ended 31 December 2023 in respect of services provided to the Committee.

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

Voting on the Remuneration Report at the AGM in 2023

Last year's Remuneration Report was approved by shareholders with a 99.75% (2022 AGM: 87.94%) vote in favour (including discretionary votes, and with 107,476 votes withheld).

Voting on the remuneration policy at the AGM in 2023

The current policy was approved by shareholders with a 97.17% vote in favour (including discretionary votes, and with 111,182 votes withheld) at the Company's AGM on 11 May 2023 and can be found in the 2022 annual report at www.costain.com/investors.

Voting on the Costain 2023 Long-Term Incentive Plan and Costain 2023 Share Deferral Plan at the AGM in 2023

The Costain 2023 Long-Term Incentive Plan and Costain 2023 Share Deferral Plan were approved by shareholders with respectively a 99.79% and 99.77% vote in favour (including discretionary votes, and with 282,766 votes and 211,822 votes withheld respectively).

Implementation of policy in the year to 31 December 2023

Single total figure of remuneration for each director

This table and associated notes have been audited by PwC LLP.

	2023							
	Fixed				Variable			
	Salary and fees £	Taxable benefits £	Pension* £	Subtotal £	Annual incentive £	LTIP £	Subtotal £	Total £
Executive directors								
Alex Vaughan	463,225	2,842	46,322	512,389	547,089	299,133 [#]	846,222	1,358,611
Helen Willis	384,705	11,789	38,470	434,964	454,313	248,415 [#]	702,728	1,137,692
Non-executive chair								
Kate Rock ¹	195,000	–	–	195,000	–	–	–	195,000
Non-executive directors								
Bishoy Azmy ²	52,100	–	–	52,100	–	–	–	52,100
Neil Crockett ³	42,450	–	–	42,450	–	–	–	42,450
Jacqueline de Rojas ³	42,450	–	–	42,450	–	–	–	42,450
Amanda Fisher ⁴	4,300	–	–	4,300	–	–	–	4,300
Fiona MacAulay ⁵	60,400	–	–	60,400	–	–	–	60,400
Steve Mogford ⁶	8,600	–	–	8,600	–	–	–	8,600
Tony Quinlan	69,125	–	–	69,125	–	–	–	69,125

	2022							
	Fixed				Variable			
	Salary and fees £	Taxable benefits £	Pension** £	Subtotal £	Annual incentive £	LTIP £	Subtotal £	Total £
Executive directors								
Alex Vaughan	443,250	2,623	44,325	490,198	482,220	244,376 ^{##}	726,596	1,216,794
Helen Willis	368,100	11,928	36,810	416,838	400,464	114,137 ^{##}	514,601	931,439
Non-executive chair								
Kate Rock ¹	20,367	–	–	20,367	–	–	–	20,367
Non-executive directors								
Bishoy Azmy ²	48,000	–	–	48,000	–	–	–	48,000
Neil Crockett ³	49,050	–	–	49,050	–	–	–	49,050
Jacqueline de Rojas ³	51,358	–	–	51,358	–	–	–	51,358
Amanda Fisher ⁴	–	–	–	–	–	–	–	–
Fiona MacAulay ⁵	41,211	–	–	41,211	–	–	–	41,211
Steve Mogford ⁶	–	–	–	–	–	–	–	–
Tony Quinlan	65,725	–	–	65,725	–	–	–	65,725

* A pension contribution of £9,721 and £2,083 was paid into the Company's Group Flexible Retirement Plan for Alex Vaughan and Helen Willis respectively and the balance was paid to them directly as a taxable cash sum.

** A pension contribution of £1,667 was paid into the Company's Group Flexible Retirement Plan for Alex Vaughan and the balance was paid to him directly as a taxable cash sum. The amount quoted for Helen Willis was paid directly as a taxable cash sum.

2021 LTIP award of 710,655 shares (Alex Vaughan) and 590,163 shares (Helen Willis) vested at 74.5%. Value calculated based on average share price over the three months ended 31 December 2023 being 56.1p per share. Amounts include £2,118 and £1,759 for Alex Vaughan and Helen Willis respectively representing dividends paid and accrued on their awards and which will be converted to shares on vesting.

2020 LTIP award of 553,909 shares (Alex Vaughan) and 258,705 shares (Helen Willis) vested at 81.1%. Value calculated based on share price on vesting on 4 April 2023 being 54.4p per share. In accordance with the applicable regulations, the value included in the 2022 Directors' Remuneration Report was based on the average share price over the three months ended 31 December 2022 being 38.8p per share.

1 Appointed to the Board on 1 November 2022.

2 The non-executive director basic annual fee was increased to £49,400 from 1 April 2022. Due to an administrative error, the increase was not paid to Bishoy Azmy and the previous fee of £48,000 continued to be paid. The correct fee was paid in March 2023 backdated to April 2022 and is therefore reflected in the 2023 remuneration.

3 Stepped down from the Board on 31 October 2023.

4 Appointed to the Board on 1 December 2023.

5 Appointed to the Board on 6 April 2022.

6 Appointed to the Board on 1 November 2023.

Directors' Remuneration Report continued

Additional notes to the single total figure of remuneration

(a) Annual salaries for executive directors

The annual salaries with effect from 1 April 2023 were £468,800 for Alex Vaughan and £389,300 for Helen Willis.

(b) Taxable benefits provided to executive directors

The main benefits available to the executive directors during 2023, and their approximate values, were a car benefit of £1,366 (2022: £1,195) for Alex Vaughan and car allowance of £10,500 (2022: £10,500) for Helen Willis, together with private medical insurance for Alex Vaughan of £1,476 (2022: £1,428) and Helen Willis of £1,289 (2022: £1,428). This package of benefits was unchanged from 2021 and 2022.

(c) Determination of the 2023 annual incentive

The maximum AIP opportunity for the chief executive and the chief financial officer for the year ended 31 December 2023 remained unchanged from previous years at 150% of base salary, with one third of the earned AIP award to be deferred into shares for a further two years and two thirds of the earned AIP award paid in cash.

The performance measures established by the Committee for the 2023 AIP continued to align with the Company's strategy while not encouraging inappropriate business risks to be taken. These included inter alia a target maximum of £42.9m for adjusted operating profit (previously known as adjusted EBITA).

The achievement of the performance measures has been reviewed, with appropriate input from the Audit and Risk Committee, following the end of the 2023 financial year. As shown in the table below, Alex Vaughan and Helen Willis both earned an AIP award equal to 77.8% of the maximum opportunity based on an assessment against the performance targets.

As discussed in the annual statement from the Remuneration Committee chair on pages 94 to 96, in line with good practice these outcomes were reviewed in the context of the broader stakeholder experience.

The Committee considered that the AIP outcomes, after taking into account these decisions, are a fair reflection of the Group's underlying financial performance achieved in 2023. The Committee also noted the good progress made on our journey to grow the business, manage risks and improve returns for the benefit of our shareholders, employees, suppliers, customers and communities. This included significant net free cash flow, key contract wins, completion of the pension scheme contribution plan review, refinancing a new three-year agreement of bank and bonding facilities and the return of dividend payments.

Performance measures	AIP opportunity – maximum percentage of bonus		AIP award – as a percentage of bonus		AIP performance measure			
	Alex Vaughan	Alex Vaughan	Helen Willis	Helen Willis	Threshold	Maximum	Actual performance	% Pay-out
Adjusted operating profit (with 90% cash conversion) ¹	40%	32.2%	40%	32.2%	£35.1m	£42.9m	£40.1m	32.2%
Profit secured for 2024	15%	7.2%	15%	7.2%	£74.9m	£91.5m	£81.5m	7.2%
Cash flow ²	15%	15.0%	15%	15.0%	£113.4m	£138.6m	£141.4m	15.0%
Safety, health and environment ³	10%	8.4%	10%	8.4%	n/a	AFR 0.04 EIFR 0.11	AFR 0.04 EIFR 0.18	8.4%
Personal performance	20%	15.0%	20%	15.0%	see personal performance section opposite			15.0%
Total	100%	77.8%	100%	77.8%				77.8%

¹ See definition on page 96. Previously known as adjusted EBITA. Target underpinned by 90% cash conversion.

² Measured as average month-end cash balances, pre-acquisition and investments.

³ Includes Accident Frequency Rate (AFR) and Environmental Incident Frequency Rate (EIFR) targets and the requirement for all contracts to deliver carbon actions, and for the executive directors to conduct a minimum of 12 engagement visits each year.

Personal performance

Personal performance was based on progress towards delivery of the strategy and corporate activities critical to the strategic transformation of the business which were the personal responsibility of the executive directors. Details of Alex Vaughan's and Helen Willis' performance against their personal objectives are set out below.

Alex Vaughan

Objective	Achievement during the year	Maximum	Award
Performance	Further broadened our Tier 1 customer mix across our growth markets. Demonstrated predictable contract performance, continuing to improve and standardise our approach to production thinking, project controls and assurance, safety and quality. Continued to strengthen risk management at pre-contract and contract stages.	10%	7%
People	Implemented targeted actions from our 2022 employee engagement plan, increased participation in our 2023 survey and maintained our Best Companies status as a 'Very Good Company to Work For'. Targeted action included: <ul style="list-style-type: none"> increased transparency of pay and reward through the launch of our job architecture. increased visibility of career opportunities through our career path frameworks piloted in 2023 for full roll-out in 2024. launched our female Empower programme and our ethnicity pay listening circles. 	5%	5%
Planet	Approval of our near-term and net zero ambitions by the Science Based Targets initiative. 4% reduction in emissions normalised by turnover compared to our 2021 baseline, 24% reduction in Scope 1 emissions, improved measurement of Scope 3 emissions. Developed and launched our ESG programme setting clear goals and KPIs on material sustainability issues.	5%	3%
		20%	15%

Helen Willis

Objective	Achievement during the year	Maximum	Award
Performance	Demonstrated predictable contract performance, continuing to improve and standardise our approach to production thinking, project controls and assurance, safety and quality. Finalised a new three-year agreement for our bank and bonding facilities including a sustainability-linked revolving credit facility. Agreed a new lower cost contribution plan with the trustee of the Company's defined benefit pension scheme.	10%	7%
People	Implemented targeted actions from our 2022 employee engagement plan, increased participation in our 2023 survey and maintained our Best Companies status as a 'Very Good Company to Work For'. Targeted action included: <ul style="list-style-type: none"> increased transparency of pay and reward through the launch of our job architecture. increased visibility of career opportunities through our career path frameworks piloted in 2023 for full roll-out in 2024. launched our female Empower programme and our ethnicity pay listening circles. 	5%	5%
Planet	Approval of our near-term and net zero ambitions by the Science Based Targets initiative. 4% reduction in emissions normalised by turnover compared to our 2021 baseline, 24% reduction in Scope 1 emissions, improved measurement of Scope 3 emissions. Developed and launched our ESG programme setting clear goals and KPIs on material sustainability issues.	5%	3%
		20%	15%

Directors' Remuneration Report continued**(d) Vesting of the April 2021 LTIP award**

The LTIP awards granted on 8 April 2021 to Alex Vaughan and Helen Willis were based on aggregate adjusted EPS and cash conversion performance for the three years ended 31 December 2023.

Performance against the measures and the resulting vesting outcome is shown below. Aggregate adjusted EPS for the three financial years (relating to two thirds of the award), calculated on an adjusted basis approved by the Committee, was 30.4 pence as a result of which this element of the LTIP awards is due to vest at 61.8%. Cash conversion performance targets (relating to one third of the award) were achieved to the full extent and so 100% of this element of the award is due to vest. Therefore, the 2021 LTIP is due to vest over a total of 74.5%, with the remaining 25.5% of the award to lapse.

The award vests in April 2024 but is subject to a further holding period of two years following the end of the performance period, thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

(A) Adjusted EPS performance measure (relating to two thirds of the award)

Aggregate adjusted EPS for the financial years ended 31 December 2021, 2022 and 2023	Vesting level for awards
Below 27.9 pence	0%
27.9 pence	15%
Between 27.9 pence and 32.4 pence	15–100% pro-rata
32.4 pence or more	100%
Actual performance: 30.4 pence	Vesting outcome: 61.8%

For the purposes of the LTIP, adjusted EPS is further adjusted by the Committee to exclude pension interest to ensure that the performance measures are assessed on a consistent basis year-to-year. For definition see page 96.

(B) Cash conversion performance measure (relating to one third of the award)

Average cash conversion for the financial years ended 31 December 2021, 2022 and 2023	Vesting level for awards
Below 80%	0%
80%	15%
Between 80% and 100%	15–100% pro-rata
100% or more	100%
Actual performance: 158%	Vesting outcome: 100%

(e) Pensions and life assurance

Alex Vaughan's and Helen Willis' pension provision is equal to 10% of salary in line with the wider workforce. Life assurance cover of four times' base salary is provided through the Costain Life Assurance Scheme.

The Group offers a Group Flexible Retirement Plan which was set up in 2009 with Standard Life for employees and senior management. This was switched to Scottish Widows with effect from 1 May 2022. Alex Vaughan was a participant of this Scheme until 31 May 2022 and then rejoined (capped) from May 2023. Helen Willis has been a participant (also capped) since August 2023.

(f) Chair

Kate Rock was appointed to the Board as a non-executive director on 1 November 2022. With effect from her appointment as chair on 1 December 2022, the basic annual fee for Kate Rock has been £195,000 (until 1 April 2024).

(g) Non-executive directors

Remuneration for non-executive directors, other than the chair, comprises a basic annual fee for acting as a non-executive director of the Company and additional fees for the senior independent director and chair of the Audit and Risk and Remuneration Committees. The annual fees set with effect from 1 April 2023 were as follows:

2023 Fees	Basic Fee	Senior independent director	Audit and Risk Committee chair	Remuneration Committee chair
Fees	£51,600	£8,500	£10,000	£10,000

Grants made during the year

These tables and the associated footnotes have been audited by PwC LLP.

2023 LTIP grant

Grants were made under the LTIP on 6 April 2023 to Alex Vaughan, Helen Willis and other members of the senior leadership team. The grant level for the executive directors remained at 100% of salary.

The award vests after three years, subject to continued service and the achievement of performance measures (as set out below), but cannot be exercised until after five years (the final two years being subject only to continued service), thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

Performance measures for the 2023 LTIP are as follows:

Adjusted EPS performance measure (50% of the award)

Aggregate adjusted EPS over the financial years ending 31 December 2023, 2024 and 2025	Vesting level for awards
Below 30.6 pence	0%
30.6 pence	25%
Between 30.6 pence and 35.6 pence	25–100% pro-rata
35.6 pence or more	100%

The Committee believes that adjusted EPS remains an appropriate metric to use under the LTIP, as growth in adjusted EPS is one of the key drivers of the Company's share price. As with previous LTIP awards, adjusted EPS shall be further adjusted by the Committee to exclude pension interest to ensure that the performance measures are assessed on a consistent basis year-to-year. For definition see page 96.

TSR performance measure (25% of the award)

TSR growth over the financial years ending 31 December 2023, 2024 and 2025	Vesting level for awards
Less than 50%	0%
50%	25%
More than 50% but less than 100%	25–100% pro-rata
100% or more	100%

The Committee believes that the use of a TSR element in the LTIP provides a clear alignment of executive directors' interests with value created for shareholders and reflects the importance of execution of the strategy translating to increases in our share price.

For these purposes TSR will be based on a one-month average prior to the start of the performance period and at the end of the performance period.

ESG performance measures (25% of the award)

Environmental: Reduction in Scope 1 and 2 carbon emissions compared to 2021 baseline (15% weighting)	Vesting level for awards
Below 16.2%	0%
16.2%	25%
Between 16.2% and 19.8%	25–100% pro-rata
19.8% or more	100%

Social: Equality, diversity and inclusion (EDI)

Improvement in AIP population gender diversity (5% weighting)	Vesting level for awards
Below 36%	0%
36%	25%
Between 36% and 39%	25–100% pro-rata
39% or more	100%

Directors' Remuneration Report continued

Improvement in AIP population ethnic diversity (5% weighting)	Vesting level for awards
Below 6%	0%
6%	25%
Between 6% and 9%	25–100% pro-rata
9% or more	100%

The Committee has the discretionary power to vary these targets should circumstances change so that the original targets are no longer considered appropriate (eg in the case of a material acquisition or divestment in the Group or other material transaction).

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

The Committee also has the ability to exercise discretion to make adjustments to the formulaic vesting outcome if it is not considered to be appropriate taking into account business performance during the performance period. This includes consideration of any windfall gains at the point of vesting. In assessing whether there is any windfall gain, the Committee will take into account a number of factors, including share price performance over the vesting period, financial performance of the business and any other significant events which have impacted the Company's share price or the market as a whole.

The share awards granted under the 2023 LTIP, structured as options with a nil exercise price, are as follows:

	Number of shares	Face value ¹	End of performance period	Threshold vesting
Alex Vaughan	849,275	£468,800	31 December 2025	25%
Helen Willis	705,253	£389,300	31 December 2025	25%

¹ Valued using the mid-market closing share price on the business day prior to the date of grant (5 April 2023), being 55.2 pence.

2023 SDP grant

The Company granted awards under the SDP to the executive directors on 6 April 2023, details of which are shown on page 116.

All-employee share plan

During 2023, for the first time since 2019, the Company invited employees to participate in the SAYE Scheme. SAYE Scheme awards were granted to the executive directors during 2023 as set out on page 116.

Exit payments made during the year and payments made to past directors

No executive directors departed in 2023 and no payments have been made to past directors.

Implementation of policy in the year to 31 December 2024**Salary**

As set out in the chair's statement, the chief executive officer and chief financial officer will receive a salary increase in 2024 of 10%.

These increases will take effect from 1 April 2024.

	Salary 2024	Salary 2023	% change
Alex Vaughan	£515,700	£468,800	10%
Helen Willis	£428,300	£389,300	10%

Chair's fee

The chair's basic annual fee will be increased in 2024 by 4% to £202,800 per annum.

Non-executive director fees

Non-executive directors' basic fees will be increased by 4% including fees for the senior independent director, Audit and Risk Committee chair and Remuneration Committee chair, with effect from 1 April 2024, as shown in the table below.

2024 Fees	Basic Fee	Senior independent director	Audit and Risk Committee chair	Remuneration Committee chair
Fees	£53,700	£8,800	£10,400	£10,400

2024 Annual incentive

Executive directors and the wider senior leadership team are eligible for annual bonuses under the AIP to encourage improved performance, with targets established by the Committee to align rewards with the Company strategy. The targets are clearly aligned with the delivery of our strategy. Their achievement will be reviewed, with appropriate input from the Audit and Risk Committee, at the end of the year.

The maximum AIP opportunity for the chief executive officer and the chief financial officer for the year ending 31 December 2024 will remain unchanged from previous years at 150% of base salary, with one third of earned AIP deferred into shares for a further two years, to be awarded under the SDP, and two thirds of earned AIP paid in cash.

The performance measures for the 2024 AIP are as detailed below:

Performance measures	2024 AIP opportunity – maximum percentage of bonus	
	Chief executive officer	Chief financial officer
Adjusted operating profit (with 90% cash conversion)	40%	40%
Profit secured for 2025	15%	15%
Cash flow	15%	15%
Safety, health and environment	10%	10%
Personal performance	20%	20%
Total	100%	100%

The Committee has chosen not to disclose in advance the performance targets for the year ending 31 December 2024, as these include items which the Committee considers commercially sensitive. The Committee will continue to provide retrospective disclosure of performance targets in next year's Annual Report on Remuneration to the extent the Committee determines these targets are not commercially sensitive.

2024 LTIP grant

The grant level for the executive directors will be up to 100% of salary. It is expected the LTIP awards will be granted in April 2024.

The LTIP will be subject to the achievement of performance measures unchanged from 2023 as set out below. LTIP shares which vest after three years will be subject to a further holding period of two years following the end of the performance period, thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

The proposed targets are set out below.

Adjusted EPS performance measure (50% of the award)

Aggregate adjusted EPS over the financial years ending 31 December 2024, 2025 and 2026	Vesting level for awards
Below 32.2 pence	0%
32.2 pence	25%
Between 32.2 pence and 39.4 pence	25–100% pro-rata
39.4 pence or more	100%

The Committee believes that adjusted EPS remains an appropriate metric to use under the LTIP, as growth in adjusted EPS is one of the key drivers of the Company's share price. As with previous LTIP awards, adjusted EPS shall be further adjusted by the Committee to exclude pension interest to ensure that the performance measures are assessed on a consistent basis year-to-year (see page 96 for definition). When setting the EPS targets, the Committee considered a range of factors including internal and external forecasts, market conditions and the impact of other relevant factors including bank interest and tax rates. The Committee considers the proposed targets to be appropriately stretching.

TSR performance measure (25% of the award)

TSR growth over the financial years ending 31 December 2024, 2025 and 2026	Vesting level for awards
Less than 50%	0%
50%	25%
More than 50% but less than 100%	25–100% pro-rata
100% or more	100%

The Committee believes that the use of a TSR element in the LTIP provides a clear alignment of executive directors' interests with value created for shareholders and reflects the importance of execution of the strategy translating to increases in our share price.

For these purposes TSR will be based on a one-month average prior to the start of the performance period and at the end of the performance period.

Directors' Remuneration Report continued

ESG performance measures (25% of the award)

Environmental: Reduction in Scope 1 and 2 carbon emissions compared to 2021 baseline (15% weighting)	Vesting level for awards
Below 16.2%	0%
16.2%	25%
Between 16.2% and 19.8%	25–100% pro-rata
19.8% or more	100%

Social: Equality, diversity and inclusion (EDI)	
Improvement in wider leadership ¹ gender diversity (5% weighting)	Vesting level for awards
Below 22%	0%
22%	25%
Between 22% and 28%	25–100% pro-rata
28% or more	100%

Improvement in wider leadership ¹ ethnic diversity (5% weighting)	Vesting level for awards
Below 9%	0%
9%	25%
Between 9% and 13%	25–100% pro-rata
13% or more	100%

¹ Employee bands A-C and Executive Board, which is a wider population than for the equivalent 2023 LTIP performance measure.

The Committee has the discretionary power to vary these targets should circumstances change so that the original targets are no longer considered appropriate (eg in the case of a material acquisition or divestment in the Group or other material transaction).

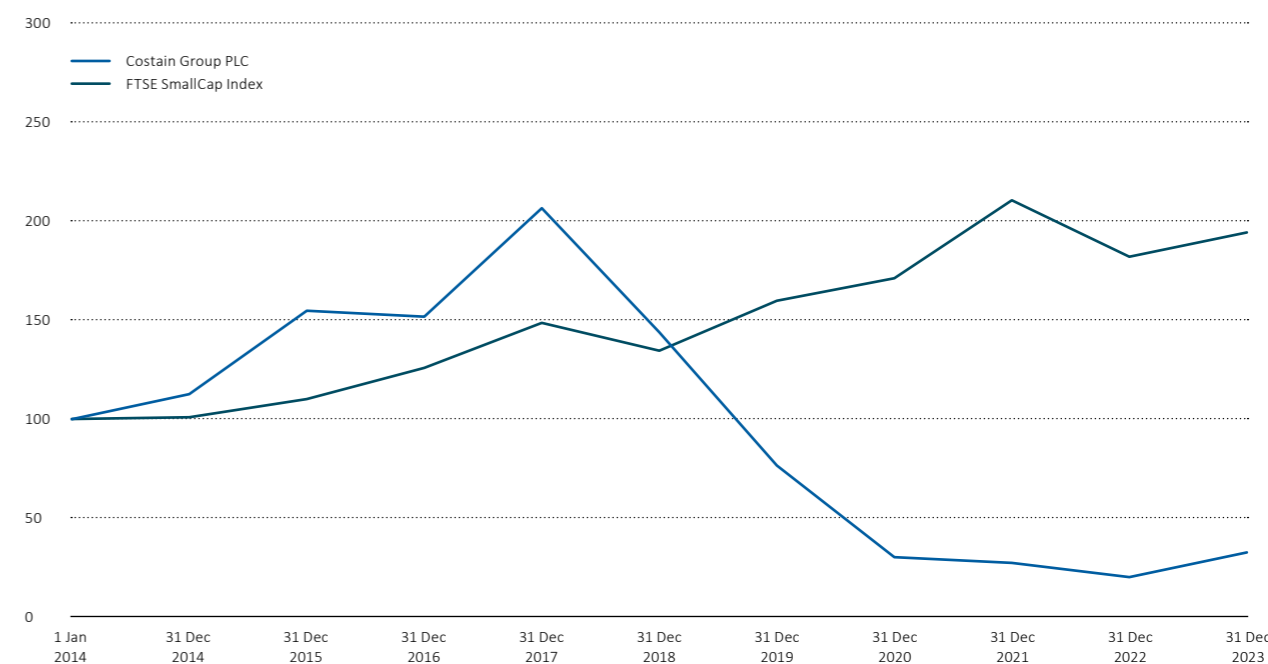
A clawback and malus provision is incorporated in the AIP and the LTIP with regard to any material misstatement to audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant, reputational damage or serious corporate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

The Committee also has the ability to exercise discretion to make adjustments to the formulaic payout/vesting of variable incentives if the formulaic outcome is not considered to be appropriate. This specifically includes consideration of any windfall gains at the point of vesting. In assessing whether there is any windfall gain, the Committee will take into account a number of factors, including share price performance over the vesting period, financial performance of the business and any other significant events which have impacted the Company's share price or the market as a whole. In line with the new remuneration policy approved in 2023, it is proposed that the awards will be granted as 'Qualifying LTIP' awards, enabling part of the awards to be delivered in a manner which is tax efficient for the participant and the Group. The application of discretions to the tax-qualifying option part of a 'Qualifying LTIP' award will be as permitted by the applicable tax legislation.

Other information

Performance graph

The graph below shows the value, to 31 December 2023, of £100 invested in Costain Group PLC on 1 January 2014 compared with the value of £100 invested in the FTSE SmallCap Index. The Committee believes that the FTSE SmallCap Index is the most appropriate index to use as it is the index in which the Company is a constituent and comprises companies of a similar size to Costain.



Change in chief executive officer's remuneration

	Year ending 31 December										
	2014	2015	2016	2017	2018	2019 ¹	2020	2021	2022	2023	
Chief executive officer	AW	AW	AW	AW	AW	AW	AV	AV	AV	AV	AV
Total remuneration	£1,329,007	£1,414,381	£1,089,943	£1,707,094	£1,560,601	£211,927	£312,242	£447,710	£980,793	£1,146,715	£1,358,611
AIP (%)	71.6%	79.8%	75.4%	81%	62.6%	Nil	Nil	Nil	73%	72%	77.8%
LTIP vesting (%)	50%	50%	Nil	79.1%	100%	Nil	Nil	Nil	25%	81.1%	74.5%

¹ Andrew Wyllie (AW) stepped down from the Board on 7 May 2019 and Alex Vaughan (AV) was appointed to the Board on 7 May 2019.

CEO pay ratio

The table below shows, for 2019 to 2023, the ratio of the pay of the CEO to that of the best full-time equivalent lower quartile, median and upper quartile employee within the Group.

Year	Methodology used	25th Percentile Pay Ratio	50th Percentile Pay Ratio	75th Percentile Pay Ratio
2023	Option B	35:1	19:1	15:1
2022	Option B	23:1	19:1	14:1
2021	Option B	22:1	17:1	13:1
2020	Option B	13:1	8:1	6:1
2019*	Option B	17:1	10:1	7:1

* The Single Total Figure of Remuneration for the CEO has been calculated as the total remuneration paid to Andrew Wyllie for the period 1 January 2019 to 7 May 2019 plus the total remuneration paid to Alex Vaughan for the period 8 May 2019 to 31 December 2019.

Directors' Remuneration Report continued

We have chosen to use Option B of the available methodologies to calculate the ratio. This methodology is based on the data collected as part of the latest gender pay reporting and the calculations were performed as at the final day of the relevant financial year. Option B was selected on the basis that it is an efficient and robust approach, recognising that the data required to calculate the ratio comes from multiple sources. Analysis has been performed to ensure that the lower quartile, median and upper quartile employees are reasonably representative.

The table below shows the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure.

	CEO	25th percentile	Median	75th percentile
2023				
Total pay and benefits	£1,358,611	£39,058	£72,612	£88,740
Salary component	£463,225	£37,046	£65,073	£78,746
2022				
Total pay and benefits	£1,146,715	£50,792	£61,412	£82,181
Salary component	£443,250	£39,282	£56,237	£68,483
2021				
Total pay and benefits	£980,793	£45,166	£56,596	£77,235
Salary component	£431,375	£39,470	£46,476	£57,330
2020				
Total pay and benefits	£447,710	£34,016	£57,580	£73,844
Salary component	£393,125	£32,948	£45,934	£61,669
2019				
Total pay and benefits	£524,169	£30,923	£50,903	£75,304
Salary component	£445,319	£29,837	£45,170	£60,137

The UK employee percentile pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year. The calculations are on the same basis as required for the CEO's remuneration for single total figure purposes.

A high proportion of the CEO's total reward is performance-related and delivered in shares. The ratios will therefore depend significantly on the CEO's variable pay outcomes and may fluctuate year-to-year. The difference in ratios from 2022 to 2023 reflects the CEO's pay increase for 2023, which was below the workforce average, and the AIP and LTIP outcomes based on strong Company performance. In both 2019 and 2020 no bonus was paid to the CEO. In addition, in 2020 the CEO pay was lower due to the reduction in salaries from April to June 2020 as part of the actions taken by the Group to mitigate the financial impacts of COVID-19 and protect the Group's cash position.

The Board believes that the median pay ratio is consistent with the Group's wider policies on pay, reward and progression.

Annual percentage change in remuneration of directors compared to all employees

The table below shows the annual percentage change in each director's remuneration compared to the average employee remuneration.

		Non-executive directors										
		Average employee ¹	Executive directors			Non-executive chair	Non-executive directors					
			Alex Vaughan ²	Helen Willis ³	Kate Rock ⁴	Bishoy Azmy ⁵	Neil Crockett ⁶	Jacqueline de Rojas ⁷	Amanda Fisher ⁸	Fiona MacAulay ⁹	Tony Quinlan ¹⁰	Steve Mogford ¹¹
Salary/fees	2022 – 2023	6.6¹²	4.5	4.5	n/a	8.5¹³	n/a	n/a	n/a	n/a	5.2¹⁴	n/a
	2021 – 2022	3.6 ¹²	3	2	n/a	0.5	n/a	8	n/a	n/a	n/a	n/a
	2020 – 2021 ¹⁵	5 ¹²	10	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a
	2019 – 2020 ¹⁵	(0.8) ^{12,16}	n/a	n/a	n/a	n/a	n/a	(1)	n/a	n/a	n/a	n/a
Taxable benefits	2022 – 2023	0.0¹⁷	4.7	3.1	n/a	–	n/a	n/a	n/a	n/a	–	n/a
	2021 – 2022	0.2 ¹⁷	(80) ¹⁸	1	n/a	–	n/a	–	n/a	n/a	n/a	n/a
	2020 – 2021	(6) ¹⁷	(16)	n/a	n/a	n/a	n/a	–	n/a	n/a	n/a	n/a
	2019 – 2020	6.2 ¹⁷	n/a	n/a	n/a	n/a	n/a	–	n/a	n/a	n/a	n/a
Annual bonus	2022 – 2023	55.8¹⁹	13.5	13.4	n/a	–	n/a	n/a	n/a	n/a	–	n/a
	2021 – 2022	(7) ¹⁹	2	2	n/a	–	n/a	–	n/a	n/a	n/a	n/a
	2020 – 2021	236 ¹⁹	n/a ²⁰	n/a	n/a	n/a	n/a	–	n/a	n/a	n/a	n/a
	2019 – 2020	(18) ¹⁹	n/a	n/a	n/a	n/a	n/a	–	n/a	n/a	n/a	n/a

1 The percentage change in each element of employee remuneration is based on all monthly paid UK employees across the Group. This population has been selected as no employees are directly employed by the listed parent entity.

2 Alex Vaughan was appointed to the Board on 7 May 2019 and therefore annual change in remuneration between 2019 and 2020 is not applicable.

3 Helen Willis was appointed to the Board on 30 November 2020 and therefore annual change in remuneration between 2019 and 2020 and between 2020 and 2021 is not applicable.

4 Kate Rock was appointed to the Board on 1 November 2022 and therefore annual change in remuneration is not applicable for the financial years shown.

5 Bishoy Azmy was appointed to the Board on 19 June 2020 and therefore annual change in remuneration between 2019 and 2020 and between 2020 and 2021 is not applicable.

6 Neil Crockett was appointed to the Board on 6 October 2021 and stepped down from the Board on 31 October 2023 and therefore annual change in remuneration is not applicable for the financial years shown.

7 Jacqueline de Rojas stepped down from the Board on 31 October 2023 and therefore annual change in remuneration is not applicable between 2022 and 2023.

8 Amanda Fisher was appointed to the Board on 1 December 2023 and therefore annual change in remuneration is not applicable for the financial years shown.

9 Fiona MacAulay was appointed to the Board on 6 April 2022 and therefore annual change in remuneration is not applicable for the financial years shown.

10 Tony Quinlan was appointed to the Board on 1 February 2021 and therefore annual change in remuneration between 2020 and 2021 and between 2021 and 2022 is not applicable.

11 Steve Mogford was appointed to the Board on 1 November 2023 and therefore annual change in remuneration is not applicable for the financial years shown.

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

13 The non-executive director basic annual fee was increased to £49,400 from 1 April 2022. Due to an administrative error, the increase was not paid to Bishoy Azmy and the previous fee of £48,000 continued to be paid. The correct fee was paid in March 2023 backdated to April 2022 and is therefore reflected in the 2023 remuneration.

14 Tony Quinlan received the following fee increases with effect from 1 April 2023: non-executive director's basic (4.5%), senior independent director (23.2%) and Audit and Risk Committee chair (1%).

15 The Board agreed to a 30% reduction in their salaries and fees for the three-month period April to June 2020 in response to COVID-19. There was therefore a reduction in salaries and fees received by directors during 2020 compared to 2019 and a corresponding increase between 2020 and 2021.

16 The wider workforce (those earning over £45,000) agreed to 10% to 30% reduction in salaries for the period April to June 2020 in response to COVID-19. There was therefore a reduction in salaries received by some employees during 2020 compared to 2019 which impacted the average employee figure.

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

18 Alex Vaughan changed to a fully electric car in 2022.

19 Bonus figures are calculated on the total bonus payments made to monthly employees divided by the average number of monthly paid employees.

20 No bonus was paid to Alex Vaughan for 2020 therefore a percentage change cannot be calculated. Alex Vaughan's bonus for 2021 was £474,683.

Directors' Remuneration Report continued

Relative importance of spend on pay

The table below illustrates the change in expenditure by the Company on remuneration paid to all the employees of the Group and distributions to shareholders from the financial year ended 31 December 2022 to the financial year ended 31 December 2023.

	2023 £m	2022 £m	% change
Overall expenditure on pay	235.9	230.4	2.4%
Dividends and share buybacks	1.1	nil	n/a

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

Directors' appointments

The executive directors have service contracts that can be terminated by either party on the giving of 12 months' notice.

The non-executive directors have letters of appointment. The independent non-executive directors are appointed for initial three-year terms which thereafter may be extended. The appointment of a non-executive director can be terminated by not less than one month's notice on either side, with three months for the chair. Each non-executive director is subject to re-election at the AGM each year.

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

Director	Date of original appointment	Effective date of latest appointment letter	Expiry of current term ^{1,2}
Alex Vaughan	7 May 2019	7 May 2019	Terminable on 12 months' notice
Helen Willis	30 November 2020	30 November 2020	Terminable on 12 months' notice
Kate Rock	1 November 2022	1 November 2022	1 November 2025
Bishoy Azmy	19 June 2020	19 June 2020	n/a ³
Amanda Fisher	1 December 2023	1 December 2023	1 December 2026
Fiona MacAulay	6 April 2022	6 April 2022	6 April 2025
Steve Mogford	1 November 2023	1 November 2023	1 November 2026
Tony Quinlan	1 February 2021	1 February 2024	1 February 2027

¹ The appointment of a non-executive director can be terminated by reasonable notice on either side (of not less than one month, with three months for the chair).

² In accordance with the 2018 UK Corporate Governance Code, at each AGM all the directors are required to seek election or re-election.

³ Bishoy Azmy joined the Board as non-independent non-executive director and representative of ASGC Construction L.L.C. which has a 15.06% shareholding in the Company.

External directorships

Neither of the executive directors held external directorships in the year.

The following tables and the associated footnotes have been audited by PwC LLP.

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

Details of the executive directors' participation in the LTIP are as follows:

Director	Date granted	Balance at 1 January 2023 ^a	Granted during year	Share price at date of grant	Vested during year	Lapsed during year	Market price at date of exercise	Average market price ^b	Value of shares at date of sale/retention of balance ^c	Balance at 31 December 2023	Actual/expected vesting/release date
Alex	07.05.19 ¹	34,735	–	325p	–	–	–	–	–	34,735	May 2024
Vaughan	07.10.20 ²	553,909	–	42.2p	449,220	104,689	–	–	–	449,220	April 2025
	08.04.21 ³	710,655	–	61.0p	–	–	–	–	–	710,655	April 2026
	06.04.22 ⁴	1,124,685	–	39.7p	–	–	–	–	–	1,124,685	April 2027
	06.04.23 ⁵	–	849,275	55.2p	–	–	–	–	–	849,275	April 2028
Helen	30.11.20 ²	258,705	–	53.7p	209,809	48,896	–	–	–	209,809	April 2025
Willis	08.04.21 ³	590,163	–	61.0p	–	–	–	–	–	590,163	April 2026
	06.04.22 ⁴	934,005	–	39.7p	–	–	–	–	–	934,005	April 2027
	06.04.23 ⁵	–	705,253	55.2p	–	–	–	–	–	705,253	April 2028

^a Awards under the LTIP are structured as options with a nil exercise price. 2019 awards adjusted for the capital raising using the adjustment factor of 1.0625.

^b At date of sale/retention of balance.

^c Excluding shares deducted to settle tax sold at market price on date of exercise.

¹ Performance targets are as follows:

(a) an aggregate adjusted EPS target (relating to 75% of the award) of 108.77p (for 15% vesting) and 119.63p (for 100% vesting), as adjusted following the capital raising in May 2020, with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to 25% of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2021, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company. This award vested at 25% based on performance during the year.

² Performance targets are as follows:

(a) an aggregate adjusted EPS target (relating to two thirds of the award) of 22.6p (for 15% vesting) and 26.7p (for 100% vesting), with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to one third of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2022, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company. This award vested at 81.1% based on performance during the year.

³ Performance targets are as follows:

(a) an aggregate adjusted EPS target (relating to two thirds of the award) of 27.9p (for 15% vesting) and 32.4p (for 100% vesting), with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to one third of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2023, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company. This award is due to vest at 74.5% based on performance during the year.

⁴ Performance targets are as follows:

(a) an aggregate adjusted EPS target (relating to two thirds of the award) of 27.5p (for 15% vesting) and 33.7p (for 100% vesting), with vesting on a straight-line basis between the two and

(b) a cash conversion target (relating to one third of the award) of 80% (for 15% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2024, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company.

⁵ Performance targets are as follows:

(a) an aggregate adjusted EPS target (relating to 50% of the award) of 30.6p (for 25% vesting) and 35.6p (for 100% vesting), with vesting on a straight-line basis between the two

(b) a TSR growth target (relating to 25% of the award) of 50% (for 25% vesting) and 100% (for 100% vesting), with vesting on a straight-line basis between the two and

(c) an ESG target (relating to 25% of the award) of (i) environmental (15% weighting); reduction in Scope 1 and 2 carbon emissions of 16.2% (for 25% vesting) and 19.8% (for 100% vesting), with vesting on a straight-line basis between the two, (ii) gender diversity of AIP population (5% weighting); improvement of 36% (for 25% vesting) and 39% (for 100% vesting), with vesting on a straight-line basis between the two and (iii) ethnic diversity of AIP population (5% weighting); improvement of 6% (for 25% vesting) and 9% (for 100% vesting), with vesting on a straight-line basis between the two.

The award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2025, but will not normally be released and become exercisable until the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company.

Note: for definition of the aggregate adjusted EPS target see page 96.

The LTIP awards, which are expressed as options, have a nil exercise price. At 29 December 2023, the last business day of 2023, the derived mid-market price of the ordinary shares in the Company, as advised by the Company's brokers, was 63.4 pence. The range of the closing share price of the ordinary shares during 2023 was 39.3 pence to 65.0 pence.

Directors' Remuneration Report continued

Share awards under the Share Deferral Plan (SDP)

Details of the executive directors' participation in the SDP are as follows:

Director	Date granted	Balance at 1 January 2023	Granted during year ¹	Share price at date of grant	Vested during year	Lapsed during year	Market price at date of exercise	Average market price ²	Value of shares at date of sale/retention of balance ³	Balance at 31 December 2023 ¹	Actual/expected vesting date
Alex Vaughan	06.04.22	597,836	–	39.7p	–	–	–	–	–	597,836	April 2024
	06.04.23	–	291,195	55.2p	–	–	–	–	–	291,195	April 2025
Helen Willis	06.04.22	496,473	–	39.7p	–	–	–	–	–	496,473	April 2024
	06.04.23	–	241,826	55.2p	–	–	–	–	–	241,826	April 2025

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

2 At date of sale/retention of balance.

3 Excluding shares deducted to settle tax sold at market price on date of exercise.

Share options under the SAYE Scheme (Sharesave)

Details of the executive directors' SAYE Scheme options are as follows:

Director	Date granted	Balance at 1 January 2023	Granted during year	Exercise price	Exercised during year	Lapsed during year	Market price at date of exercise	Market price at date of retention	Value of shares at date of retention	Balance at 31 December 2023	Exercised/exercisable from/to
Alex Vaughan	23.09.19	1,485 ¹	–	111.40p ²	–	1,485	–	–	–	–	Nov 2022 May 2023
	19.10.23	–	6,974	50p	–	–	–	–	–	6,974	Dec 2026 Jun 2027
Helen Willis	19.10.23	–	6,974	50p	–	–	–	–	–	6,974	Dec 2026 Jun 2027

1 Adjusted number of shares under option following the capital raising in May 2020 (adjustment factor of 1.0625). Option still outstanding as at 31 December 2022, the market price of a share being lower than the option price and therefore not exercised.

2 Exercise price adjusted for the capital raising in May 2020 (adjustment factor of 0.9412).

No executive director exercised a SAYE Scheme share option in 2022 and therefore there was no gain on exercise. The Company granted no options under the SAYE Scheme in 2020, 2021 or 2022.

Directors' shareholdings

Details of the directors' share interests in the Company as at 31 December 2023, and at the date of this report, are as set out below.

Director	Beneficially owned	Outstanding SDP awards	Outstanding LTIP awards	Outstanding SAYE Scheme awards	Shareholding guidelines (% of salary/fee) ¹	Actual shareholding as at 31.12.23 (% of salary/fee) ^{1,2}	Actual shareholding as at 11.03.24 (% of salary/fee) ^{1,2}
Alex Vaughan	252,239 ³	889,031	3,168,570	6,974	200%	163.17%	163.17%
Helen Willis	–	738,299	2,439,230	6,974	200%	59.71%	59.71%
Kate Rock	100,000 ⁴	–	–	–	n/a	n/a	n/a
Bishoy Azmy	–	–	–	–	n/a	n/a	n/a
Amanda Fisher	–	–	–	–	n/a	n/a	n/a
Fiona MacAulay	–	–	–	–	n/a	n/a	n/a
Steve Mogford	–	–	–	–	n/a	n/a	n/a
Tony Quinlan	25,000	–	–	–	n/a	n/a	n/a

1 The executive directors are expected to build and maintain a shareholding of not less than 200% of base annual salary through the retention of vested share awards or through open market purchases. With effect from approval of the new remuneration policy in 2023, non-executive directors are not expected to build and maintain a shareholding.

2 For executive directors, based on the calculation methodology set out in the Company's Share Ownership Guidelines.

3 Part held by persons closely associated.

4 Kate Rock purchased 50,000 shares on 6 September 2023 at a price of 59.2p per share taking her total to 100,000 shares.

By Order of the Board

Fiona MacAulay

Committee Chair

11 March 2024

Directors' Report

The directors of the Company present their report together with the audited consolidated accounts for the year ended 31 December 2023.

The Governance Report on pages 52 to 117 and the Strategic Report on pages 7 to 51 (and in particular pages 10 to 33, 38, 70 and 71, and 74 to 77 with regard to information about employee involvement, diversity, greenhouse gas emissions and measures in relation to increasing the Company's energy efficiency) are also incorporated into this report by reference.

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

Climate-related disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and TCFD Recommended Disclosures can be found on pages 34 to 38.

Incorporation and constitution

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

Annual General Meeting (AGM)

The Company's 2024 AGM will be held on Thursday 16 May 2024 at Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB. A circular incorporating the Notice of AGM accompanies this annual report.

Profit, dividend payments and dividend policy

The profit after tax for the financial year ended 31 December 2023 was £22.1m (2022: £25.9m). An interim dividend of 0.4 pence per ordinary share was paid on 27 October 2023 (2022: no interim dividend). Subject to approval at the 2024 AGM, a final dividend of 0.8 pence for the year ended 31 December 2023 will be paid on 28 May 2024 (2022: no final dividend) to shareholders on the register of members at close of business on 19 April 2024. The total dividend paid for the year will therefore be 1.2 pence per ordinary share (2022: nil).

Dividends and other distributions

The Company may, by ordinary resolution, from time to time, declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment.

If the directors act in good faith, they are not liable for any loss that shareholders may suffer because a lawful dividend has been paid on other shares which rank equally with or behind their shares.

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

Share capital

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

The issued share capital of the Company as at 31 December 2023 was £138,359,442.50, consisting of 276,718,885 ordinary shares of 50 pence each. Further details of the share capital of the Company can be found in note 22 on page 179.

The awards granted in October and November 2020 under the 2014 Long-Term Incentive Plan (LTIP) matured as at 31 December 2022, resulting in 81.1% vesting. Details regarding the vesting of the 2020 LTIP awards can be found in the Directors' Remuneration Report on pages 103 and 115. Details regarding the 2021 LTIP awards that are due to vest in April 2024 can also be found in the Directors' Remuneration Report on pages 95 and 106.

There were no share options granted under the Company's Save As You Earn (SAYE) Scheme in 2020, therefore, no SAYE Scheme maturity took place in 2023. In October 2023, a grant of 4,952,787 shares was made under the SAYE Scheme. Further details of the SAYE Scheme can be found on pages 98 and 116 in the Directors' Remuneration Report.

In advance of the 2014 Long-Term Incentive Plan and 2014 Share Deferral Plan reaching the end of their 10-year lives in May 2024, and to coincide with the adoption of the new directors' remuneration policy, at the 2023 AGM shareholders approved the Costain 2023 Long-Term Incentive Plan and the Costain 2023 Share Deferral Plan. The first grants under the new plan rules will be made in 2024.

The scrip dividend scheme which authorises the directors to offer and allot ordinary shares in lieu of cash dividends to those shareholders who elect to participate was last renewed for a three-year period at the 2022 AGM (until the conclusion of the 2025 AGM), which is in line with the guidelines of the Investment Association (IA) which requires shareholder approval to be sought to renew the directors' authority to offer a scrip dividend scheme at least once every three years. Further information on the scrip dividend scheme is set out on page 187. Details about joining the scrip dividend scheme, including the scrip dividend mandate form, can be found on the Company's website at www.costain.com.

The following ordinary shares were issued in 2023:

Purpose	Recipient	Number of shares	Nominal value
LTIP awards	Employee share trust	1,600,000	£800,000
Scrip dividend scheme	Scrip participants	34,144	£17,072

Restrictions on transfer of securities

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

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and
- pursuant to the Company's Share Dealing Code, whereby the directors and certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

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

Major shareholders

As at 31 December 2023, the Company had been notified, under the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority (DTR5), of the following notifiable interests in its ordinary share capital (details as at the date of notification):

Shareholder	Date of notification	Number of shares/ voting rights	% of voting rights	Number of shares/ voting rights attaching to financial instruments	% of voting rights	Aggregate % voting rights
ASGC Construction L.L.C.	29.05.2020	41,666,666	15.15	n/a	n/a	15.15
J O Hambro Capital Management Limited	21.01.2021	27,250,190	9.91	n/a	n/a	9.91
Ennismore Fund Management Limited	05.04.2023	22,022,829	7.96	n/a	n/a	7.96
KBI Global Investors Ltd*	13.05.2020	7,258,503	6.70	n/a	n/a	6.70
Gresham House Asset Management Limited	23.09.2020	15,018,286	5.46	n/a	n/a	5.46
Artemis Investment Management LLP	02.06.2020	8,469,850	3.08	n/a	n/a	3.08

* Notification prior to the capital raising completed 29 May 2020 (ie when the issued share capital was 108,283,074 ordinary shares).

The Company did not receive any notifications pursuant to DTR5 in the period from 31 December 2023 to the date of this report (being a date not more than one month prior to the date of the Company's Notice of AGM).

Directors' Report continued

Rights and obligations attaching to shares

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

Authority to issue shares

The directors may only issue shares if authorised to do so by the articles of association or the shareholders in general meeting. At the Company's AGM held on 11 May 2023, shareholders granted an authority to the directors to allot ordinary shares up to an aggregate nominal amount of £45.8m.

As this authority is due to expire on 16 May 2024, shareholders will be asked to renew and extend the authority given to the directors at the last AGM, to allot shares in the Company, or grant rights to subscribe for, or to convert any security into, shares in the Company for the purposes of Section 551 of the Companies Act 2006. Further details on the resolution are provided in the Notice of this year's AGM.

Disapplication of pre-emption rights

If the directors wish to allot new shares and other equity securities, or sell treasury shares, for cash (other than in connection with an employee share scheme) company law requires that these shares are offered first to shareholders in proportion to their existing holdings. There may be occasions, however, when the directors need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing shareholders. This cannot be done under the Companies Act 2006 unless the shareholders have first waived their pre-emption rights.

At the forthcoming AGM, shareholders will be asked to pass two special resolutions to grant the directors powers to disapply shareholders' pre-emption rights under certain circumstances. Further details on the resolutions are provided in the Notice of this year's AGM.

Power in relation to the Company buying back its own shares

The directors may only buy back shares if authorised to do so by the articles of association or by a special resolution of the shareholders at a general meeting. Any shares which have been bought back may be held as treasury shares, and either be resold for cash, cancelled (either immediately or in the future), or used for the purposes of the Company's employee share schemes. Any cancelled treasury shares will thereby reduce the amount of the Company's issued share capital.

The Company did not buy back any of its shares during the year ended 31 December 2023 or during the period from 1 January 2024 to the date of this report.

At the forthcoming AGM, authority will again be sought from the shareholders to grant authority for the Company to repurchase up to 10% of the issued share capital of the Company. Further details on the resolution are provided in the Notice of this year's AGM.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Restrictions on voting

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

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

Employee Share Trust

As at 31 December 2023, Buck Trustees (Guernsey) Limited (Buck), as trustee of the Costain Group Employee Trust, held 1.40% (2022: 0.16%) of the issued share capital of the Company on trust for the benefit of those employees who exercise their share awards/options under the Company's LTIP, Share Deferral Plan and SAYE Scheme (the latter in respect of 'good leavers' who leave the employment of the Company before their contract matures). To satisfy future vestings of share awards, Buck undertook a market share purchase programme during May and June 2023 purchasing a total of 2,200,000 ordinary shares. For details of share-based payments see note 21 on pages 177 and 178. The trustee does not exercise any right to vote or to receive a dividend in respect of its shareholding.

Amendment of articles of association

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

Political donations

No political donations were made during the year ended 31 December 2023 (2022: nil). The Company has a policy of not making donations to political organisations. As a precautionary measure, shareholder approval is being sought at the forthcoming AGM for the Company and its subsidiaries to make donations and/or incur expenditure which may be construed as 'political' by the wide definition of that term included in the relevant legislation. Further details on the resolution are provided in the Notice of this year's AGM.

Independent auditor

PricewaterhouseCoopers LLP (PwC) were reappointed as auditor of the Company at the 2023 AGM. The Board is proposing the reappointment of PwC as auditor from the conclusion of the AGM in May 2024 until the conclusion of the next general meeting at which the accounts are laid before the Company. See page 86 of the Audit and Risk Committee Report and the Notice of this year's AGM, available on the Company's website at www.costain.com, for further details.

Financial instruments

Details of the Group's use of financial instruments, together with information on policies and exposure to price, liquidity, cash flow, credit, interest rate and currency risks, can be found in note 18 on pages 168 to 172. All information detailed in this note is incorporated into the Directors' Report by reference and is deemed to form part of the Directors' Report.

Significant agreements – change of control

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

Events after the reporting date

There are no reportable events after the reporting date.

Research and development

The Group is involved in research and development in its Highways, Integrated Transport, Aviation, Energy, Defence, Water and Rail sectors. The Group's engineers and technical staff in these sectors seek to develop and deliver technical advances, for example in hydrogen, decarbonisation, carbon capture and use of 3D printed solutions (see pages 5, 14, 18, 27 and 34). In undertaking certain elements of this research and development work, the Group is supported by arrangements with certain British universities and various technology specialists.

Greenhouse gas emissions

Page 33 of the Strategic Report details the greenhouse gas emissions disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. This information is incorporated by reference into (and shall be deemed to form part of) this report.

Information required by LR 9.8.4R

There is no further information required to be disclosed under LR 9.8.4R.

Overseas interests

Details of the Company's overseas subsidiary undertakings can be found in note 24 on pages 180 to 183. The Company has two overseas branches, one in Abu Dhabi and one in Saudi Arabia.

Directors

Biographies of the Board are given on pages 52 and 53 and include details of the skills, competencies and a brief career history of directors in post as at the date of this report and the Committees on which they serve. Steve Mogford and Amanda Fisher joined the Board on 1 November 2023 and 1 December 2023 respectively as independent non-executive directors. Steve and Amanda are members of the Audit and Risk, Nomination and Remuneration Committees. Neil Crockett and Jacqueline de Rojas, non-executive directors, stepped down from the Board on 31 October 2023.

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

Appointment and replacement of directors

The appointment and replacement of directors is governed by the Company's articles, the 2018 UK Corporate Governance Code, the Companies Act 2006 and related legislation. The articles may be amended by a special resolution of the Company's shareholders. Directors may be appointed by the Company by ordinary resolution or by the Board. At every AGM of the Company, all directors are required to retire from office and may offer themselves for reappointment by the members.

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

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

The executive directors have contracts of employment with the Company, terminable on 12 months' notice, while the chair and non-executive directors all have letters of appointment with the Company terminable on three months' and one month's notice respectively. An independent non-executive director's appointment is for an initial period of three years, at the expiry of which, the appointment is reviewed to determine whether the appointment should continue. Bishoy Azmy's appointment does not have the same three-year review period, his appointment being subject to the relationship agreement between the Company and ASGC described in the Company's prospectus dated 7 May 2020. Bishoy has decided to step down from the Board with effect from 31 March 2024.

All contracts and letters of appointment are available for inspection at the Company's registered office, by appointment, during normal business hours.

Directors' Report continued

Directors' conflicts of interest

The Company has procedures in place for managing conflicts of interest. Directors are required to declare all external appointments or relationships with other companies and the Board has adopted appropriate processes to manage and, if appropriate, approve any such appointment or relationship which could result in a possible conflict of interest. The Board has satisfied itself that there is no compromise to the independence of the directors who have appointments on the boards of, or relationships with, other companies. The Board has approved the actual or potential situational conflict of interest of Kate Rock, a director of Keller Group plc, and of Tony Quinlan, a director of Hill & Smith Holdings PLC, both non-material suppliers to the Company in terms of value of goods and services. On Steve Mogford's appointment, the Board reviewed the potential business and contractual relationships between United Utilities Group PLC (UU) and Costain in respect of him being a recent former CEO and continuing shareholder of UU. The Board noted that Steve had signed a letter from UU confirming he will not breach any confidentiality in relation to UU and will absent himself from certain discussions. Steve has also signed a letter from Costain to ensure there would be no adverse impacts in connection with the Utilities Contract Regulations 2016, Costain's articles of association and other relevant legislation in relation to any potential situational conflicts.

Powers of the directors

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

Directors' interests

No director had any material interest in any contract of significance with the Group during the period under review. Details of directors' emoluments and interests in shares (including their connected persons' beneficial interests) in the Company, including any changes in interests during 2023, are contained in the Directors' Remuneration Report, which appears on pages 92 to 117.

Directors' indemnity

Costain Group PLC maintains liability insurance for its directors and officers. There are no subsisting indemnities in favour of its directors during 2023.

Diversity

Details of the Company's policy on diversity and inclusion within the business (including at Board level), are provided in the Governance Report on pages 70 and 71 and the Nomination Committee Report on page 89. Apart from ensuring that an individual has the ability to carry out a particular role, the Company does not discriminate in any way. The Company endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the Group. The Company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

Employee information

The average number of employees within the Company and Group is shown in note 6 to the financial statements on page 157.

The Company maintains a strong communication network and employees are encouraged to discuss with directors and management matters of interest and issues affecting the day-to-day operations of the Group. Regular employee engagement surveys are run by the Company, the results of which are communicated to employees (see page 75).

Employees are also kept informed of the financial and economic factors affecting the Company's performance, the strategy and other matters of concern to them as employees, through various means including regular leadership briefings and blogs from the chief executive officer and other senior managers and via the Company's intranet site. Employees also have the opportunity to provide feedback and ask questions when directors and senior managers visit sites, at employee webinars, as well as via the employee forum 'Your Voice' (see pages 74 to 77 for engagement with workforce).

The Company operates, when considered appropriate, an all-employee share plan (the SAYE Scheme) enabling employees to become shareholders and build a stake in the future success of the Company. As mentioned on page 118, a grant was made under the SAYE Scheme in 2023.

Further information on the Company's approach to investing in and rewarding its workforce can be found on pages 74 to 77 and 92 to 117.

Stakeholder engagement

For more information on how the directors have engaged with the workforce, customers, suppliers and others, and how the directors have had regard to their interests, and the effect of that regard including on principal decisions, see the Stakeholder engagement section (Section 172) on pages 66 to 69 and the Workforce engagement section on pages 74 to 77 of the Governance Report.

Additionally, the Company engages with subcontractors via the twice-yearly safety, health and environment (SHE) impact days, an annual supply chain conference and monthly leadership engagement visits to projects and sites.

Additional information regarding the Company's charitable giving can be found on page 33.

Essential contracts or other arrangements

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

Transactions with related parties

Transactions between the Company, its subsidiaries (where not exempted by FRS 101), joint ventures and associates, joint operations, the Costain Pension Scheme and with its directors and executive officers, which are related parties are set out in note 25 to the financial statements on page 184. There have been no other related party transactions during the year.

Disclosure of information to auditor

Each of the directors confirms that, so far as they are aware, there is no relevant audit information (as defined in Section 418 of the Companies Act 2006) of which the Group's and Company's external auditor is unaware and that each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's and Company's external auditor is aware of that information.

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

By Order of the Board

Nicole Geoghegan

Company Secretary

11 March 2024

Directors' Responsibility Statement

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and FRS 101 has been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Governance section confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profits or losses of the Group and
- the Company financial statements, which have been prepared in accordance with FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Nicole Geoghegan
Company Secretary

11 March 2024

Independent Auditors' Report to the Members of Costain Group PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Costain Group PLC's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 31 December 2023; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Costain Group PLC Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 5, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The Group is primarily UK based and has two main segments; Transportation and Natural Resources. We identified four legal entities requiring a full scope audit, either due to their size or their risk characteristics.

Key audit matters

- Contract accounting (Group).
- Water contract rectification provision and insurance recovery (Group).
- Impairment of Goodwill (Group).
- Presentation of the Group's financial performance (Group).
- Carrying value of investments in Group companies (Parent).

Materiality

- Overall Group materiality: £5,300,000 (2022: £5,600,000) based on 0.4% of the Group's revenue.
- Overall Company materiality: £2,380,000 (2022: £2,200,000) based on 1% of total assets.
- Performance materiality: £3,975,000 (2022: £4,200,000) (Group) and £1,785,000 (2022: £1,650,000) (Parent).

Independent Auditors' Report to the Members of Costain Group PLC continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The presentation of the Group's financial performance and Impairment of goodwill in respect of the Transportation division are new key audit matters this year. Valuation of defined benefit pension scheme obligations (Group) and recoverability of intercompany receivables (Parent only), which were key audit matters last year, are no longer included because of the reduction of audit risk relative to other areas of estimation and judgement in the financial statements. Otherwise, the key audit matters remain consistent with the prior year.

Key audit matter	How our audit addressed the key audit matter
<p>Contract accounting (Group)</p> <p>Refer to page 82 (Audit and Risk Committee Report), pages 142 to 151, note 2 (Summary of significant accounting policies, significant areas of judgement and estimation).</p> <p>The Group has significant long-term contracts in its Transportation and Natural Resources divisions. The recognition of revenue in relation to long-term construction contracts is in accordance with IFRS 15 and is based on either the measure of progress calculated using the stage of completion (determined by the cost incurred to date as a proportion of total estimated cost) or as costs/time are incurred for activity based contracts. Greater audit effort is directed towards those long-term contracts that recognise revenue by reference to the stage of completion given the increased estimation required.</p> <p>Profit or losses on stage of completion contracts is a significant risk for our audit because of the inherent uncertainty in preparing estimates of the forecast costs and revenues on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and, therefore, the current financial year.</p>	<p>We focussed our work on those contracts with the greatest estimation uncertainty over the final contract values and, therefore, profit outcome. We selected a sample of targeted risk-based contracts for our testing, based on both quantitative and qualitative criteria, including:</p> <ul style="list-style-type: none"> contracts with high levels of revenue recognised in the year; low margin or loss making contracts; contracts with significant balance sheet exposure, in particular high levels of unbilled contract work in progress; and contracts identified through our discussions with management, review of board minutes, review of legal reports and review of publicly available information. <p>Our audit procedures were tailored according to the specific risk profile of each contract and included, but were not limited to, the following procedures:</p> <ul style="list-style-type: none"> Obtaining an understanding of the relevant contractual clauses and terms and conditions and agreeing forecast revenue to signed contracts, signed variations, agreed compensation events or other corroborative and supporting documentation; Challenging management's forecasts, in particular the appropriateness of key assumptions, including the expected recovery of variations, claims and compensation events from clients, as well as, for example, pain/gain mechanisms and other related contract incentives, to determine the basis on which the associated revenue was considered to be 'highly probable' of not reversing; Challenging those assumptions in respect of estimated recoveries from subcontractors, designers, and insurers included in the forecast, to determine whether these could be considered 'virtually certain' of recoverability;

Key audit matter	How our audit addressed the key audit matter
<p>The Group's portfolio of contracts typically use standard forms of construction contracts, however, given the complex nature and programmes of work undertaken, certain contracts are further tailored to include, for example, incentive or other mechanisms that require estimates to be made. These estimates include but are not limited to project or alliance pain/gain mechanisms and programme and cost incentives.</p> <p>These estimates also include the determination of the expected recovery of costs arising from, for example, variations to the contract requested by the customer, compensation events, and claims made both by and against the Group for delays or other additional costs arising or projected to arise.</p> <p>The Group's accounting policy is to recognise additional contractual amounts receivable from customers only when these amounts are considered 'highly probable of no significant reversal'. Claims on third parties (other than the Group's customers), suppliers or insurance recoveries are recognised only when they are determined to be 'virtually certain'.</p> <p>On the basis of the significant estimates, judgements and inherent uncertainty involved in determining the appropriate revenue recognition and associated profit, we identified Contract Accounting as a Key Audit Matter and were particularly focussed on the existence/occurrence and accuracy of revenue recognition.</p>	<ul style="list-style-type: none"> Substantively testing a sample of actual costs incurred to date to check that these had been recorded accurately; Performing a margin analysis on the end-of-life forecasts to assess the performance of the contract portfolios year-on-year; Inspecting correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtaining third-party assessments of these from legal or technical experts contracted by the Group, if applicable, to assess whether this information was consistent with the estimates made; Reconciling revenue recognised with amounts applied for and amounts certified by clients, agreeing the amounts received to cash to ensure any reconciling items were appropriate; Agreeing forecast costs to complete to supporting evidence (such as orders signed with subcontractors, performing look back testing and assessing the appropriateness of forecast run rates) and applying historical cost run-rate and industry experience to challenge the completeness and accuracy of the forecast costs to complete, including any cost contingencies held; Assessing management's estimates and any associated risks in relation to forecasts of disallowed costs or actual withheld costs and the associated impact on the project's forecast outturn; Assessing the recoverability of balance sheet items (in particular work in progress), for example by obtaining evidence of the value of work performed and, where applicable comparing this to subsequent invoicing and cash receipts; For the residual contract population (the tail), performing targeted risk based procedures including, for example testing cost to come, any material unagreed change and reviewing the contract forecast report for unusual items and recalculating the percentage of completion; Assessing the potential impact of other identified risks including the impact of inflation and climate change related costs on the costs incurred and cost to complete; and Considering the adequacy of the disclosures in the financial statements in relation to specific contracts and also the disclosures in respect of significant judgements and estimates. <p>Based on all of the evidence obtained in the above procedures, we concluded that the recognition of contract revenues and profits/losses and the amounts held as contract assets and liabilities were appropriate. We also reviewed the disclosures of estimation uncertainty in relation to significant ongoing contracts included in the financial statements and satisfied ourselves that these were appropriate.</p>

Independent Auditors' Report to the Members of Costain Group PLC continued

Key audit matter	How our audit addressed the key audit matter
<p>Water contract rectification provision and insurance recovery (Group)</p> <p>Refer to page 82 (Audit and Risk Committee Report), pages 142 to 151, note 2 (Summary of significant accounting policies – significant areas of judgement and estimation), and page 173 note 20 – Provisions.</p> <p>At 31 December 2023 the Group held a provision of £11.6m (2022: £12.2m) in respect of the estimated future costs to fulfil the final design solution of rectifying a previously installed water treatment plant associated with a contract in the water sector. This provision represents management's best estimate of the remaining costs to be incurred in respect of the final design solution. In addition, an insurance receivable of £12.7m has been recognised at the balance sheet date (2022: £13.4m).</p> <p>Forecasting the cost of the rectification works required to remediate the water treatment plant has required estimation uncertainty in relation to the quantum of provision to be recognised. A £2.2m charge has been recognised in 2023 for additional costs estimated during the year.</p> <p>In addition, in accordance with accounting standards, an insurance recovery can be recognised to the extent it is considered 'virtually certain'. Cash payments of £3.0m have been received from insurers during the year ended 31 December 2023.</p> <p>On the basis of the significant estimation uncertainty involved in determining the appropriate provision to be recognised and the 'virtually certain' threshold required to include an insurance recovery on the balance sheet, we have identified this as a Key Audit Matter.</p>	<p>In addressing the risk that the provision has been recorded appropriately, our audit procedures included, but were not limited to, the following:</p> <p>Rectification provision</p> <ul style="list-style-type: none"> Enquiring with management to understand the rationale behind the provision recognised and whether it met the requirements of IAS 37 for the recognition of a constructive or contractual obligation; Challenging management to ensure an appropriate provision has been recognised for the required rectification works, including understanding the basis for the quantum recognised; Understanding the range of cost estimates in the final design solution and the rationale for the cost estimate used by management as the basis for quantifying the provision; Sample testing management's model including testing the key assumptions, obtaining supporting evidence including cost rates, quotes, market prices to assess the accuracy of the data and range of potential outcomes; Reviewing correspondence between the customer, designer, management and other relevant parties; and Reviewing the disclosures included in the financial statements, including those related to estimation uncertainty required by IAS 1 and those required by IAS 37. <p>Insurance recovery</p> <p>In addressing the risk that the recognition of an asset for the insurance recovery has been recorded appropriately, on the basis that it is considered by management to be 'virtually certain', our audit procedures included, but were not limited to, the following:</p> <ul style="list-style-type: none"> Obtaining correspondence from the insurers' loss adjuster (being the insurers' representative) confirming Costain's entitlement to reimbursement of rectification costs and the acceptance of the costs of the claim by insurers; Obtaining evidence that the levels of insurance cover available were sufficient to cover the expected costs of the final design solution rectification; Obtaining evidence of the insurers' loss adjuster's recommendation as to the level of insurance reserve to be held by insurers; Obtaining evidence of interim payments made by insurers in the year and agreeing the receipt of cash to Costain's bank account; Verifying the computation of the insurance excess deductible and understanding the insurance agreement's terms and conditions; Meeting with a representative of the insurers' loss adjuster to confirm they were not aware of any facts or foreseeable circumstances that might result in insurers not settling the value of the claim as anticipated; Performing procedures to identify whether there was any contrary evidence that might cast doubt on management's assumption that recovery from insurers was virtually certain. No contrary evidence was identified; and Reviewing management's disclosures in the financial statements setting out the basis for their conclusion that the insurance recovery was considered virtually certain and had been recognised appropriately as a receivable in the Group's balance sheet. This disclosure is included as a significant judgement. <p>Based on our work we concluded that the accounting treatment adopted in respect of the rectification provision and its associated insurance recovery was appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of Goodwill (Group)</p> <p>Refer to page 82 (Audit and Risk Committee Report), pages 142 to 151, note 2 (Summary of significant accounting policies – significant areas of judgement and estimation), and page 161 note 12 – Intangible Assets.</p> <p>At 31 December 2023, the Group had £45.1m of goodwill (2022: £45.1m). Goodwill has been allocated to the applicable Cash Generating Units (CGUs) of the Transportation division £15.5m (2022: £15.5m) and the Natural Resources division £29.6m (2022: £29.6m). The carrying value of goodwill is contingent on future cash flows and there is a risk that the assets will be impaired if these cash flows do not meet the Group's forecast projections. The impairment reviews performed by the Group contain a number of judgements and estimates including discount rates, growth rates and expected changes to revenue, direct costs and margins during the forecast periods. In particular the cash flows include estimation uncertainty primarily in respect of the amount of work that is currently unsecured (work to be obtained) and anticipated cost savings arising from the ongoing Board approved Transformation programme. Changes in these estimates and assumptions could lead to an impairment in the carrying value of the assets.</p> <p>We determined there to be risk that the carrying value of goodwill allocated to the Natural Resources and Transportation divisions may not be supportable when compared to their recoverable amounts, given the level of estimation of uncertainty in future cash flows, primarily in respect of the amount of unsecured revenue that is included in the cash flow forecasts.</p> <p>Accordingly, we determined this to be a Key Audit Matter.</p>	<p>We obtained management's future cash flow forecasts, which were consistent with the Board approved budget and business plan. We evaluated management's basis for determining the relevant CGUs as the Transportation and Natural Resources divisions. In evaluating management's impairment assessment for goodwill in respect of the CGUs our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> Comparing the short-term cash flow forecasts to the latest Board approved budgets and forecasts for the period from FY24-FY27, testing the integrity of the underlying calculations and assessing how both internal and external drivers of performance were incorporated into the projections; Comparing the 2023 actual financial performance to budget and understanding the drivers of forecast profitability and of working capital movements; Testing certain contracts in the Group's pipeline to validate the associated secured and to be obtained revenue forecast included in the cash flow model and challenging the short-term growth forecasts assumed by management; Assessing the operating margin assumptions both in the context of historic performance and taking into account the current inflationary environment and potential climate change related risks; Challenging management's forecasts and comparing future cash flow performance to historic levels as part of our assessment as to whether the forecast performance was considered achievable; Assessing the appropriateness of Transformation programme savings included within the forecasts assumed by management; Challenging and verifying the allocation of central costs and assets to the divisions, and ensuring that these were allocated on a reasonable and consistent basis; Performing sensitivity analysis in respect of the key drivers of the cash flow forecasts, in particular assessing the extent to which changes in revenue growth and margin assumptions could lead to an impairment; Assessing and, where appropriate, challenging the discount rate and long-term growth rates, with the support of our valuations experts; and Undertaking stress testing of management's forecasts and assessing whether any reasonably possible changes in assumptions would give rise to an impairment, and ensuring that, where appropriate, disclosures were made in accordance with IAS 36, 'Impairment of Assets'. <p>We concluded that management's assessment that no impairment was required and that the carrying value of goodwill in the Natural Resources or Transportation divisions was supportable.</p>

Independent Auditors' Report to the Members of Costain Group PLC continued

Key audit matter	How our audit addressed the key audit matter
<p>Presentation of the Group's financial performance (Group)</p> <p>Refer to page 82 (Audit and Risk Committee Report), and page 151, note 3 (Reconciliation of reported operating profit to adjusted operating profit).</p> <p>Consistent with the prior year, the directors present in note 3 to the accounts, the Group's principal Alternative Performance Measure (APM) as 'Adjusted Operating Profit' such that the Group's APM is consistent with how management reviews the performance of the business.</p> <p>The Group's adjusted operating profit from operations of £40.1m is stated after charging:</p> <ul style="list-style-type: none"> • £5.3m of impairment of intangible assets; • £6.2m of transformation costs; and • £1.8m of restructuring costs. <p>The determination of which items are treated as 'adjusted' is judgemental and needs to be consistent with how the directors review the performance of the business. Users of the financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistent with the way in which the Board reviews and monitors performance.</p> <p>In view of the increased quantum of adjusting items for FY23 we determined this to be a Key Audit Matter.</p>	<p>We considered whether the presentation of Adjusting Operating Profit is appropriate. Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Obtaining the latest internal Board reporting to evaluate whether the nature and quantum of the adjustments presented for the Group, was consistent with those highlighted and adjusted in the financial statements; • Ensuring that the Group's APMs were appropriately reconciled to the relevant statutory measures; • Critically assessing whether the items attributable to the Transformation programme and restructuring represented incremental expenditure to the Group; and • Reviewing the definition and classification of adjusting items in the Group's Annual Report and assessing whether the costs presented were classified as adjusting items in line with the Group's accounting policy. <p>Based on these procedures we were satisfied with the presentation of the Group's profit before adjusting items and that the reasons for the use of this APM has been appropriately disclosed. We also considered whether there was appropriate balance in the Group's Annual Report between references to adjusted profit measures and the Group's statutory profit and were satisfied that this was the case.</p>
<p>Carrying value of investments in Group companies (Parent)</p> <p>The Company holds an investment in subsidiaries of £155.6m (2022: £153.4m) as disclosed in note 14.</p> <p>An impairment assessment of the Company's investments in subsidiaries is performed on an annual basis.</p> <p>The directors assessment of the carrying value of the investment in its subsidiaries was that no impairment was required.</p> <p>This area was identified as a Key Audit Matter given the materiality of these balances.</p>	<p>In evaluating the directors' assessment of the carrying value of investments, our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> • Assessing the accounting policy for investments in subsidiaries to ensure this was compliant with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework', and applicable law); and • Obtaining management's impairment assessment for the recoverability of investments in subsidiaries and validating the conclusions reached by management. <p>We determined that management's conclusion that the Company's investments in subsidiaries were recoverable to be reasonable and noted that the carrying values were supported by the underlying net assets of the subsidiaries, or where applicable, future cash flow forecasts.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is primarily UK based and has two main segments; Transportation and Natural Resources. In establishing the overall approach to the Group audit, we determined the type of work needed to be performed at these reporting units. We identified the following four legal entities requiring full scope audit; Costain Limited (financially significant component), Costain Engineering & Construction Limited, Richard Costain Limited and Costain Group PLC, which in our view, required an audit of their entire financial information, either due to their size or their risk characteristics. In addition to this, we performed work over specific balances in other Group entities, which in our view, required an audit, either due to the size of the balances or their risk characteristics. In total, our scope accounted for 98% (2022: 97%) of Group revenues and 97% (2022: 99%) of Group profit before tax. The percentage of Group profit before tax is calculated on an absolute basis, which aggregates component profits and losses.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they have adopted to assess the extent of the potential impact of climate change risk on the Group's financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the Group to evaluate management's assessment. We particularly considered how climate change risks would impact the assumptions made in the forecasts prepared by management used in their estimates and judgements in respect to contract accounting and goodwill impairment assessments. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£5,300,000 (2022: £5,600,000).	£2,3680,000 (2022: £2,200,000).
How we determined it	based on 0.4% of the Group's revenue	1% of total assets
Rationale for benchmark applied	We considered different benchmarks based on a number of profit measures and revenue, taking into account the performance of the business over the last few years and the overall scale of the business. This gave us a range within which to determine materiality. Based on our professional judgement, we concluded that an amount of £5.3m was appropriate, which represents approximately 0.4% of the Group's revenue.	The Parent Company primarily holds cash, investments in subsidiaries and intercompany payables. There are no trading activities in the Company, therefore, we considered a balance sheet measure to be the most appropriate auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £4.8m and £3.1m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £3,975,000 (2022: £4,200,000) for the Group financial statements and £1,785,000 (2022: £1,650,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Costain Group PLC Audit and Risk Committee that we would report to them misstatements identified during our audit above £265,000 (Group audit) (2022: £280,000) and £119,000 (Company audit) (2022: £110,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- assessing the appropriateness of the Group's cash flow, liquidity and covenant forecasts in the context of the Group's 2023 financial position and its banking and related facilities which were re-negotiated in July 2023;
- understanding and assessing the appropriateness of the key assumptions used both in the base case and in the directors' severe but plausible downside scenario, including assessing whether we considered the downside sensitivities to be appropriately severe;
- corroborating key assumptions to underlying documentation (eg by comparing forecast revenue growth to levels of future revenue that have been secured) and ensuring this was consistent with our audit work in these areas;
- testing the mathematical accuracy of management's cash flow models and examining the minimum committed facility headroom under the base case cash flow forecasts and sensitised cases;
- obtaining and reperforming the Group's forecast covenant compliance calculations, including sensitising the forecasts of liquidity and profitability to assess the potential impact of downside sensitivities on future covenant compliance, taking into account terms specifically defined in the covenant agreements;
- evaluating whether the directors' conclusion that liquidity and covenant headroom remained in all these scenarios was reasonable; and
- reviewing and assessing the disclosures provided relating to the going concern basis of preparation in the financial statements.

Independent Auditors' Report to the Members of Costain Group PLC continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Costain Group PLC Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibility statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety legislation, pension obligations, data protection legislation, anti-bribery and corruption legislation, environmental legislation, construction laws and those governed by the Financial Conduct Authority and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with management, internal audit and the Group's in-house legal advisers, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;

Independent Auditors' Report to the Members of Costain Group PLC continued

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to contract accounting and impairment of goodwill (see the related key audit matters above); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unusual descriptions or postings by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Costain Group PLC Audit and Risk Committee, we were appointed by the members on 8 May 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement is seven years, covering the years ended 31 December 2017 to 31 December 2023.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Andrew Paynter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

11 March 2024

Consolidated Income Statement

Year ended 31 December 2023

	Note(s)	2023 £m	2022 £m
Continuing operations			
Revenue		1,332.0	1,421.4
Cost of sales		(1,227.2)	(1,328.7)
Gross profit		104.8	92.7
Administrative expenses		(78.0)	(57.8)
Operating profit		26.8	34.9
Finance income	8	8.0	1.8
Finance expense	8	(3.9)	(3.9)
Net finance income/(expense)		4.1	(2.1)
Profit before tax	4/5	30.9	32.8
Taxation	9	(8.8)	(6.9)
Profit for the year attributable to equity holders of the Parent		22.1	25.9
Earnings per share			
Basic	10	8.1p	9.4p
Diluted	10	7.8p	9.4p

The Consolidated Income Statement shows the income and expenses from continuing operations.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

	2023 £m	2022 £m
Profit for the year	22.1	25.9
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset	(17.9)	(18.7)
Tax recognised on remeasurement of retirement benefit asset	4.3	3.9
Total items that will not be reclassified to profit or loss	(13.6)	(14.8)
Other comprehensive expense for the year	(13.6)	(14.8)
Total comprehensive income for the year attributable to equity holders of the Parent	8.5	11.1

Consolidated Statement of Financial Position

As at 31 December 2023

	Note	2023 £m	2022 (as restated)* £m
Assets			
Non-current assets			
Intangible assets	12	45.7	52.2
Property, plant and equipment	13	26.8	32.0
Equity accounted investments	14	0.4	0.4
Retirement benefit asset	21	53.5	60.2
Trade and other receivables	16	4.2	3.5
Insurance recovery asset	20	1.7	4.0
Deferred tax	9	11.8	14.5
Total non-current assets		144.1	166.8
Current assets			
Inventories		–	0.2
Trade and other receivables	16	149.1	187.4
Insurance recovery asset	20	11.0	9.4
Cash and cash equivalents	17	164.4	123.8
Total current assets		324.5	320.8
Total assets		468.6	487.6
Liabilities			
Non-current liabilities			
Other payables	19	2.2	1.1
Lease liabilities	13	14.0	18.5
Provisions for other liabilities and charges	20	–	3.7
Total non-current liabilities		16.2	23.3
Current liabilities			
Trade and other payables	19	207.8	232.5
Taxation	9	0.6	0.2
Lease liabilities	13	10.3	11.0
Provisions for other liabilities and charges	20	14.3	9.4
Total current liabilities		233.0	253.1
Total liabilities		249.2	276.4
Net assets		219.4	211.2
Equity			
Share capital	22	138.3	137.5
Share premium		16.4	16.4
Translation reserve		0.6	0.6
Treasury shares		(1.9)	–
Retained earnings		66.0	56.7
Total equity		219.4	211.2

* See note 26 for more information on restatement.

The financial statements on pages 135 to 185 were approved by the Board of directors on 11 March 2024 and were signed on its behalf by:

A Vaughan

Director

H Willis

Director

Registered number: 1393773

Company Statement of Financial Position

As at 31 December 2023

	Note	2023 £m	2022 £m
Assets			
Non-current assets			
Investments in subsidiaries	14	155.6	153.4
Total non-current assets		155.6	153.4
Current assets			
Trade and other receivables	16	0.9	70.3
Cash and cash equivalents	17	81.8	0.1
Total current assets		82.7	70.4
Total assets		238.3	223.8
Liabilities			
Non-current liabilities			
Provisions for other liabilities and charges	20	0.6	0.7
Total non-current liabilities		0.6	0.7
Current liabilities			
Trade and other payables	19	40.8	27.4
Taxation	9	–	1.2
Provisions for other liabilities and charges	20	0.1	0.1
Total current liabilities		40.9	28.7
Total liabilities		41.5	29.4
Net assets		196.8	194.4
Equity			
Share capital	22	138.3	137.5
Share premium		16.4	16.4
Retained earnings		42.1	40.5
Total equity		196.8	194.4

The profit for the year was £1.3 million (2022: £2.1 million).

The financial statements on pages 135 to 185 were approved by the Board of directors on 11 March 2024 and were signed on its behalf by:

A Vaughan
Director

H Willis
Director

Registered number: 1393773

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

	Share capital £m	Share premium £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m
At 1 January 2022	137.5	16.4	0.6	–	44.5	199.0
Profit for the year	–	–	–	–	25.9	25.9
Other comprehensive expense	–	–	–	–	(14.8)	(14.8)
Equity-settled share-based payments	–	–	–	–	1.1	1.1
At 31 December 2022	137.5	16.4	0.6	–	56.7	211.2
At 1 January 2023	137.5	16.4	0.6	–	56.7	211.2
Profit for the year	–	–	–	–	22.1	22.1
Other comprehensive expense	–	–	–	–	(13.6)	(13.6)
Issue of ordinary shares under employee share option plans	0.8	–	–	(0.6)	(0.2)	–
Shares purchased to satisfy employee share schemes	–	–	–	–	(0.1)	(0.1)
Equity-settled share-based payments	–	–	–	–	2.2	2.2
Acquisition of treasury shares	–	–	–	(1.3)	–	(1.3)
Dividends paid	–	–	–	–	(1.1)	(1.1)
At 31 December 2023	138.3	16.4	0.6	(1.9)	66.0	219.4

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

Translation reserve

The translation reserve comprises all foreign exchange differences arising after 1 January 2004, the date of adoption of IFRS, from the translation of the financial statements of the residual, no longer trading foreign entities, as well as from the translation of liabilities that hedge the Group's net investment in foreign subsidiaries.

Treasury Shares

Treasury shares are shares in Costain Group PLC that are held by an Employee Benefit Trust for the purpose of issuing shares under the Costain employee share schemes (see note 21 for further information on these schemes).

Company Statement of Changes in Equity

Year ended 31 December 2023

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
At 1 January 2022	137.5	16.4	37.3	191.2
Total comprehensive income	–	–	2.1	2.1
Equity-settled share-based payments granted to employees of subsidiaries	–	–	1.1	1.1
At 31 December 2022	137.5	16.4	40.5	194.4
At 1 January 2023	137.5	16.4	40.5	194.4
Total comprehensive income	–	–	1.3	1.3
Issue of ordinary shares under employee share option plans	0.8	–	(0.8)	–
Equity-settled share-based payments granted to employees of subsidiaries	–	–	2.2	2.2
Dividends paid	–	–	(1.1)	(1.1)
At 31 December 2023	138.3	16.4	42.1	196.8

Retained earnings

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

Consolidated Cash Flow Statement

Year ended 31 December 2023

	Note(s)	2023 £m	2022 £m
Cash flows generated from/(used by) operating activities			
Profit for the year		22.1	25.9
Adjustments for:			
Finance income	8	(8.0)	(1.8)
Finance expense	8	3.9	3.9
Taxation	9	8.8	6.9
Profit on disposals of property, plant and equipment		(2.2)	(1.8)
Impairment of investment in joint venture	14	–	6.5
Depreciation and impairment of property, plant and equipment	5/13	14.8	11.3
Impairment of intangible assets	5/12	5.3	–
Amortisation of intangible assets	5/12	1.3	0.6
Shares purchased to satisfy employee share schemes		(0.1)	–
Share-based payments expense	6/21	2.2	1.1
Cash generated from operations before changes in working capital and provisions		48.1	52.6
Decrease in inventories		0.2	0.1
Decrease/(increase) in receivables		37.6	(2.9)
(Decrease)/increase in payables		(23.6)	15.9
Movement in provisions and employee benefits		(6.8)	(49.0)
Cash generated from operations		55.5	16.7
Interest received		4.0	1.8
Interest paid		(3.1)	(3.9)
Taxation paid		(0.7)	(0.5)
Net cash generated from operating activities		55.7	14.1
Cash flows generated from/(used by) investing activities			
Additions to owned property, plant and equipment	13	–	(0.2)
Additions to intangible assets	12	(0.1)	(0.3)
Proceeds on disposals of property, plant and equipment		–	2.6
Addition to cost of investment in joint venture	14	–	(3.4)
Net cash used by investing activities		(0.1)	(1.3)
Cash flows generated from/(used by) financing activities			
Ordinary dividends paid	11	(1.1)	–
Acquisition of treasury shares		(1.3)	–
Repayments of lease liabilities – principal	17	(12.6)	(8.4)
Repayment of loans	17	–	(40.0)
Net cash used by financing activities		(15.0)	(48.4)
Net increase/(decrease) in cash and cash equivalents		40.6	(35.6)
Cash and cash equivalents at beginning of the year	17	123.8	159.4
Cash and cash equivalents at end of the year	17	164.4	123.8

Notes to the Financial Statements

1 General information

Costain Group PLC (the Company) is a public limited company domiciled in England and incorporated in England and Wales. The address of its registered office and principal place of business is disclosed on page 187 of this annual report. The principal activities of the Company and its subsidiary undertakings (collectively referred to as 'the Group') are described in the Strategic Report.

The consolidated financial statements of the Company for the year ended 31 December 2023 comprise the Group and the Group's interests in associates, joint ventures and joint operations. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements were authorised for issue by the directors on 11 March 2024.

2 Summary of significant accounting policies

Basis of preparation

The Group consolidated financial statements 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. The Company financial statements have been prepared and approved by the directors in accordance with Financial Reporting Standard 101, 'Reduced disclosure framework' (FRS 101) and with the requirements of the Companies Act 2006. On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

These financial statements are presented in pounds sterling, rounded to the nearest hundred thousand. The financial statements are prepared on the historical cost basis, except that derivative financial instruments and pension plan assets are measured at their fair value. In preparing the financial statements of the Group, an assessment of the impact of climate change was performed with reference to the disclosures made in the Strategic Report. There has been no material impact on the financial statements in 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. Related risks and opportunities have been factored into future cash flow forecasts to the best of management's ability.

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

The following exemptions have been applied in the preparation of the Company financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

Going concern

The Group's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position, borrowing and bonding facilities, use of financial instruments, exposure to credit risk and its objectives, policies and processes for managing its capital and financial risk are described in the Chief Financial Officer's review and in note 18.

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. In July 2023, the Group announced that it had successfully concluded its negotiations with its bank and surety facility providers to refinance a new three-year agreement of its bank and borrowing facilities. The Group's new facilities agreement to September 2026 comprises an £85m sustainability-linked revolving credit facility (RCF) (previously £125m), and surety and bank bonding facilities totalling £270m (previously £280m).

These facilities have a leverage covenant of net debt/adjusted EBITDA ≤ 1.5 times, an interest covenant of adjusted EBITA/net interest payable covenant of ≥ 4.0 times and a liquidity covenant whereby the aggregate of, without double counting, any cash and cash equivalent investments and the available commitment under the facility does not fall below £50m. These financial covenants are tested quarterly. As at 31 December 2023, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 10.3 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 £20m bank bonding and £250m surety company bonding facilities.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2023, 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 financial statements. 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 Group's base case plans for the period to 30 June 2025, being the first covenant deadline after March 2025. The directors have assumed that the current RCF remains in place with the same covenant requirements through to its current expiry date, which is beyond the end of the period reviewed for Going Concern purposes. The base case assumes delivery of the Board approved strategic and financial plans. As part of the assessment, the Board also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, higher working capital requirements and adverse contract settlements.

Both the base case and severe but plausible forecasts show significant headroom and indicate that the Group and the Company will be able to operate within available banking facilities and covenants throughout this period.

New and amended standards adopted by the Group

The accounting policies set out in this note have been applied consistently by the Group and the Company to each period presented in these financial statements, except for the adoption of the new accounting standards noted below.

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2023:

- IFRS 17 'Insurance Contracts';
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;
- Definition of Accounting Estimates – Amendments to IAS 8;
- International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12; and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.

IFRS 17 'Insurance contracts' is effective for financial periods beginning on or after 1 January 2023. The Group does not provide insurance products or services; however, the definition of an insurance contract under IFRS 17 means that contracts, which meet certain criteria, may be considered insurance contracts, even for non-insurers. For example, contracts that provide services for a fixed fee may meet this definition, where the level of service provided is dependent on uncertain future events (eg repairs and maintenance contracts). The Group has a very small number of these contracts and in evaluating the impact of the new standard, consider that the impact is immaterial to these financial statements.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

New and amended standards adopted by the Group continued

IFRS 17 replaces IFRS 4 and therefore guarantee contracts previously accounted for under IFRS 4 will now require to be accounted for under IFRS 9 or IFRS 17. The Group has elected to account for these contracts under IFRS 9 but, given the nature of the guarantees, there is no material impact to these financial statements.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods or on foreseeable future transactions.

Basis of consolidation

- (a) The Group's financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group and control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control starts until the date that control ceases.
- (b) Associates are operations over which power exists to exercise significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Associates are accounted for using the equity method.
- (c) Joint ventures are those joint arrangements where control is shared with another entity, and where the Group has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method from the date that the joint venture starts until the date that joint control of the entity ceases.
- (d) The presentation of investments in associates and joint ventures in the statement of financial position restricts the minimum carrying value to £nil. Where the cost of investment would be negative, due to losses incurred, then an amount up to the value of the negative position is applied to any outstanding loan balance with the investment or, where future funding commitments exist, a provision is made up to the value of the commitment.
- (e) Joint operations are those joint arrangements over which joint control exists, established by contractual agreement, which are not legal entities and where the parties have rights to the assets and obligations for the liabilities relating to the arrangement. Where a joint operation exists, the Group entity involved records the assets it controls, the liabilities and expenses it incurs and its share of income. Such joint operations are reported in the consolidated financial statements on the same basis. Transactions between Group companies and joint operations eliminate on consolidation.
- (f) Intra-Group balances and transactions together with any unrealised gains arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates, joint ventures and joint operations are eliminated to the extent of the interest in the entity or operation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Currency translation

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

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

Exchange differences arising from the translation of the net investment in the remaining foreign entities are recognised directly in equity. Those exchange differences that have arisen since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. Cumulative exchange differences are released into the income statement upon disposal. Translation differences that arose before the date of transition to IFRS in respect of all foreign operations are not presented as a separate component.

Revenue from contracts with customers

The principal source of revenue relates to developing and improving the UK's infrastructure across the transportation, water, energy and defence sectors. The Group recognises revenue when control over the service or product is transferred to the customer and revenue is measured at the fair value of the consideration received or receivable, net of value added tax.

Long-term contracts are structured under either a cost reimbursement, target cost, fixed price or rate card mechanism. The Group also enters into framework contracts; however, the work called off under these contracts will be structured under one of the above mechanisms.

For most contracts there is generally one performance obligation as the works specified within the contract are integrated and the customer procures one complete package, which may incorporate design, engineering and advisory work into the scope.

Where multiple performance obligations exist, for example, under a framework contract, the Group accounts for each performance obligation separately and the transaction price is determined separately for each piece of work called off.

For long-term contracts, revenue is recognised over time by measuring the progress towards complete satisfaction of the performance obligation at the statement of financial position date.

For cost reimbursement, target cost and fixed price contracts, stage of completion is assessed by reference to the proportion of contract costs incurred on work performed to date relative to the estimated total costs.

Rate card contracts may include management, design, implementation and support services under fixed-price and variable-price contracts, where the customer receives and uses the benefits simultaneously. Revenue recognised is determined by the number of hours incurred on a project multiplied by an agreed rate; where the price is fixed or capped, revenue is recognised by reference to the proportion of labour hours worked to date relative to the estimated total number of labour hours estimated.

Each performance obligation under a framework contract may be priced using cost reimbursement, target cost or rate card model and therefore the stage of completion is assessed by reference to these individual models.

Contract costs are recognised as expenses in the period in which they are incurred. Costs associated with bidding for contracts are written off as incurred.

The scope of the works will often be subject to change, which may take the form of a variation or compensation event. Each is considered on case by case basis to determine whether it is a new, separate performance obligation and accounted for as a separate contract, or a clarification or revision of the original contract scope and accounted for on a cumulative catch-up basis.

Compensation events, variations, claims, and gain from pain/gain or other bonus assessments are included in revenue where it is highly probable that the amount, which can be measured reliably, will be recovered from the customer and will not reverse. Pain from pain/gain arrangements or disallowed or withheld costs are included where highly probable to be incurred. Revenue in respect of these items is determined on the most likely outcome method.

In the early stages of a contract, if the outcome of a performance obligation cannot be reasonably measured, revenue is recognised to the extent of contract costs incurred, where it is highly probable those costs will be recoverable and will not reverse. When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

Contract assets is stated at cost plus profit recognised to date, including compensation events not yet agreed but considered highly probable, less any provision for foreseeable losses (which would be accounted for under IAS 37 and disclosed in the provisions note) and less amounts billed. Amounts valued and billed to customers are included in trade receivables. Where cash received from customers exceeds the value of work performed, the amount is included in contract liabilities.

Where there is a change in circumstances that requires related revenue estimates to be revised, any reversal of revenue arising from a change that occurs in the current year but affects the previously recognised position is recognised within revenue for the current year.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

Income statement presentation – Alternative performance measures

The Group discloses alternative performance measures, in addition to statutory disclosures, to provide investors with supplementary information which may be relevant to the Group's future performance. 'Adjusted profit' excludes 'adjusting items', which are significant items of income and expenditure that the Board considers are incremental to business operations and do not reflect the long-term performance of the Group. These adjusted measures are reconciled to statutory disclosures, with the tax impact given, in note 3, and disclosed in the segmental reporting in note 4. Presenting results on this basis is consistent with internal reporting to the Board. Alternative performance measures do not have standardised meanings and, therefore, they may not be comparable between companies.

The directors exercise judgement in determining classification as an 'adjusting item' using quantitative and qualitative factors. Consideration is given, both individually and collectively, to the circumstances giving rise to the item, its materiality and whether it's expected to recur.

'Adjusted profit' may exclude income and expenditure related to acquisitions, discontinued operations, transformation costs, restructuring costs, litigation, and impairments, where the impairment is the result of an isolated, non-recurring event. 'Adjusted earnings per share' is calculated using 'Adjusted profit'.

The Group has also historically disclosed 'Adjusted revenue'. 'Adjusted revenue' excludes the impact of a reversal of any contract asset recorded immediately prior to the initial write-down on a contract and any subsequent adjustment to overall contract revenue.

The Group also presents net cash/bank debt and adjusted free cash flow as alternative performance measures in the front of the annual report. Net cash/bank debt is defined as cash and cash equivalents less interest-bearing borrowings (excluding leases under IFRS 16 and net of unamortised arrangement fees). Adjusted free cash flow is defined as cash generated from operations, excluding cash flows relating to 'adjusting items' and pension deficit contributions, less taxation and capital expenditure. The directors consider that these measures provide useful information about the Group's liquidity position.

Research and development

Research and development activities are usually directly attributable to a project and accounted for within project costs. In line with common practice, the Group has adopted the research and development expenditure credit (RDEC) regime as these credits have characteristics similar to government grants. RDEC credits are recognised in cost of sales. Development expenditure that satisfies all the relevant conditions is capitalised as an intangible asset (see below).

Goodwill and other intangible assets

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

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

Acquired intangible assets comprise customer relationships, order book, brand and intellectual property. Other intangible assets comprise computer software, development expenditure and patents. Customer relationships and other acquired intangibles are measured at the present value of cash flows attributable to the relationship less an appropriate contributory asset charge. Computer software, development expenditure and patents are recognised at cost.

Internally generated development expenditure is recognised as an intangible asset only if all of the following conditions are satisfied:

- the asset can be identified;
- it is probable that the asset will create future economic benefits; and
- the development costs can be measured reliably.

Once the asset is complete, subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, otherwise expenditure is expensed as incurred.

Amortisation begins when an asset is acquired or, in the case of computer software and other development assets, is available for use. Amortisation charges are included in administration expenses and are charged over the following periods:

Customer relationships	– on a straight-line basis up to seven years
Other intangibles (including other acquired)	– on a straight-line basis up to five years

Property, plant and equipment

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

Leasehold buildings	– shorter of 50 years or lease term
Vehicles, plant and equipment	– 3 to 10 years

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

Investments – Company

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

Impairment of non-financial assets

For the purposes of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

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

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

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

Provisions

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

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all temporary differences except for those specific exemptions set out below and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

Taxation continued

Deferred tax liabilities are recognised for temporary differences arising on investments in subsidiaries and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates based on those enacted or substantially enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

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

Leases

Where the Group is party to a lease, except for short-term leases or leases of low value assets (as noted below), the Group recognises a right-of-use asset and a lease liability upon lease commencement. The major categories of leased items within the scope of IFRS 16 are properties, vehicles and site plant. Changes to contract scope can lengthen or shorten contract programmes and result in extensions or early terminations to site plant lease terms.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which is located, less any lease incentives received.

The asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. The depreciation charges are included in cost of sales. In addition, the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability associated with changes to the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate.

The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Guarantee contracts

Customers awarding long-term contracting work may, as a condition of the award, require the contractor to provide performance and other bonds. Group bank borrowing facilities and bank and surety bonding facilities are supported by cross-guarantees given by the Company and participating companies in the Group.

The Company accounts for these as financial guarantee contracts under IFRS 9.

Share capital

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

Dividends

Dividends are recognised as distributions in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in note 11 to the financial statements.

Share-based payments

These comprise equity-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed over the vesting period, based on the estimate of awards that will eventually vest. Fair value is measured using a Black-Scholes option pricing model.

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

Treasury shares

Applying the principles in IFRS 10, the Group controls the Employee Benefit Trust that holds small numbers of Company shares to be issued under the Costain employee share schemes. Therefore, the Employee Benefit Trust is consolidated in these financial statements and shares held by the Employee Benefit Trust are presented as Treasury shares, being a deduction to equity in the statement of financial position.

Retirement benefit obligations

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in note 21. The assets of the scheme are held separately from those of the Group.

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

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

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

Financial assets and liabilities

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

(a) Financial assets

The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

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

Trade and other receivables

Trade and other receivables do not carry interest and are stated at amortised cost less loss allowances. Trade receivables mostly relate to long-term contracts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. This policy applies to both the statement of financial position and the cash flow statement.

Impairment of financial assets

Impairment of financial assets is based on an expected credit loss model applying the simplified approach permitted under IFRS 9. The Group calculates an allowance for credit losses based on the nature of the customer, experience of collecting receivables from similar customers and modelling default scenarios and applying probabilities of such scenarios.

(b) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are derecognised only when the obligations are discharged, cancelled or expire.

Trade and other payables

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

(c) Derivative financial instruments

Derivative financial instruments are used to manage risks arising from changes in foreign exchange rates and are measured at their fair value.

Any gains or losses arising from changes in the fair value of derivative financial instruments are recognised in the income statement.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

Financial assets and liabilities continued

(c) Derivative financial instruments continued

Fair value measurement

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

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

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

Significant areas of judgement and estimation

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

The most critical accounting policies and significant areas of estimation and judgement arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers', specific provisions, the carrying value of goodwill, 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 'adjusting items'.

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 for 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 year. 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, for example, of the impact of pain/gain arrangements and disallowed or withheld costs, to the extent that the amounts the Group expects to recover 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 cases, assessments of recoveries from insurers, suppliers and contractors, where these are considered 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.

There are a small number of material contracts where management has been required to make significant accounting estimates and, which result in estimation uncertainty, as at 31 December 2023. In relation to these contracts, the Group has included estimated recoveries with a combined value of £11.9m, on the basis that these are considered highly probable not to reverse. However, there are a range of factors which will affect the ultimate outcome once these contracts are finalised. Management considers that the estimation uncertainty in relation to these contracts ranges from a potential upside of £29.7m to a downside of £11.9m.

The ultimate financial impact of this estimation uncertainty will depend, inter alia, on the terms of the contract and the interaction with incentive arrangements, such as pain/gain mechanisms and bonus or KPI arrangements, as well as final conclusions regarding claims and compensation events and assessments of, for example, costs disallowed under the contract.

The estimates of the forecast contract outcome 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 facts and circumstances, there are uncertain factors which will impact the final contract outcome and could give rise to material adjustments within the next financial year. Given the inherent complexity and pervasive impact of the various judgements and estimates impacting revenue, cost of sales and related balance sheet amounts, it is not considered plausible to quantify the impact of taking alternative assessments on each of these judgements.

Rectification provision: Contract in the water sector

In 2021, the Group recognised a provision in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where Costain had been prime contractor.

As at 31 December 2022, after working with designers, insurers and the customer, there was greater clarity as to the scope and cost of rectification work required and the Group's best estimate of the cost of the single most likely rectification solution at this time was £17.0m. Costs of £4.8m had been incurred at the end of 2022, and accordingly, a provision of £12.2m was included in the statement of financial position. A number of assumptions were made in arriving at the cost estimate and management considered that the ultimate cost would fall within a range of $\pm 30\%$ of the estimated total.

During 2023, progress in design and procurement has enabled management to validate the assessed programme and narrow estimation uncertainty to a range of $-8\%/+13\%$ on the revised estimated total cost of £19.3m. Costs of £7.7m have been incurred to date and therefore the provision recognised in the statement of financial position at 31 December 2023 is £11.6m. The work is still expected to be concluded in 2024.

As reported in 2022, Costain has engaged with its insurers and received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers continued to make interim payments on account during 2023. On this basis, management has made a judgement that the costs of rectification, after deduction of insurers' excess and amounts already received from insurers, will be recovered. Accordingly, an insurance receivable of £12.7m is recognised in the statement of financial position at 31 December 2023 in accordance with IAS 37 on the basis that recovery is considered virtually certain. There is a cap on insurance but the cap is significantly in excess of the cost estimate. As at 31 December 2022, £13.4m had been recognised as an insurance receivable.

Carrying value of goodwill

Assessing the recoverability of the carrying value of goodwill recognised on acquisition requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. These assessments 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 consideration of the impact of potential sensitivities in respect of those assumptions. The discount rates used to calculate present values and, where a reasonable possible change in assumptions may give rise to an impairment, related sensitivities are set out in note 12.

Defined benefit pension scheme

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 21.

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 four years. The significant judgement in assessing the recoverability relates to the ability of the Group to achieve its taxable profit forecasts and the ability to withstand the application of what the Board considers appropriate sensitivities. Details of deferred tax assets are shown in note 9.

Adjusting items

As described in this note, management has used judgement to determine the items classified as 'adjusting items' as set out in note 3.

3 Reconciliation of reported operating profit to adjusted operating profit

Adjusted operating profit and adjusted earnings per share are presented as non-GAAP alternative performance measurements. The Board considers the adjusted measures better reflect the underlying trading performance of the Group for the reasons described in note 2.

The profit adjustments represent amounts included in the income statement.

During the year, the Group restructured its digital hardware activities to focus on service capabilities. As a result, the capitalised development costs of products being developed under the Group's manufacturing capabilities were impaired by £5.3m to £nil as the Group has exited this manufacturing.

Notes to the Financial Statements *continued*3 Reconciliation of reported operating profit to adjusted operating profit *continued*

Other costs in relation to the restructuring of £1.8m, including in relation to rent and rates on a property used for the Group's digital activities, which was vacated before the break clause in the lease, were also recognised.

The Board considers these items 'adjusting' on the basis of their magnitude and that they arise from a one-off pivot in business strategy away from digital manufacturing that will not recur in the future.

£6.2m was incurred on the Group's Transformation programme in 2023 (2022: £5.7m). Costs incurred were in-line with the programme budget and include the cost of people and advisors supporting our Transformation initiatives, as well as the one-off cost of actions to support operating model changes required.

The programme, which began in 2022 and concludes in 2024, is bringing simplicity, clarity and focus to how we work, by driving improved efficiency and effectiveness across the business. This critically includes improving how we manage customer projects in a more efficient, safe and green way, enabling us to deliver greater value to both our customers and stakeholders.

While the primary objective of the programme was to transform the organisation to accelerate our strategic ambition, efficiency and cost saving actions have allowed us to start to deliver savings through 2023. Savings from the programme are expected to exceed our cost of delivery within the next few years.

The Board considers the costs of the Transformation programme are 'adjusting' on the basis of their magnitude and that it is a one-off programme, which is not in the ordinary course of business and therefore is not reflective of the type of costs to be incurred on a recurring basis in future.

In 2022, a £5.2m insurance receipt was recognised in relation to the Peterborough & Huntingdon (P&H) contract outcome.

In 2022, the Group sold a minor stake in a hotel company for £0.5m. The investment was impaired to nil in 2020 reflecting the significant impact of COVID-19 in that sector, so the profit realised in 2022 was also £0.5m. This cost was recognised as an 'adjusting item' and therefore the related profit was also treated as such.

In 2022, the Group fully impaired tunnel boring machines held at net book value of £1.4m which were outmoded and no longer core to operations.

2023	Adjusted £m	Intangible impairment £m	Other items £m	Total £m
Revenue	1,332.0	–	–	1,332.0
Cost of sales	(1,227.2)	–	–	(1,227.2)
Gross profit	104.8	–	–	104.8
Administrative expenses before adjusting items	(64.7)	–	–	(64.7)
Adjusting items:				
Restructuring costs	–	–	(1.8)	(1.8)
Transformation costs	–	–	(6.2)	(6.2)
Impairment of intangible asset	–	(5.3)	–	(5.3)
Administrative expenses	(64.7)	(5.3)	(8.0)	(78.0)
Operating profit/(loss)	40.1	(5.3)	(8.0)	26.8
Net finance income	4.1	–	–	4.1
Profit/(loss) before tax	44.2	(5.3)	(8.0)	30.9
Taxation	(10.7)	–	1.9	(8.8)
Profit/(loss) for the year attributable to equity holders of the Parent	33.5	(5.3)	(6.1)	22.1
Basic earnings per share	12.2p			8.1p

2022	Adjusted £m	P&H £m	Other items £m	Total £m
Revenue	1,421.4	–	–	1,421.4
Cost of sales	(1,328.7)	–	–	(1,328.7)
Gross profit	92.7	–	–	92.7
Administrative expenses before adjusting items	(56.4)	–	–	(56.4)
Adjusting items:				
P&H insurance recovery	–	5.2	–	5.2
Transformation costs	–	–	(5.7)	(5.7)
Tunnel boring machines impairment	–	–	(1.4)	(1.4)
Profit on disposal of other investment	–	–	0.5	0.5
Administrative expenses	(56.4)	5.2	(6.6)	(57.8)
Operating profit/(loss)	36.3	5.2	(6.6)	34.9
Net finance expense	(2.1)	–	–	(2.1)
Profit/(loss) before tax	34.2	5.2	(6.6)	32.8
Taxation	(7.0)	(1.0)	1.1	(6.9)
Profit/(loss) for the year attributable to equity holders of the Parent	27.2	4.2	(5.5)	25.9
Basic earnings per share	9.9p			9.4p

4 Operating segments

The Group has two business segments: Natural Resources and Transportation. These segments are strategic business units with separate management and have different customers or offer different services. Segmental information is provided to the chief executive who is the chief operating decision maker. The segments are discussed in the Strategic Report section of this annual report.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group evaluates segment performance on the basis of profit or loss from operations before interest and tax expense and before 'adjusting items'. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other items are allocated to the operating segments where appropriate, but otherwise are viewed as Central costs.

Intersegment sales and transfers are not material.

Notes to the Financial Statements continued4 Operating segments continued

2023	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Total revenue	388.9	943.1	–	1,332.0
Segment profit/(loss)				
Operating profit/(loss) before adjusting items	21.8	28.0	(9.7)	40.1
Adjusting items:				
Restructuring costs	–	(1.8)	–	(1.8)
Transformation costs	(0.1)	–	(6.1)	(6.2)
Impairment of intangible asset	–	(5.3)	–	(5.3)
Profit/(loss) from operations	21.7	20.9	(15.8)	26.8
Net finance income				4.1
Profit before tax				30.9
Segment profit/(loss) is stated after charging the following:				
Depreciation	4.5	10.3	–	14.8
Amortisation and impairment	0.2	6.4	–	6.6
Segment assets				
Reportable segment assets	121.6	116.4	0.9	238.9
Unallocated assets:				
Retirement benefit asset				53.5
Deferred tax				11.8
Cash and cash equivalents				164.4
Total assets				468.6
Additions to non-current assets				
Property, plant and equipment	4.1	6.1	–	10.2
Intangible assets	–	0.1	–	0.1
Segment liabilities				
Reportable segment liabilities	91.9	148.1	8.6	248.6
Unallocated liabilities:				
Taxation				0.6
Total liabilities				249.2

2022

	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Total revenue	375.1	1,046.3	–	1,421.4
Segment profit/(loss)				
Operating profit/(loss) before other items	15.0	31.5	(10.2)	36.3
Share of results of joint ventures and associates	–	–	–	–
Operating profit/(loss) before adjusting items	15.0	31.5	(10.2)	36.3
Adjusting items:				
P&H insurance recovery	5.2	–	–	5.2
Transformation costs	(0.7)	–	(5.0)	(5.7)
Tunnel boring machines impairment	–	(1.4)	–	(1.4)
Profit on disposal of other investment	–	–	0.5	0.5
Profit/(loss) from operations	19.5	30.1	(14.7)	34.9
Net finance expense				(2.1)
Profit before tax				32.8
Segment profit/(loss) is stated after charging the following:				
Depreciation and impairment	2.4	8.9	–	11.3
Amortisation	0.1	0.5	–	0.6
Segment assets				
Reportable segment assets (as restated)*	120.9	167.2	1.0	289.1
Unallocated assets:				
Retirement benefit asset				60.2
Deferred tax				14.5
Cash and cash equivalents				123.8
Total assets (as restated)*				487.6
Additions to non-current assets				
Property, plant and equipment (as restated)*	5.6	16.8	–	22.4
Intangible assets	–	0.3	–	0.3
Segment liabilities				
Reportable segment liabilities (as restated)*	71.9	160.5	43.8	276.2
Unallocated liabilities:				
Taxation				0.2
Total liabilities (as restated)*				276.4

* See note 26 for more information on restatement.

Geographical information

Segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets and exclude deferred tax assets.

All revenue originates in the UK (2022: all) and all non-current assets are located in the UK (2022: all).

Customers accounting for more than 10% of revenue

Two customers (2022: two) in the transportation sector accounted for revenue of £793.1m (2022: £853.0m).

Notes to the Financial Statements continued

5 Other operating expenses and income

	2023 £m	2022 £m
Profit before tax is stated after charging:		
Amortisation and impairment of intangible assets (note 12)	6.6	0.6
Depreciation and impairment of property, plant and equipment (note 13)	14.8	11.3
Restructuring costs (note 3)	1.8	–
Transformation costs (note 3)	6.2	5.7
Expenses relating to short-term leases and leases of low value assets	54.8	62.4
and after crediting:		
RDEC grant income	5.7	5.5
P&H insurance recovery (note 3)	–	5.2
Profit on disposal of other investment (note 3)	–	0.5

Short-term leases mostly relate to the hiring of plant for operations on construction sites.

The Group incurred administrative expenses of £78.0m in 2023, an increase of £20.2m on the same period last year (2022: £57.8m). £5.3m of the increase relates to the impairment of an intangible asset in 2023. £5.2m of the increase is driven by the recognition of an insurance receipt relating to the Peterborough & Huntingdon contract in 2022. £1.4m of the increase has resulted from higher transformation and restructuring costs driven by the repositioning of digital services in 2023, partially offset by asset write-off costs seen in 2022. £7.3m of the increase has resulted from a reclassification of costs previously shown within cost of sales, now reflected in administrative expenses, as we have improved alignment, ownership and understanding of our cost base across the Group as part of our Transformation programme. The £1.0m balance of the increase has been driven by cost and wage inflation as well as the timing of incremental investment that will facilitate further net benefits from our Transformation programme into 2024, partially offset by the year-on-year benefit of cost management actions taken during 2023 and in the second half of 2022.

Auditors' remuneration

	2023 £m	2022 £m
Fees payable to the Group's auditors for the audit of the annual financial statements	0.1	0.1
Fees payable to the Group's auditors in respect of:		
Audit of financial statements of subsidiaries of the Company	1.0	1.0
	1.1	1.1

An amount of £0.2m (2022: £0.2m) was paid to the Group's auditors in 2023 for the independent review of the interim results and other non-audit services.

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

6 Employee benefit expense

	2023 £m	2022 £m
Wages and salaries	235.9	230.4
Social security costs	25.7	26.4
Other pension costs – defined contribution schemes (note 21)	12.6	11.7
Share-based payments expense (note 21)	2.2	1.1
	276.4	269.6
	2023 Number	2022 Number
Monthly average number of persons employed		
Natural Resources	1,620	1,718
Transportation	1,753	1,787
Central	21	20
	3,394	3,525

Of the above employees one was employed overseas (2022: one).

7 Remuneration of directors

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

For the purpose of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2023 and 2022 are detailed below:

	2023 £m	2022 £m
Remuneration	2.0	1.9
Post-employment benefits	0.1	0.1
	2.1	2.0

8 Finance income/(expense)

	2023 £m	2022 £m
Interest income from bank deposits	4.8	0.5
Interest income on the net assets of the defined benefit pension scheme (note 21)	3.2	1.3
Finance income	8.0	1.8
Interest payable on interest bearing bank loans, borrowings and other similar charges	(2.3)	(2.7)
Interest expense on lease liabilities	(1.5)	(1.2)
Other interest	(0.1)	–
Finance expense	(3.9)	(3.9)
Net finance income/(expense)	4.1	(2.1)

Other similar charges includes arrangement and commitment fees payable.

Notes to the Financial Statements continued

9 Taxation

	2023 £m	2022 £m
On profit for the year		
UK corporation tax at blended rate of 23.5% (2022: statutory rate of 19.0%)	(5.4)	(4.6)
Adjustment in respect of prior years	1.0	0.3
Current tax charge for the year	(4.4)	(4.3)
Deferred tax charge for the current year	(3.2)	(2.5)
Adjustment in respect of prior years	(1.2)	(0.1)
Deferred tax charge for the year	(4.4)	(2.6)
Tax charge in the consolidated income statement	(8.8)	(6.9)
	2023 £m	2022 £m
Tax reconciliation		
Profit before tax	30.9	32.8
Taxation at 23.5% (2022: 19.0%)	(7.2)	(6.2)
Amounts qualifying for tax relief and disallowed expenses	(1.4)	(1.0)
Rate adjustment relating to UK deferred taxation	–	0.1
Adjustments in respect of prior years	(0.2)	0.2
Tax charge in the consolidated income statement	(8.8)	(6.9)
Effective rate of tax	28.5%	21.0%

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

The current tax liability of £0.6m (2022: £0.2m) for the Group and liability of £nil (2022: £1.2m) for the Company represent the amount of tax in respect of all outstanding periods and include the Group's best estimate of any assets and liabilities, where appropriate.

	2023 £m	2022 £m
Tax in other comprehensive income		
Current tax – Retirement benefit assets	2.6	2.2
Deferred tax – Retirement benefit assets	1.7	1.7
Tax credit in other comprehensive income	4.3	3.9
	2023 £m	2022 £m
Deferred tax asset recognised		
Accelerated capital allowances	2.2	2.1
Short-term temporary differences	1.6	3.2
Retirement benefit assets	(13.3)	(15.0)
Tax losses	21.3	24.2
Deferred tax asset	11.8	14.5

Deferred tax assets have been calculated at the rate of 25.0% (2022: 25.0%).

Deferred tax assets have been recognised in respect of accumulated tax trading losses in the UK of £85.3m (2022: £98.3m). The deferred tax assets include an amount of £21.3m (2022: £24.2m) which relates to these carried forward tax losses. These have been recognised to the extent it is expected that they will be recoverable within four years (2022: five years) using the estimated future taxable income based on the approved forecasts for the Group and reasonably likely estimated future profits. These losses can be carried forward indefinitely and have no expiry date.

The Group is within the scope of the OECD Pillar Two rules which implement a minimum effective tax rate of 15% on profits of large multinational groups in each country in which they operate. These rules were enacted in the UK on 11 July 2023 and will apply to the Group from the financial year ended 31 December 2024 onwards. An initial assessment suggests that the impact of the rules is not expected to be material to the Group given the UK profile, but the Group is engaging with advisors to work through the complexities of applying the legislation.

The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities, as provided in the amendments to IAS 12 issued in May 2023.

The Company has no deferred tax asset (2022: no) relating to short-term temporary differences.

	2023 £m	2022 £m
Analysis of deferred tax movements		
At 1 January	14.5	15.4
Deferred tax in consolidated income statement		
Accelerated capital allowances	0.1	1.3
Short-term temporary differences	(1.6)	0.5
Tax losses	(2.9)	(4.4)
	(4.4)	(2.6)
Deferred tax in other comprehensive income		
Retirement benefit assets	1.7	1.7
At 31 December	11.8	14.5

Factors that may affect future tax charges

The corporation tax rate from 1 April 2023 is 25.0%. No changes to this rate have been announced by the Government. Deferred tax balances in these financial statements have therefore been calculated at the rate of 25.0%.

Deferred tax assets not recognised

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

The following gross value items are available as deferred tax assets:

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Management expenses and charges incurred by Parent Company	54.4	54.7	54.2	54.7
Capital losses	270.6	270.6	241.0	241.0

The current year tax effect of claiming short-term temporary differences and trading tax losses was £nil (2022: £nil) as shown in the tax reconciliation above.

There are no expiry dates associated with the deferred tax assets not recognised.

Notes to the Financial Statements *continued*

10 Earnings per share

The calculation of earnings per share is based on profit of £22.1m (2022: £25.9m) and the number of shares set out below.

	2023 Number (millions)	2022 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	273.6	275.0
Dilutive potential ordinary shares arising from employee share schemes	8.5	1.7
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	282.1	276.7

At 31 December 2023, nil options were excluded from the weighted average number of ordinary shares calculation because they were anti-dilutive (2022: nil options were excluded).

11 Dividends

	Dividend per share pence	2023 £m	2022 £m
Interim dividend for the year ended 31 December 2023	0.4	1.1	–
Dividends settled in cash		1.1	–
Dividends settled in shares		–	–
Amount recognised as distributions to equity holders in the year		1.1	–

Dividend payments were resumed in 2023 with an interim dividend of 0.4p per share for the six months ended 30 June 2023. The Board is proposing a final dividend of 0.8p per share. The Board's current policy for dividends is described in note 18 a) Capital management.

12 Intangible assets

Group	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2022	54.1	15.4	9.7	15.9	95.1
Additions	–	–	–	0.3	0.3
At 31 December 2022	54.1	15.4	9.7	16.2	95.4
At 1 January 2023	54.1	15.4	9.7	16.2	95.4
Additions	–	–	–	0.1	0.1
Disposals	–	–	–	(0.1)	(0.1)
At 31 December 2023	54.1	15.4	9.7	16.2	95.4
Accumulated amortisation and impairment					
At 1 January 2022	9.0	15.4	9.7	8.5	42.6
Charge in year	–	–	–	0.6	0.6
At 31 December 2022	9.0	15.4	9.7	9.1	43.2
At 1 January 2023	9.0	15.4	9.7	9.1	43.2
Charge in year	–	–	–	1.3	1.3
Impairment in year	–	–	–	5.3	5.3
Disposals	–	–	–	(0.1)	(0.1)
At 31 December 2023	9.0	15.4	9.7	15.6	49.7
Net book value					
At 31 December 2023	45.1	–	–	0.6	45.7
At 31 December 2022	45.1	–	–	7.1	52.2
At 1 January 2022	45.1	–	–	7.4	52.5

For more information on the intangible impairment, see note 3.

Goodwill has been allocated to the applicable cash generating units of the Transportation segment (£15.5m (2022: £15.5m)) and the Natural Resources segment (£29.6m (2022: £29.6m)).

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 time value of money and the risks specific to the CGU. The rates used to discount the forecast cash flows for the Transportation and Natural Resources CGUs were 15.8% and 15.7% respectively. In 2022, the rate used to discount the forecast cash flows for both the Transportation and Natural Resources CGUs was 15.5%.

The value in use calculations use the Group's four-year cash flow forecasts, which are based on the expected revenues and profitability of each CGU, taking into account the current level of secured and anticipated orders, extrapolated for future years by the expected growth rate applicable to each CGU, 2.0% for both Transportation and Natural Resources (2022: 1.5% for both Transportation and Natural Resources).

At 31 December 2023, based on the internal value in use calculations, management concluded that the recoverable value of both the Natural Resources and the Transportation cash generating units exceeded their respective carrying amounts with substantial headroom.

The directors consider that there is no reasonable possible change in assumptions that would give rise to an impairment, for example, a 30.0% reduction in absolute business unit operating profit, a 1.0% decrease in growth rate and a 1.0% increase in discount rate in combination would not result in an impairment.

Notes to the Financial Statements continued

13 Property, plant and equipment

Group	Land and buildings £m	Plant and equipment £m	Right-of-use assets		Total £m
			Land and buildings £m	Vehicles, plant and equipment £m	
Cost					
At 1 January 2022	0.6	27.0	14.1	29.4	71.1
Additions (as restated)*	–	0.2	9.1	13.1	22.4
Disposals	(0.6)	(2.6)	(1.4)	(14.2)	(18.8)
At 31 December 2022 (as restated)*	–	24.6	21.8	28.3	74.7
At 1 January 2023	–	24.6	21.8	28.3	74.7
Additions	–	–	0.5	9.7	10.2
Disposals	–	(9.6)	(2.8)	(5.3)	(17.7)
At 31 December 2023	–	15.0	19.5	32.7	67.2
Accumulated depreciation and impairment					
At 1 January 2022	0.6	21.6	6.1	10.8	39.1
Charge in year	–	2.9	2.1	4.9	9.9
Impairment in year	–	1.4	–	–	1.4
Disposals	(0.6)	(2.6)	(0.6)	(3.9)	(7.7)
At 31 December 2022	–	23.3	7.6	11.8	42.7
At 1 January 2023	–	23.3	7.6	11.8	42.7
Charge in year	–	0.9	4.8	9.1	14.8
Disposals	–	(9.6)	(2.6)	(4.9)	(17.1)
At 31 December 2023	–	14.6	9.8	16.0	40.4
Net book value					
At 31 December 2023	–	0.4	9.7	16.7	26.8
At 31 December 2022 (as restated)*	–	1.3	14.2	16.5	32.0
At 1 January 2022	–	5.4	8.0	18.6	32.0

Leased assets

Other amounts recognised in the income statement:

	2023 £m	2022 £m
Interest expense (included in finance expense)	1.5	1.2
Expense relating to short-term leases (included in cost of sales and administrative expenses)	54.8	62.4

The lease liabilities relating to these right-of-use assets are as follows:

	2023 £m	2022 (as restated)* £m
Current	10.3	11.0
Non-current	14.0	18.5
	24.3	29.5

* See note 26 for more information on restatement.

14 Investments in subsidiaries, equity accounted joint ventures and associates

Group

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

Certain subsidiaries of the Group (as indicated in note 24) have opted to take advantage of the audit exemption under Section 479A of the Companies Act 2006 for the year ended 31 December 2023. In order to take advantage of this exemption, Costain Group PLC undertakes to provide a Parent Company guarantee in respect of debts and liabilities of these subsidiaries at the balance sheet date in accordance with Section 479C of the Companies Act 2006. The Company has assessed the probability of loss under these guarantees as remote.

Investments in joint ventures	£m
Cost	
At 1 January 2022	14.4
Additions	6.5
At 31 December 2022	20.9
At 1 January 2023	20.9
At 31 December 2023	20.9
Share of post-acquisition reserves	
At 1 January 2022	(14.0)
At 31 December 2022	(14.0)
At 1 January 2023	(14.0)
At 31 December 2023	(14.0)
Impairment	
At 1 January 2022	–
Impairment in year	(6.5)
At 31 December 2022	(6.5)
At 1 January 2023	(6.5)
At 31 December 2023	(6.5)
Net book value	
At 31 December 2023	0.4
At 31 December 2022	0.4
At 1 January 2022	0.4

During 2022, Costain acquired £6.5m of shares in an existing joint venture, ABC Electrification Ltd. In order to facilitate the settlement of the joint venture's net liabilities, consideration for these shares included a £3.4m cash payment and the write-down of an existing £3.1m receivable owed to the Group by the joint venture. On the basis of the financial position of ABC Electrification Ltd, the Group did not expect to recover this equity investment and accordingly booked an impairment charge of £6.5m. This charge was offset against a corresponding payable previously held in respect of the joint venture losses, in accordance with IAS 28 paragraph 39. Therefore, there was no net impact on the consolidated income statement in the prior year.

Notes to the Financial Statements continued14 Investments in subsidiaries, equity accounted joint ventures and associates continuedGroup continued

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

	2023	2022
	Joint ventures £m	Joint ventures £m
Revenue	–	(0.8)
Profit before tax	–	–
Taxation	–	–
Profit for the year	–	–
Non-current assets	–	–
Trade and other receivables	0.9	6.1
Cash and cash equivalents	–	(0.1)
Trade and other payables – current	(0.5)	(5.6)
Non-current liabilities	–	–
Investments in joint ventures and associates	0.4	0.4
Dividends received by Group	–	–

Net interest payable by joint ventures in 2023 was £nil (2022: £nil). There was no (2022: no) interest income and interest expense during the year.

At the year-end, there were no capital or financial commitments entered into by the joint ventures (2022: none).

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

	2023	2022
	Joint ventures £m	Joint ventures £m
Revenue	0.1	(1.9)
Profit before tax	–	–
Taxation	–	–
Profit for the year	–	–
Non-current assets	–	–
Trade and other receivables	2.0	17.4
Cash and cash equivalents	0.1	(0.3)
Trade and other payables – current	(0.9)	(16.1)
Non-current liabilities	–	–
Equity	1.2	1.0

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

Company

Investments in subsidiaries

	£m
Cost	
At 1 January 2022	426.0
Additions	1.1
At 31 December 2022	427.1
At 1 January 2023	427.1
Additions	2.2
At 31 December 2023	429.3
Amounts written off	
At 1 January 2022	(273.7)
At 31 December 2022	(273.7)
At 1 January 2023	(273.7)
At 31 December 2023	(273.7)
Net book value	
At 31 December 2023	155.6
At 31 December 2022	153.4
At 1 January 2022	152.3

Additions relate to the increase in the cost of investments in subsidiaries by the equivalent amount of the equity-settled share-based payment charge in relation to employees of subsidiaries included in the income statement (£2.2m (2022: £1.1m)).

Details of the Company's subsidiaries are set out in note 24.

15 Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers, in addition to amounts included in trade receivables and trade payables:

	2023 £m	2022 £m
Contract assets	26.9	50.8
Non-current assets recognised relating to customer retentions	4.2	3.4
Contract liabilities	(5.1)	(1.4)

Contract assets is made up of a portfolio of contracts and represents unbilled amounts and includes amounts arising from changes to the scope of works that have been recognised as revenue but not yet billed to the customer. There are no other significant one-off factors outside of normal trading contributing to the decrease in contract assets.

Contract liabilities result when cumulative cash received exceeds cumulative revenue on any particular contract. On contracts undertaken by the Group, this typically results from work being undertaken, or on framework contracts awarded, in a different order to the programme envisaged in the contractual payments schedule. There are no significant one-off factors outside of normal trading contributing to the increase in contract liabilities.

Revenue recognised in 2023 from performance obligations satisfied in previous periods was immaterial.

The aggregate amount of costs incurred plus recognised profits, less recognised losses, for all contracts in progress at the statement of financial position date was £4,116.8m (2022: £3,501.3m). Progress billings and advances received from customers under open construction contracts amounted to £4,098.4m (2022: £3,485.3m). Advances for which work has not started, and billings in excess of costs incurred and recognised profits are included in credit balances on long-term contracts.

Notes to the Financial Statements *continued*15 Assets and liabilities related to contracts with customers *continued*

Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from long-term contracts:

	2023 £m	2022 £m
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 31 December	1,826.2	1,812.6

Management expects that approximately 51% of the transaction price allocated to the unsatisfied contracts as of 31 December 2023 will be recognised as revenue during the next reporting period (£935.2m). Of the remaining 49%, 41% will be recognised during 2025 to 2027.

Mobilisation costs and costs incurred to obtain a contract

The Group does not have any assets relating to mobilisation costs or costs incurred to obtain a contract.

16 Trade and other receivables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Amounts included in current assets				
Trade receivables	92.5	98.3	–	–
Other receivables	6.6	6.8	–	–
Contract assets	26.9	50.8	–	–
Prepayments and accrued income	23.1	31.3	0.9	0.9
Amounts owed by joint ventures and associates	–	0.2	–	–
Amounts owed by subsidiary undertakings	–	–	–	69.4
	149.1	187.4	0.9	70.3
Amounts included in non-current assets				
Other receivables	4.2	3.5	–	–

At 31 December 2023, contract assets falling due within one year include retentions of £3.4m (2022: £3.1m) relating to long-term contracts in progress. Other receivables falling due after more than one year include retentions of £4.2m (2022: £3.5m) relating to long-term contracts in progress.

The average credit period within trade receivables on amounts billed for construction work and on sales of goods is 32 days (2022: 32 days). The analysis of the due dates of the trade receivables was £84.8m (2022: £91.3m) due within 30 days, £4.0m (2022: £3.3m) due between 30 and 60 days and £3.7m (2022: £3.7m) due after 60 days. An analysis of trade receivables that are beyond their due dates is shown in note 18.

In respect of the Company, amounts due from subsidiary undertakings are repayable on demand and may be interest-bearing.

17 Cash and cash equivalents, loans and borrowings

Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by joint operations of £59.2m (2022: £56.5m).

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Cash and cash equivalents	164.4	123.8	81.8	0.1
Cash and cash equivalents in the cash flow statement	164.4	123.8	81.8	0.1

Cash flow information

Net cash/(debt) reconciliation

This section sets out an analysis of net cash/(debt) and movements in net cash/(debt) during the year.

	Group		Company	
	2023 £m	2022 (as restated)* £m	2023 £m	2022 £m
Cash and cash equivalents	164.4	123.8	81.8	0.1
Net cash before lease liabilities	164.4	123.8	81.8	0.1
Lease liabilities (note 13) (as restated)*	(24.3)	(29.5)	–	–
Net cash	140.1	94.3	81.8	0.1

Group	Cash and cash equivalents £m	Borrowings – current £m	Borrowings – non-current £m	Lease liabilities (as restated)* £m	Total £m
Net cash/(debt) at 1 January 2022	159.4	(7.4)	(32.0)	(26.8)	93.2
Cash flows	(35.6)	7.4	32.0	8.4	12.2
New leases (as restated)*	–	–	–	(22.2)	(22.2)
Disposal of leases	–	–	–	11.1	11.1
Interest expense	–	–	–	(1.2)	(1.2)
Interest payments (presented as operating cash flows)	–	–	–	1.2	1.2
Net cash/(debt) at 31 December 2022 (as restated)*	123.8	–	–	(29.5)	94.3
Net cash/(debt) at 1 January 2023	123.8	–	–	(29.5)	94.3
Cash flows	40.6	–	–	12.6	53.2
New leases	–	–	–	(10.2)	(10.2)
Disposal of leases	–	–	–	2.8	2.8
Interest expense	–	–	–	(1.5)	(1.5)
Interest payments (presented as operating cash flows)	–	–	–	1.5	1.5
Net cash/(debt) at 31 December 2023	164.4	–	–	(24.3)	140.1

Company	Cash and cash equivalents £m	Borrowings – current £m	Borrowings – non-current £m	Total £m
Net cash/(debt) at 1 January 2022	75.0	(7.4)	(32.0)	35.6
Cash flows	(74.9)	7.4	32.0	(35.5)
Net cash at 31 December 2022	0.1	–	–	0.1
Net cash/(debt) at 1 January 2023	0.1	–	–	0.1
Cash flows	81.7	–	–	81.7
Net cash at 31 December 2023	81.8	–	–	81.8

* See note 26 for more information on restatement.

Notes to the Financial Statements *continued*

18 Financial instruments – Fair values and risk management

Risk management

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

Neither the Company nor the Group enters into speculative transactions.

a) Capital management

The objective of the Group's strategy is to deliver long-term sustainable value to shareholders while maintaining a balanced approach to investment in the business, a strong balance sheet and returns to shareholders. Costain is targeting a dividend cover of around three times adjusted earnings, taking into account the cash flow generated in the period, and the potential impact of the 'dividend parity' arrangement relating to the defined benefit pension scheme.

Dividend payments were resumed in 2023 with an interim dividend of 0.4p per share for the six months ended 30 June 2023. The Board is proposing a final dividend of 0.8p per share.

b) Liquidity and funding risk

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

Liquidity risk is managed by monitoring actual and forecast short and medium-term cash flows and the maturity profile of financial assets and liabilities and by maintaining adequate cash reserves and bank facilities. The nature and timing of the contract cash flows, together with the change in business mix, is causing the cash balances to reflect minimal variances between the average month-end and week-end balances during the year.

The average month-end net cash balance during the year was £141.4m (2022: £101.9m) and the average week-end net cash balance during the year was £141.0m (2022: £94.5m).

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

At 31 December 2023, the Group had banking and bonding facilities, including a £85.0m Revolving Credit Facility, extending to 24 September 2026 (2022: £125.0m Revolving Credit Facility, extending to 24 September 2024). The unsecured facilities have financial covenants based on interest cover and leverage measured quarterly and liquidity measured monthly. The covenants are based on accounting standards already in force at the date of signing the facilities and any subsequent agreements. The Group complied with all covenants in 2023. The unsecured bonding facilities are set out below:

	Group and Company	
	2023 £m	2022 £m
Expiring between one and five years	270.0	280.0
Element of above facilities available for borrowings	–	–

At 31 December 2023, the utilisation of these bonding facilities amounted to £69.8m (2022: £88.8m).

c) Credit risk

The Group focuses on major Tier 1 private sector and large public sector customers. In respect of contracts with customers, the Group uses an external credit scoring system to assess a potential customer's credit quality and considers the timing and amounts of progress payments and will enter into a contract only if these assessments are satisfactory.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Group 1 comprises major Tier 1 private sector and large public sector customers. Group 2 includes smaller customers and receivables arising from various additional services undertaken as requirements of some of the maintenance contracts. Revenue of £1,322.2m (2022: £1,412.1m) was attributable to Group 1 customers and £9.8m (2022: £9.3m) attributable to Group 2 customers.

The contract assets relate to unbilled work in progress and have substantially the same credit risk characteristics as the trade receivables for the same types of contracts. The Group has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors that might affect the ability of the customers to settle the receivables.

On this basis, the loss allowance as at 31 December 2023 and 31 December 2022 was determined as follows for both trade receivables and contract assets:

	Current	Less than 60 days past due	60 to 120 days past due	More than 120 days past due	Total
31 December 2023					
Group 1					
Expected loss rate	0.00%	0.10%	0.25%	0.50%	
	£m	£m	£m	£m	£m
Trade receivables	78.5	11.9	1.7	0.2	92.3
Contract assets	13.8	6.4	2.0	4.7	26.9
Loss allowance	–	–	–	–	–
Group 2					
Expected loss rate	1.0%	2.0%	15.0%	30.0%	
	£m	£m	£m	£m	£m
Trade receivables	0.1	–	–	0.1	0.2
Contract assets	–	–	–	–	–
Loss allowance	–	–	–	–	–
31 December 2022					
Group 1					
Expected loss rate	0.00%	0.10%	0.25%	0.50%	
	£m	£m	£m	£m	£m
Trade receivables	94.3	2.1	0.7	0.2	97.3
Contract assets	34.0	15.2	1.3	0.2	50.8
Loss allowance	–	–	–	–	–
Group 2					
Expected loss rate	1.0%	2.0%	15.0%	30.0%	
	£m	£m	£m	£m	£m
Trade receivables	0.7	0.2	–	0.1	1.0
Contract assets	–	–	–	–	–
Loss allowance	–	–	–	–	–

Impairment losses on trade receivables and contract assets are included within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. The total provision for impairment of trade and other receivables is £0.3m (2022: £0.3m). The credit risk in contract assets is not material.

Deposits in the UK are placed with the bank facility providers or, in joint operations, with banks agreed by the partners, provided that the bank has a long-term credit rating above BBB-. Transactions involving derivative financial instruments are with bank or insurance company counterparties with high credit ratings that are monitored regularly and with whom there are signed netting agreements. Given the high credit ratings of the banks and insurance companies used, management does not expect any counterparty will fail to meet its obligations.

Notes to the Financial Statements *continued*18 Financial instruments – Fair values and risk management *continued*Risk management *continued*c) Credit risk *continued*

At the year-end date, excluding UK Government bodies, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amounts of each financial asset, including derivative financial instruments, and the individual constituents of contract assets in the statement of financial position.

d) Interest rate risk

The Group has cash balances and bank facilities in the UK, mostly denominated in pounds sterling.

The Group repaid the Term Loan during 2022 and therefore, at the 2023 year-end, interest rate risk is negligible.

e) Foreign currency risk

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

Financial assets and liabilities

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

a) Currency and maturity of financial assets

Financial assets not measured at fair value

	2023				2022			
	Total £m	Within one year £m	Between one and five years £m	After five years £m	Total £m	Within one year £m	Between one and five years £m	After five years £m
Cash and cash equivalents:								
pounds sterling	163.9	163.9	–	–	123.2	123.2	–	–
other	0.5	0.5	–	–	0.6	0.6	–	–
	164.4	164.4	–	–	123.8	123.8	–	–
Trade, other receivables and amounts owed by joint ventures and associates:								
pounds sterling	103.3	99.1	4.2	–	108.8	105.3	3.5	–
Insurance recovery asset:								
pounds sterling	12.7	11.0	1.7	–	13.4	9.4	4.0	–
	116.0	110.1	5.9	–	122.2	114.7	7.5	–
Total financial assets not measured at fair value	280.4	274.5	5.9	–	246.0	238.5	7.5	–

The Group has not disclosed the fair values for short-term trade receivables and amounts due from joint ventures and associates within financial assets, because their carrying amounts are a reasonable approximation of fair values.

Financial assets measured at fair value

The Group measures its currency forwards at fair value (see above) but does not have any other financial assets measured at fair value.

b) Currency and maturity of financial liabilities

Financial liabilities not measured at fair value

	2023			2022		
	Total £m	Within one year £m	Between one and five years £m	Total (as restated)* £m	Within one year (as restated)* £m	Between one and five years (as restated)* £m
Lease liabilities – pounds sterling	24.3	10.3	14.0	29.5	11.0	18.5
Trade and other payables – pounds sterling	104.8	102.6	2.2	140.6	139.5	1.1
Total financial liabilities not measured at fair value	129.1	112.9	16.2	170.1	150.5	19.6

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

Lease liabilities are carried at the present value of the minimum lease payments. The expected undiscounted lease payments on long-term and high value leased assets included in the IFRS 16 discounted liability are within one year £13.0m (2022: £12.5m as restated*), two to five years £23.5m (2022: £26.8m as restated*) and over five years £4.2m (2022: £4.6m as restated*).

There are no financial liabilities carried at fair value.

The Company has issued financial guarantees relating to performance of contracts signed by its subsidiaries, which could be called upon on demand if the subsidiary fails to perform under the contract. However, the value of these guarantees is difficult to quantify, and they have never been called.

* See note 26 for more information on restatement.

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

	2023		2022	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other receivables (as above)	110.1	5.9	114.7	7.5
Contract assets	26.9	–	50.8	–
Prepayments and accrued income	23.1	–	31.3	–
	160.1	5.9	196.8	7.5
	2023		2022	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other payables (as above)	102.6	2.2	139.5	1.1
Contract liabilities	5.1	–	1.4	–
Accruals and deferred income	100.1	–	91.6	–
	207.8	2.2	232.5	1.1

d) Effective interest rates of financial assets and liabilities

	2023	2022
Financial assets		
Cash and cash equivalents	0.00% to 5.15%	0.00% to 3.40%

Financial liabilities

The Group has a £85.0m (2022: £125.0m) Revolving Credit Facility (RCF) of which £nil (2022: £nil) was drawn at the year-end. The RCF is unsecured and carries interest at floating rate at a margin over SONIA.

Notes to the Financial Statements continued18 Financial instruments – Fair values and risk management continued

Measurement of fair value

Valuation techniques and significant unobservable inputs

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

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities (as above)	Discounted cash flow	Not applicable

19 Trade and other payables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Current liabilities				
Trade payables	69.3	97.5	–	–
Other payables	24.1	33.4	0.1	0.1
Social security	8.6	7.9	–	–
Contract liabilities	5.1	1.4	–	–
Accruals and deferred income	100.1	91.6	0.5	0.9
Amounts owed to joint ventures and associates	0.6	0.7	–	–
Amounts owed to subsidiary undertakings	–	–	40.2	26.4
	207.8	232.5	40.8	27.4
Non-current liabilities				
Other payables	2.2	1.1	–	–
	2.2	1.1	–	–

Accruals and deferred income include subcontract liabilities (not yet payable), subcontract retentions and other accruals and deferred income.

The amounts included in contract liabilities and in deferred income at 31 December 2022 have all been recognised in the income statement in the year.

Other payables primarily includes the VAT liability.

The directors consider that the carrying amount of trade payables, other payables, social security and amounts owed to joint ventures and associates approximates to their fair value.

Financial risk management policies are in place that seek to ensure that all payables are paid within their credit timeframes.

20 Provisions for other liabilities and charges

Group	Rectification provision £m	Onerous contract £m	Other £m	Total £m
Current				
At 1 January 2022	6.2	43.4	0.7	50.3
Provided	7.1	–	0.6	7.7
Utilised	(4.8)	(43.4)	(0.4)	(48.6)
At 31 December 2022	8.5	–	0.9	9.4
At 1 January 2023	8.5	–	0.9	9.4
Provided	2.2	–	2.3	4.5
Utilised	(2.8)	–	(0.1)	(2.9)
Released	–	–	(0.4)	(0.4)
Reclassified from non-current	3.7	–	–	3.7
At 31 December 2023	11.6	–	2.7	14.3
Non-current				
At 1 January 2022	–	–	–	–
Provided	3.7	–	–	3.7
At 31 December 2022	3.7	–	–	3.7
At 1 January 2023	3.7	–	–	3.7
Reclassified to current	(3.7)	–	–	(3.7)
At 31 December 2023	–	–	–	–

Company	Expected credit loss provision £m	Funding obligations £m	Total £m
Current			
At 1 January 2022	40.0	–	40.0
Reclassified from non-current	–	0.1	0.1
Reclassified to amounts owed by subsidiary undertakings	(40.0)	–	(40.0)
At 31 December 2022	–	0.1	0.1
At 1 January 2023	–	0.1	0.1
Reclassified from non-current	–	0.1	0.1
Utilised	–	(0.1)	(0.1)
At 31 December 2023	–	0.1	0.1
Non-current			
At 1 January 2022	–	0.7	0.7
Provided	–	0.1	0.1
Reclassified to current	–	(0.1)	(0.1)
At 31 December 2022	–	0.7	0.7
At 1 January 2023	–	0.7	0.7
Reclassified to current	–	(0.1)	(0.1)
At 31 December 2023	–	0.6	0.6

Notes to the Financial Statements *continued*20 Provisions for other liabilities and charges *continued*

Group

Rectification provision: Contract in the water sector

In 2021, Costain recognised a provision in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where the Group had been prime contractor.

As at 31 December 2022, after working with designers, insurers and the customer, there was greater clarity as to the scope and cost of rectification work required and the Group's best estimate of the cost of the single most likely rectification solution at this time was £17.0m. Costs of £4.8m had been incurred at the end of 2022, and accordingly a provision of £12.2m was included in the statement of financial position.

During 2023, progress in design and procurement has enabled management to validate the assessed programme and the revised estimated total cost is £19.3m.

Costs of £7.7m have been incurred to date and therefore the provision recognised in the statement of financial position and disclosed in the table at 31 December 2023 is £11.6m. The work is still expected to be concluded in 2024.

As reported in 2022, Costain has engaged with its insurers and received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers continued to make interim payments on account during 2023. Accordingly, an insurance receivable of £12.7m is recognised in the statement of financial position in accordance with IAS 37 on the basis that recovery is considered virtually certain. There is a cap on insurance but the cap is significantly in excess of the cost estimate. As at 31 December 2022, £13.4m had been recognised as an insurance receivable.

Whilst the cost provision is management's best estimate based on the current level of design maturity, it is a reasonable assumption that as this design is finalised there may be variances to this estimate. It is therefore reasonably foreseeable that adjustments to the amounts recognised as a provision may be required.

However, given the relationship between the insurance policy and the liability, management does not consider that any increase in the cost of the rectification works will result in a material impact to the Group's financial position.

Further information on estimates and judgements made in relation to this provision are given in note 2.

Other provisions, mainly comprise provisions for remedial and legal costs, most of which are expected to be utilised over the next year.

Company

Provisions in the Company relate to funding obligations to a non-trading overseas subsidiary, which eliminate on consolidation.

21 Employee benefits

Pensions

The Group operates a defined benefit pension scheme in the UK; contributions are paid by subsidiary undertakings. There are also two defined contribution pension schemes in place in the UK, to which contributions are made by both subsidiary undertakings and employees. The total pension charge in the income statement is £11.4m, comprising £14.6m included in operating costs less £3.2m interest income included in net finance income (2022: £11.9m, comprising £13.2m included in operating costs less £1.3m 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 2022 and this was updated to 31 December 2023 by a qualified independent actuary. At 31 December 2023, there were 2,885 retirees and 2,412 deferred members (2022: 2,867 retirees and 2,529 deferred members). The weighted average duration of the obligations is 11.9 years (2022: 11.9 years).

	2023 £m	2022 £m	2021 £m
Present value of defined benefit obligations	(542.6)	(527.1)	(837.5)
Fair value of scheme assets	596.1	587.3	904.6
Recognised asset for defined benefit obligations	53.5	60.2	67.1

	2023 £m	2022 £m
Movements in present value of defined benefit obligations		
At 1 January	527.1	837.5
Interest cost	25.5	14.8
Remeasurements – demographic assumptions	(1.0)	(0.3)
Remeasurements – financial assumptions	14.8	(321.4)
Remeasurements – experience adjustments	10.5	29.7
Benefits paid	(34.3)	(33.2)
At 31 December	542.6	527.1

	2023 £m	2022 £m
Movements in fair value of scheme assets		
At 1 January	587.3	904.6
Interest income	28.7	16.1
Remeasurements – return on assets	6.5	(310.7)
Contributions by employer	8.1	10.8
Administrative expenses	(0.2)	(0.3)
Benefits paid	(34.3)	(33.2)
At 31 December	596.1	587.3

	2023 £m	2022 £m
Expense recognised in the income statement		
Administrative expenses paid by the pension scheme	(0.2)	(0.3)
Administrative expenses paid directly by the Group	(1.8)	(1.2)
Interest income on the net assets of the defined benefit pension scheme	3.2	1.3
	1.2	(0.2)

	2023 £m	2022 £m
Fair value of scheme assets		
Global equities	99.5	109.8
Multi-asset growth funds	65.9	56.1
Multi-credit fund	96.6	110.9
LDI plus collateral	323.8	307.2
Cash	10.3	3.3
	596.1	587.3

All equities are quoted securities. The multi-asset growth funds comprise portfolios of quoted and unquoted investments. The multi-credit fund invests in a portfolio of primarily floating rate debt of non-investment grade or unrated borrowers. The Liability Driven Investments (LDI) portfolio comprises gilts, repurchase agreements and swaps and is supported by a liquid absolute return fund providing collateral.

Quoted equities are valued at the prevailing bid, offer or middle market stock exchange or over-the-counter market prices. In the multi-asset growth funds, the fair values of the underlying unquoted assets are determined by the fund managers using quoted prices for similar assets or other valuation techniques where all the inputs are directly observable or indirectly observable from market data. The loans in the multi-credit fund may be priced either using quotes from a pricing vendor (if available), a broker or at a level determined by the investment manager that is agreed with the fund. The LDI fund is valued using a unit price calculated for the fund based on the net asset value of the underlying assets.

The pension scheme does not have any assets invested in the Group's financial instruments or in property or other assets used by the Group.

Notes to the Financial Statements *continued*21 Employee benefits *continued*Pensions *continued*

Principal actuarial assumptions (expressed as weighted averages)	2023 %	2022 %	2021 %
Discount rate	4.75	5.00	1.80
Future pension increases	2.90	2.90	3.25
Inflation assumption	3.05	3.10	3.40

Weighted average life expectancies from age 65, as per mortality tables, used to determine benefits at 31 December 2023 and 31 December 2022 are:

	2023		2022	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	22.0	23.8	21.9	23.9
Non-retirees currently aged 45	22.9	25.1	22.9	25.1

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
Increasing the discount rate by 0.25%, decreases pension liability and increases pension income/reduces pension cost by	15.8	0.8
Decreasing inflation by 0.25% (which reduces pension increases), decreases pension liability and increases pension income/reduces pension cost by	14.0	0.7
Increasing life expectancy by one year, increases pension liability and reduces pension income/increases pension cost by	19.2	0.9

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% of the value of the assets is sensitive to changes in interest rates and inflation and this mitigates the equivalent movement in the liabilities of the scheme as a whole. In 2022, long-term government bond yields increased significantly which meant that the value of the LDI portfolio fell but the value of the liabilities also fell by a similar amount.

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2022. In June 2023, the valuation and updated deficit recovery plan were agreed with the Scheme Trustee resulting in cash contributions of £3.3m for each year commencing 1 July 2023 (increasing annually with inflation) until the deficit is cleared, which would be in 2027, on the basis of the assumptions made in the 2022 valuation and agreed recovery plan. This replaces the previous contribution plan to the Scheme, which from April 2023 had increased to an annual payment of £11.98m paid in monthly instalments.

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 financial statements.

In June 2023, the High Court judged in the Virgin Media vs NTL Pension Trustee case that certain amendments made to the NTL Pension Plan were invalid because the scheme's actuary had not provided the necessary confirmations (Section 37 Certificates). If upheld, the High Court's decision could have wider ranging implications, affecting other schemes (such as the Costain Pension Scheme) that were contracted-out on a salary-related basis, and made amendments between April 1997 and April 2016.

There is still further uncertainty with a Court of Appeal hearing for the case set for June 2024 as well as the potential for overriding government legislation to be introduced. As a result the Company and the Trustee of the Costain Pension Scheme cannot at this stage be certain of the potential implications (if any). The Company and the Trustee of the Costain Pension Scheme will continue to seek legal advice on the matter and act accordingly as the situation evolves.

Defined contribution schemes

Two defined contribution pensions schemes are operated. The total expense relating to these plans was £12.6m (2022: £11.7m).

Share-based payments

The Company operates a number of share-based payment plans as described below.

Long-Term Incentive Plan (LTIP)

Shareholders approved Long-Term Incentive Plans at the 2014 and 2023 AGMs that allow for conditional awards with a maximum face value of up to 150% of base salary to be awarded. The maximum Costain has applied is 100% of base salary. Performance conditions, such as those based on earnings per share and Total Shareholder Return (TSR), are determined by the Remuneration Committee of the Board at the time of grant.

Annual Incentive Plan (AIP)

Executive directors and other senior management are eligible to participate in the Company's Annual Incentive Plan, under which one third of the award is deferred into shares. The total AIP award of up to 150% of base salary has performance conditions based on Group adjusted operating profit and other measures. Financial metrics will comprise at least 50% of AIP opportunity. The share award element vests on the second anniversary of the date of grant and will be satisfied by shares purchased by a trust on behalf of the Group. It will not lead to any dilution of shareholder interest. Participants must be in employment with the Company and not under notice of termination (either given or received) on the date of grant.

Save As You Earn Scheme (SAYE)

The Company operates a SAYE scheme that is open to all eligible employees who pay a fixed amount from salary into a savings account each month and elect to save over three years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved together with any interest or bonus (after which the options expire). If employees decide not to exercise their options, they may withdraw the funds saved. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

Share-based payment expense

The amount recognised in the income statement, before tax, for share-based payment transactions with employees was £2.2m (2022: £1.1m); the entire charge relates to subsidiaries.

Notes to the Financial Statements *continued*21 Employee benefits *continued*Share-based payments *continued*

Options outstanding at the end of the year

The movements in the outstanding LTIPs (nil-cost option) and AIP (nil-cost option), which provide for the grant of shares to executive directors and senior management, and the outstanding SAYE schemes, are shown below:

	LTIP	AIP	SAYE	Weighted average exercise price (p)
	Number (m)	Number (m)	Number (m)	
Outstanding at 1 January 2022	5.5	0.2	1.3	191.9
Forfeited during the year	(2.3)	–	(0.5)	278.7
Exercised during the year	–	(0.1)	–	–
Granted during the year	9.3	2.2	–	–
Outstanding at 31 December 2022	12.5	2.3	0.8	118.4
Outstanding at 1 January 2023	12.5	2.3	0.8	118.4
Forfeited during the year	(2.0)	(0.4)	(0.8)	113.8
Exercised during the year	(0.6)	–	–	–
Granted during the year	3.7	1.5	4.9	50.0
Outstanding at 31 December 2023	13.6	3.4	4.9	50.0
Exercisable at the end of the period	1.0	1.0	–	–

Share options outstanding at the end of the year had a weighted average remaining contractual life of 4.9 years (2022: 4.6 years).

The fair value of options granted is calculated using the Black-Scholes option pricing model. The aggregate fair value of options granted during the year was £4.8m (2022: £3.6m). The assumptions used in valuing the grants were:

	2023	2022
Expected volatility	46.0%	20.0%
Expected life (years)	3.5	3.0
Risk-free interest rate	3.2%	1.2%
Expected dividend yield	2.3%	0.0%

The expected volatility is based on the historical share price volatility over a term matching the expected life. The expected life is based on management's best estimate having regard to the effect of non-transferability, exercise restrictions and behavioural considerations.

22 Share capital

	2023		2022	
	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	275.1	137.5	275.0	137.5
Issued in year (see below)	1.6	0.8	0.1	–
Shares in issue at end of year – ordinary shares of 50p each, fully paid	276.7	138.3	275.1	137.5

The Company's issued share capital comprised 276,718,885 ordinary shares of 50 pence each as at 31 December 2023 (2022: 275,084,741 ordinary shares).

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

In the year, dividend payments resumed. A total of 34,144 shares were issued under the Scrip Dividend Scheme during 2023.

No options were exercised under the SAYE schemes in the year as all options were 'underwater' so the Company issued nil shares in respect of SAYE. The 2020 LTIP vested in the year and 1,600,000 shares were issued in April 2023 to satisfy this vesting.

The share options outstanding at the year-end are detailed in note 21. Details of the performance conditions and the options granted to executive directors are given in the Directors' Remuneration Report.

23 Contingent liabilities

Group

Group bank borrowing facilities and bank and surety bonding facilities are supported by cross-guarantees given by the Company and participating companies in the Group.

There are contingent liabilities in respect of:

- performance bonds and other undertakings entered into in the ordinary course of business; and
- legal claims arising in the ordinary course of business.

It is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided.

Company

The Company has guaranteed the obligations of the subsidiary companies that are participating employers of The Costain Pension Scheme, the defined benefit pension scheme in the UK. At 31 December 2023, the asset was £53.5m (2022: asset of £60.2m) on an IAS 19 basis and is included in these financial statements as disclosed in note 21.

Notes to the Financial Statements *continued*

24 Subsidiary undertakings, joint ventures, associates and joint operations

Activity	Percentage of equity held	Registered office/ principal place of business
Principal subsidiary undertakings		
Costain Limited	100	(1)
Costain Engineering & Construction Limited	100	(1)
Costain Integrated Services Limited	100	(1)
Costain Integrated Technology Solutions Limited	100	(1)
Costain Oil, Gas & Process Limited	100	(1)
Richard Costain Limited	100	(1)

Activity	Issued share capital £m	Percentage of equity held	Registered office/ principal place of business	Reporting date
Principal joint ventures				
ABC Electrification Ltd	19.6	33.3	(7)	31 March
4Delivery Limited	–	40	(3)	31 March

The equity capital of the above are held by subsidiary undertakings with the exception of Richard Costain Limited and Costain Engineering & Construction Limited.

All undertakings operate mainly in the country of incorporation. See key to registered office/principal place of business at the bottom of this note.

All holdings are of ordinary shares.

Activity	Percentage interest	Country of business
Major joint operations		
A-one+ Joint Venture – ASC area 12 – Highways England	33.3	UK
CH2M-Costain Joint Venture – Area 14 M&R contract	50	UK
Costain-Atkins-Black & Veatch Joint Venture – Thames Water AMP6	70	UK
Costain-CH2M UK – ESCC JV – East Sussex highway maintenance	50	UK
Costain-Galliford Try Joint Venture – M1 smart motorways	50	UK
Costain-MWH Joint Venture – Southern Water AMP6	50	UK
Costain-Skanska – HS2 Enabling works	50	UK
Costain-Skanska Joint Venture – A14 Cambridge to Huntingdon Improvement Scheme	50	UK
Costain-Skanska Joint Venture – Balfour Beatty Joint Venture – A14	33.3	UK
CVB Joint Venture – Thames Tideway Tunnel East	40	UK
Galliford-Costain-Atkins Joint Venture – United Utilities	42.5	UK
Skanska-Costain-Strabag S1 Joint Venture – HS2 Main Works	34	UK
Skanska-Costain-Strabag S2 Joint Venture – HS2 Main Works	34	UK
The ASP Batch Joint Venture – Severn Trent – Large capital schemes outside AMP6	33.3	UK

In accordance with Section 409 of the Companies Act 2006 a full list of subsidiaries, associates, joint ventures and joint arrangements is required:

Status	Percentage of equity held	Registered office/ principal place of business
Other subsidiaries owned directly by Costain Group PLC		
Costain Civil Engineering Limited	100	(1)
Costain Investments Limited	100	(8)
Costain USA Inc.	100	(5)
County & District Properties Limited*	100	(1)
Renown Investments (Holdings) Limited*	100	(1)
Lysander Services Limited*	100	(1)
Other subsidiaries owned indirectly by Costain Group PLC		
Brunswick Infrastructure Services Limited	100	(1)
Calvert & Russell Limited*	100	(1)
CLM Engineering (Overseas) Limited	100	(1)
COGAP (Middle East) Limited*	100	(1)
Construction Study Centre Limited*	100	(1)
Costain Alcaidesa Limited*	100	(1)
Costain America Inc.	100	(5)
Costain Building & Civil Engineering Limited*	100	(1)
Costain Construction Limited	100	(1)
Costain de Venezuela CA	100	(15)
Costain Energy Solutions Limited	100	(1)
Costain Engineering & Construction (Overseas) Limited*	100	(1)
Costain Engineering Services Inc.	100	(5)
Costain International Limited*	100	(1)
Costain Management Design Limited	100	(1)
Costain Minerals Inc.	100	(5)
Costain Mining Services Inc.	100	(5)
Costain Oil, Gas & Process (Nigeria) Limited	95	(16)
Costain Oil, Gas & Process (Overseas) Limited	100	(1)
Costain Process Construction Limited	100	(1)
Costain Upstream Limited*	100	(2)
JBCC Rhead PTE Limited	100	(12)
Promanex (Civils & Industrial Services) Limited	100	(1)
Promanex (Construction & Maintenance Services) Limited	100	(1)
Promanex (Total FM & Environmental Services) Limited*	100	(1)
Sunland Mining Corporation (II)	100	(5)
Westminster Plant Co. Limited	100	(1)

* Denotes that the entity has taken the audit exemption under Section 479A of the Companies Act 2006 for the financial year ended 31 December 2023.

Notes to the Financial Statements *continued*24 Subsidiary undertakings, joint ventures, associates and joint operations *continued*

	Status	Percentage of equity held	Registered office/principal place of business
Other joint ventures or associates owned indirectly by Costain Group PLC			
ACM Health Solutions Limited	Dormant	33.3	(4)
Brighton & Hove 4Delivery Limited	Trading	49	(3)
Budimex & Costain SP ZO.O	Dormant	50	(14)
Costain Abu Dhabi Co WLL	Dormant	49	(9)
China Harbour-Costain Mexico S de RL de CV	Dormant	50	(13)
Gravitas Offshore Limited	Dissolved 4 April 2023	45	(6)
Jalal Costain WLL	Dormant	49	(10)
Nesma-Costain Process Co. Limited	Dormant	50	(11)

Costain Abu Dhabi Co WLL has previously been treated as a subsidiary undertaking due to Costain having power to influence and control the composition of the Board of directors and the beneficial right to all the net income. However, Costain considers that it no longer controls the Company which no longer trades. Dormant status means no or a very small number of transactions with activity winding down.

	Activity	Percentage interest	Country of business
Other joint operations, including completed			
ACTUS Joint Venture – Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25	UK
Alstom-Babcock-Costain Joint Venture – Edinburgh to Glasgow Rail Improvement Programme	Rail Engineering	33.3	UK
Alstom-Costain C644 Joint Venture – Traction power – Crossrail	Rail Engineering	32.5	UK
Alstom-Costain C650 Joint Venture – HV power supply – Crossrail	Rail Engineering	32.5	UK
Amec-Costain-Jacobs Joint Venture – Magnox ILW Management Programme	Civil Engineering	33.3	UK
A-one+ Integrated Highway Services – MAC 7	Engineering and Maintenance	33.3	UK
A-one+ Integrated Highway Services – MAC 10	Engineering and Maintenance	25	UK
A-one+ Integrated Highway Services – MAC 12	Engineering and Maintenance	33.3	UK
A-one+ Integrated Highway Services – MAC 14	Engineering and Maintenance	33.3	UK
A-one+ Joint Venture – ASC area 4 – Highways England	Engineering and Maintenance	33.3	UK
ATC Joint Venture – C610 – Crossrail	Rail Engineering	32.5	UK
ATC Joint Venture – C695 – Crossrail	Rail Engineering	32.5	UK
Balfour Beatty-BmJV-Carillion-Costain Joint Venture – National Major Projects – Highways England	Civil Engineering	29	UK
CosMott Joint Venture – Devonport Major Infrastructure Programme – Construction Delivery Partner	Consultancy	50	UK
Costain Arup Joint Venture – Yorkshire Water	Consultancy	50	UK
Costain-Dalekovod Joint Venture – National Grid HV Overhead Line System	Engineering	60	UK
Costain-Hochtief Joint Venture – Reading station	Civil Engineering	50	UK
Costain-Lafarge Joint Venture – East and South East Framework	Civil Engineering	50	UK
Costain-Lafarge Joint Venture – Midlands Framework	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – Bond Street station	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – Farringdon station	Civil Engineering	50	UK

	Activity	Percentage interest	Country of business
Other joint operations, including completed <i>continued</i>			
Costain-Skanska C336 Joint Venture – Paddington New Yard – Crossrail	Civil Engineering	50	UK
Costain-Skanska C360 Joint Venture – Eleanor Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska C405 Joint Venture – Paddington – Crossrail	Civil Engineering	50	UK
Costain-Skanska C411 Joint Venture – Bond Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska C412 Joint Venture – Bond Street – Crossrail	Civil Engineering	50	UK
Costain-Skanska Joint Venture – A14 Ellington to Fen Ditton	Civil Engineering	50	UK
Costain-Skanska Joint Venture – Crossrail Civils Framework Enabling Works	Civil Engineering	50	UK
Costain-Skanska Joint Venture – NGT Tunnels, London	Civil Engineering	52.6	UK
Costain-Skanska Joint Venture – Paddington Station Bakerloo Line Link Project	Civil Engineering	50	UK
Costain-Taylor Woodrow Joint Venture – King's Cross re-development & Phase II Northern works	Civil Engineering	50	UK
Costain-Vinci Construction Joint Venture – Shieldhall	Civil Engineering	50	UK
Costain-Vinci Joint Venture – M4 corridor around Newport	Civil Engineering	50	UK
Costain-VWS Joint Venture – Mersey Valley Processing Centre (Shell Green) Extension Project Stage 2	Engineering	50	UK
Educo UK Joint Venture – Bradford Schools	Building	50	UK
Lagan-Ferrovial-Costain – A8	Civil Engineering	45	UK
The e5 Joint Alliance Severn Trent Framework	Engineering	25	UK
TSIF-ILW Joint Venture – Trawsfynydd nuclear power station decommissioning	Civil Engineering	33.3	UK

Key to registered office/principal place of business

- (1) Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, England
- (2) 56 Carden Place, Aberdeen, AB10 1UP, Scotland
- (3) 210 Pentonville Road, London, N1 9JY, England
- (4) Booths Park, Chelford Road, Knutsford, WA16 8QZ, England
- (5) The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801 (New Castle County), USA
- (6) Whitehill House, Windmill Hill Business Park, Whitehill Way, Swindon, SN5 6PE, England
- (7) 8th Floor, The Place, High Holborn, London, WC1V 7AA, England
- (8) P.O.Box N-7768, Bank Lane, Nassau, Bahamas
- (9) Dormant company – Abu Dhabi, UAE, no record of address
- (10) Flat 33, Building 232, Road 18, Block 321, Manama, Bahrain
- (11) P.O.Box 6967, 21452, Jeddah, Saudi Arabia
- (12) Peninsula Plaza #27-01, 111 North Bridge Road, 179098, Singapore
- (13) Calle Delfines No. 268 – 2, Frac. Playa Ensenada, Ensenada, B.C., CP. 22880, Mexico
- (14) Marszałkowska 82, Warsaw, Mazowieckie, 00-517, Poland
- (15) Dormant company – Venezuela, no record of address
- (16) Dormant company – Nigeria, no record of address

Notes to the Financial Statements *continued*

25 Related party transactions

Group

Related party relationships exist with subsidiaries, joint ventures and associates, joint operations, The Costain Pension Scheme and with directors and executive officers.

Sales of goods and services

	2023			2022		
	Joint ventures and associates £m	Joint operations £m	Total £m	Joint ventures and associates £m	Joint operations £m	Total £m
Joint operations revenue	–	564.6	564.6	–	599.1	599.1
Services of Group employees	–	98.4	98.3	0.6	81.2	81.8
Construction services and materials	–	20.9	20.9	–	17.2	17.2
	–	683.9	683.9	0.6	697.5	698.1

Balances with joint ventures and associates are disclosed in notes 16 and 19. Balances with joint operations are eliminated on consolidation.

The Costain Pension Scheme

Details of transactions between the Group and The Costain Pension Scheme are included in note 21.

Transactions with key management personnel

Disclosures related to the remuneration of key management personnel as defined in IAS 24 'Related Party Disclosures' are given below.

Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board, as the controls operated by the Group ensure that all key decisions are reserved for the Board.

As at 11 March 2024, the date of signing of this report, the directors of the Company and their immediate relatives control 377,239 ordinary shares in Costain Group PLC, which expressed as a percentage of the issued share capital is 0.14% (2022: 0.13%) of the voting shares of the Company. In addition, Mr Bishoy Azmy, non-independent, non-executive director is the director representative of the shareholder ASGC which holds 41,666,666 shares and is a c.15% shareholder of the Company. Bishoy Azmy held no shares in his own name.

In addition to their salaries, in respect of the executive directors and executive officers, the Group provides non-cash benefits and contributes to defined contribution pension plans. Executive directors and executive officers also participate in the Group's LTIP, AIP and SAYE plans, which are detailed in note 21.

The compensation of key management personnel, including the directors, is as follows:

	Group	
	2023 £m	2022 £m
Directors' emoluments	1.3	1.9
Executive officers' emoluments	2.0	2.1
Post-employment benefits	0.1	0.1
Termination benefits	0.2	0.6
Share-based payments	1.5	0.8
	5.1	5.5

The above amounts are included in employee benefit expense (note 6).

26 Prior year restatement

IFRS 16 – leases

Due to a mathematical error in the model used to calculate the IFRS 16 right-of-use assets' cost and lease liabilities on initial recognition, the cost of right-of-use assets and the lease liabilities reported at 31 December 2022 as reported in the 2022 financial statements were both understated by £5.4m. There is no material impact on the consolidated income statement or the consolidated cash flow statement from this error and the impact of the restatement is as shown in the table below. There was also no material impact at the opening balance sheet date of the earliest period presented, being 1 January 2022.

	As reported	As restated
	2022 £m	2022 £m
Right-of-use assets	25.3	30.7
Lease liabilities – current	9.1	11.0
Lease liabilities – non-current	15.0	18.5

27 Events after the reporting date

There are no events after the reporting date.

Five-Year Financial Summary

	2023 £m	2022 (as restated)** £m	2021 £m	2020 £m	2019 £m
Revenue and profit					
Revenue	1,332.0	1,421.4	1,135.2	978.4	1,155.6
Contract adjustments	–	–	43.4	92.1	20.0
Adjusted revenue	1,332.0	1,421.4	1,178.6	1,070.5	1,175.6
Adjusted operating profit	40.1	36.3	30.1	18.0	37.9
Adjusting items – contract adjustments	–	–	(39.2)	(99.7)	(20.0)
Adjusting items – other	(13.3)	(1.4)	(0.4)	(10.3)	(21.1)
Operating profit/(loss)	26.8	34.9	(9.5)	(92.0)	(3.2)
Share of results of joint ventures and associates	–	–	–	0.2	0.3
Profit/(loss) from operations	26.8	34.9	(9.5)	(91.8)	(2.9)
Finance income	8.0	1.8	0.1	0.8	1.0
Finance expense	(3.9)	(3.9)	(3.9)	(5.1)	(4.7)
Net finance income/(expense)	4.1	(2.1)	(3.8)	(4.3)	(3.7)
Profit/(loss) before tax	30.9	32.8	(13.3)	(96.1)	(6.6)
Taxation	(8.8)	(6.9)	7.5	18.1	3.7
Profit/(loss) for the year attributable to equity holders of the Parent	22.1	25.9	(5.8)	(78.0)	(2.9)
Earnings/(loss) per share – basic*	8.1p	9.4p	(2.1)p	(36.7)p	(2.3)p
Earnings/(loss) per share – diluted*	7.8p	9.4p	(2.1)p	(36.7)p	(2.3)p
Dividends per ordinary share					
Final	0.8p	–	–	–	–
Interim	0.4p	–	–	–	3.8p
Summarised consolidated statement of financial position					
Intangible assets	45.7	52.2	52.5	52.1	59.0
Property, plant and equipment	26.8	32.0	32.0	39.9	44.1
Investments in and loans to equity accounted joint ventures and associates	0.4	0.4	0.4	0.4	2.5
Retirement benefit asset	53.5	60.2	67.1	–	4.9
Other non-current assets	17.7	22.0	20.9	27.1	6.7
Total non-current assets	144.1	166.8	172.9	119.5	117.2
Current assets	324.5	320.8	359.5	370.4	435.3
Total assets	468.6	487.6	532.4	489.9	552.5
Current liabilities	233.0	253.1	281.4	266.3	328.9
Retirement benefit obligations	–	–	–	5.6	–
Other non-current liabilities	16.2	23.3	52.0	61.5	65.9
Total liabilities	249.2	276.4	333.4	333.4	394.8
Equity attributable to equity holders of the Parent	219.4	211.2	199.0	156.5	157.7

* The Loss per share figures for 2019 have been restated for the capital raise in 2020.

** See note 26 for more information on restatement.

Financial Calendar and Other Shareholder Information

Financial calendar¹

Full-year results 2023	12 March 2024
Annual General Meeting	16 May 2024
Final Dividend payment date ²	28 May 2024
Half-year end 2024	30 June 2024
Half-year results 2024	21 August 2024
Financial year-end 2024	31 December 2024

¹ The financial calendar may be updated from time to time throughout the year. Please refer to the Investors section of our website at www.costain.com for up-to-date details.

² Subject to shareholder approval at the Annual General Meeting to be held on 16 May 2024.

Scrip dividend scheme

Subject to shareholder approval of the final dividend at the 2024 Annual General Meeting, a scrip dividend scheme will be offered in respect of the final dividend. Those shareholders who have already elected to join the scheme will automatically have their dividend sent to them in this form.

Shareholders wishing to join the scheme for all future dividends should return a completed mandate form to the Registrar, EQ. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website at www.costain.com or obtained from EQ by telephoning +44 (0)371 384 2268* (please use the country code if calling from outside the UK).

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account, by completing a bank mandate form. The advantages of using this service are:

- the payment is more secure as you can avoid the risk of cheques becoming lost in the post
- it avoids paying in a cheque and
- there is no risk of lost, stolen or out-of-date cheques.

A mandate form can be obtained from the Company's website, or by contacting EQ on +44 (0)371 384 2250* (please use the country code if calling from outside the UK) and can also be obtained via the shareholder website at www.shareview.co.uk (see overleaf for further details). Overseas shareholders can arrange for their dividends to be paid in their local currency and more information can be obtained from www.shareview.co.uk/overseas.

Analysis of shareholders

as at 6 March 2024

	Total number of holdings	Percentage of holders	Total number of shares	Percentage of issued capital
Shareholdings 100,000 and more	134	1.72	265,851,739	96.07
Shareholdings 50,000–99,999	43	0.55	3,215,477	1.16
Shareholdings 25,000–49,999	51	0.65	1,847,844	0.67
Shareholdings 5,000–24,999	295	3.78	3,091,119	1.12
Shareholdings 1–4,999	7,290	93.30	2,712,706	0.98
Totals	7,813	100	276,718,885	100

Secretary

Nicole Geoghegan

Registered Office

Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, United Kingdom
Telephone 01628 842444
www.costain.com
Company Number 1393773

* Lines are open Monday to Friday 08.30am to 5.30pm, excluding public holidays in England and Wales.

Financial Calendar and Other Shareholder Information continued

Registrar

EQ, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Telephone +44 (0)371 384 2250* (please use the country code if calling from outside the UK).

Website

www.shareview.co.uk

Shareview service

The Shareview service from our registrar, EQ, allows shareholders to manage their shareholding online, giving:

- direct access to data held on their behalf on the share register including recent share movements, indicative valuations and dividend details and
- the ability to change their address or dividend payment instructions online.

To sign up for Shareview you need the Shareholder Reference Number printed on your notice of availability, proxy form or dividend stationery. There is no charge to register.

When you register with the site, at www.shareview.co.uk, you can register your preferred format (post or email) for shareholder communications. If you select email as your mailing preference, you will be notified of various shareholder communications, such as annual results, by email instead of post.

When dividends are paid, if you have them paid straight to your bank account, and you have selected email as your mailing preference, you can also collect your 'dividend tax confirmation' electronically. Instead of receiving the paper 'dividend tax confirmation', you will be contacted by email with details of how to download your electronic version. Visit the website at www.shareview.co.uk for more details.

Details of software and equipment requirements are given on the website.

Bereavement services

In the event of the death of a shareholder the next of kin or administrator of the estate should contact our registrar, EQ. EQ have a Designated Bereavement Services Helpline on +44 (0)371 384 2793* (please use the country code if calling from outside the UK). You will be asked to supply a certified copy or the original of the death certificate, together with an appropriate authority to deal with the estate, such as a Grant of Probate.

Further information is available on www.shareview.co.uk

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. Shareholders who wish to limit the amount of unsolicited mail they receive can contact The Mailing Preference Service at www.mpsonline.org.uk or on 0207 291 3310.

Further guidance can also be found on the Company's website at www.costain.com.

ShareGift

The Orr Mackintosh Foundation (ShareGift – Registered Charity No. 1052686) operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomical to sell them. Details of the scheme are available on the ShareGift website at www.sharegift.org. EQ can provide stock transfer forms on request. Donating shares to charity in this way gives rise neither to a gain nor a loss for Capital Gains Tax purposes and the service is free of charge.

Website

The Company's website at www.costain.com provides information about the Group including its strategy and recent news. The 'Investors' section is a key source of information for shareholders, containing details of financial results, shareholder meetings and dividends. Current and past annual reports are also available to view and download.

* Lines are open Monday to Friday 08.30am to 5.30pm, excluding public holidays in England and Wales.

Contact us

We are committed to engaging in dialogue with all our stakeholders.

For investor relations enquiries, please contact: ir@costain.com

For media enquiries, please contact: mediaenquiries@costain.com

Accreditations

ISO 9001	Quality Management System.
ISO 14001	Environmental Management.
ISO 45001	Occupational Health and Safety.
ISO 27001	Information Security Management.
ISO 22301	Business Continuity Management.
ISO 44001	Collaborative Business Relationships.
ISO 20000-1	IT Service Management.
PAS 2080	Carbon Management in Infrastructure.
TickITplus	Systems and Software Development and Support.



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www.costain.com/investors/