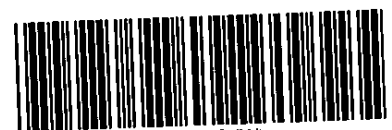




# Creating a sustainable future

**Costain Group PLC**  
Annual Report and Accounts  
**2022**  
Company No. 1393773

WEDNESDAY



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12/07/2023  
COMPANIES HOUSE

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

## Contents

### Overview

Highlights	1
Our purpose	2
Chair's statement	4



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### Strategic Report

Chief Executive Officer's statement	7
Our strategy	10
Market overview	12
Our business model	15
Purpose in action	16
Operational review	22
Key performance indicators	28
Our stakeholders	30
Environmental, Social and Governance (ESG)	32
The Task Force on Climate-related Financial Disclosures (TCFD)	34
Ethnicity pay gap statistics	35
Chief Financial Officer's review	36
Principal risks and uncertainties	39
Viability statement	44

### Governance

Board of Directors	46
Executive Board	48
Governance at a glance	50
Chair's introduction	52
Board evaluation	55
Our governance structure	56
S172 statement	58
Key activities	62
Board diversity	64
Purpose, values and culture	66
Workforce engagement	68
Attendance and composition	72
Other Board matters	74
Audit Committee report	76
Nomination Committee report	82
Directors' remuneration report	86
Remuneration at a Glance	86
Annual Statement by Chair of the Remuneration Committee	89
Directors' remuneration policy	95
Annual Report on Remuneration	102
Directors' report	120
Directors' responsibility statement	126
Independent auditor's report	127

### Accounts

Consolidated Income Statement	136
Consolidated Statement of Comprehensive Income	137
Consolidated Statement of Financial Position	138
Company Statement of Financial Position	139
Consolidated Statement of Changes in Equity	140
Company Statement of Changes in Equity	141
Consolidated Cash Flow Statement	142
Company Cash Flow Statement	143
Notes to the Financial Statements	144
Five-Year Financial Summary	194

### Other Information

Financial Calendar and Other Shareholder Information	195
Contact Us	197

## Financial highlights

<div>2021 £1,135.2m</div> <div>Revenue</div> <div>£1,421.4m</div>	<div>(£9.5m) 2021</div> <div>Operating profit</div> <div>£34.9m</div>	<div>(0.8%) 2021</div> <div>Operating profit margin</div> <div>2.5%</div>	<div>(2.1p) 2021</div> <div>Basic profit (loss) per share</div> <div>9.4p</div>
<div>2021 £53.1m</div> <div>Free cash flow<sup>1</sup></div> <div>£72.9m</div>	<div>2021 £30.1m</div> <div>Adjusted operating profit<sup>2</sup></div> <div>£36.3m</div>	<div>2021 2.6%</div> <div>Adjusted operating profit margin<sup>2</sup></div> <div>2.6%</div>	<div>2021 9.6p</div> <div>Adjusted basic earnings per share<sup>2</sup></div> <div>9.9p</div>

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

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

## Non-financial highlights

<div>2021 0.15 LTIR</div> <div>Safety</div> <div>0.09 LTIR</div>	<div>2021 £200k</div> <div>Social contribution</div> <div>£391k</div>	<div>2021 42,722tCO<sub>2</sub>e</div> <div>Environmental impact</div> <div>36,283tCO<sub>2</sub>e</div>
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See our KPIs / Page 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/](http://www.costain.com/our-culture/performance-and-reports/)

## Our purpose

# Improving people's lives

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### 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 sectors in the UK: Transport, Energy, Water and Defence and everything that we do is rooted in delivering solutions and is organised around our customers.

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### Transportation

Within the Transportation division, we support key customers such as National Highways, HS2 and Network Rail, as well as local and devolved authorities, and Integrated Transport such as aviation. We report results in three sectors: Road, Rail and Integrated Transport.

Road	Rail	Integrated Transport
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### 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.

Water	Energy	Defence
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### Our ambition

Revenue 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.



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See our strategy / Pages 10 and 11

### How we measure success

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



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See our risks / Pages 39 to 43

### Our stakeholders

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



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See our stakeholder engagement / Pages 58 and 59

## Chair's statement

# During 2022, Costain delivered an improved financial performance.

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I am delighted to be discussing the performance of Costain with you, my first set of results as chair since joining the Group in November 2022.

*"We are progressing well on our strategic objectives and delivering positive benefits for all our stakeholders in difficult conditions."*

**Kate Rock**  
Chair

We have a strong leadership team with a clear strategy and history of delivery in the growing UK infrastructure market and I look forward to contributing to the next stage of the Group's development.

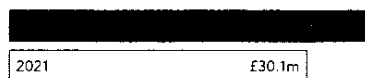
During 2022, Costain delivered an improved financial performance, with the Group's adjusted operating profit<sup>1</sup> increasing in the year from £30.1m in 2021 to £36.3m, while also generating strong free cash flow. This financial performance has been delivered against the backdrop of increasing inflation and challenging macroeconomic conditions, demonstrating the strength of Costain's operational and financial management. Our CFO, Helen Willis, discusses this in our Financial Review on pages 36 to 38.

## Our customers

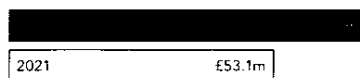
Costain's ambition is to be the partner of choice for our customers, building on its deep construction heritage to address the changing needs of infrastructure and bringing together a unique mix of engineering solutions for increasingly complex problems. Our commitment to create connected, sustainable infrastructure is core to all our activities.

Adjusted operating profit<sup>1</sup>

£36.3m

Free cash flow<sup>2</sup>

£72.9m



There is a necessity to update, connect and integrate infrastructure ecosystems to meet the needs of the UK's growing population, the impact of climate change and the requirement for increased economic, environmental, and political resilience. We are pleased that the UK Government set out in its Autumn Statement a series of measures to boost growth and productivity by investing in people, infrastructure, and innovation, with investment in net zero, rail and energy.

To meet these societal changes and the opportunities it brings, Costain focuses on the four key markets of Transport, Water, Defence and Energy, and we discuss our strategic priorities and addressable markets on pages 12 to 14.

### Stakeholder engagement

During 2022, the Group has increased levels of engagement with our customers, to better enable smooth project delivery, while adapting rapidly to the twin challenges of inflation and material supply shortages. We are also increasingly working closely with Government and its agencies, helping them to shape their projects at an early stage of the planning process and maximise efficiencies during infrastructure delivery.

Costain also plays a growing role in wider society, with the Board focused on Environmental, Social and Governance (ESG) matters. ESG is not only important for the Group, but also for our customers who increasingly value our approach to responsible business and the expertise, knowledge and capability we provide.

Delivering our climate change action plan remains our highest environmental priority, with the Group focused on reducing operational emissions in line with PAS 2080 and working with designers to scale up the use of transitional materials. These initiatives will be essential to Costain meeting our objective to be net zero carbon by 2035. We look forward to receiving feedback on our climate change action plan from the Science Based Target initiative (SBTi).

Our social priority is to support our customers in maximising the social value generated from infrastructure investment, creating a lasting legacy within the communities where we work. This directly aligns with the Levelling Up agenda and is supportive of stakeholder procurement policies. Further details of our projects can be seen on pages 16 to 21.

With the continued industry challenges around labour and material availability, ethics continues to be a significant governance priority for Costain and we are increasing our work in this area to further minimise the risk of unethical labour practices.

Further detail on our ESG policies and practices can be found on pages 32 to 35 and we publish a separate ESG report which is available at [www.costain.com/our-culture/performance-and-reports](http://www.costain.com/our-culture/performance-and-reports).

### Our People

Culture is central to Costain and our values inform everything we do, with diversity, equality and inclusion being key areas of focus, critical in developing high performing teams. In order to develop the Costain culture, our CEO Alex Vaughan and the management team have been connecting widely with the Costain workforce, such as on the regular Leadership Impact Days, discussed on page 58 and 68. We outline the Board's engagement and outreach activities in more detail on pages 68 to 71.

This year we launched our refreshed values and behaviours. Our values are what we stand for as an organisation and, most importantly, how they guide our activities. These are discussed on pages 66 and 67. I'm delighted by how quickly I've seen colleagues bringing our values and behaviours to life.

In 2022, we ran a Best Companies employee engagement survey and I was pleased to see that we were recognised as a 'Very Good Company' to work for.

<sup>1</sup> See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics

## Chair's statement continued

We have also recognised that the cost of living was, and is, significantly affecting many of our people and have taken several actions to give as much support as possible, including one-off payments, an employee discount scheme and a financial education programme. Our response to the cost-of-living crisis will be for the long-term and we are continuously reviewing the support we can offer.

### Capital allocation

During the last two years, the Group has made very significant progress in its operating cash generation, demonstrated by our strong year end cash position and operating cash flow in 2022.

A strong balance sheet is fundamental to our ability to win business and manage risk. At the same time, the Board recognises the importance of dividends to shareholders and remains committed to returning to dividend payments when appropriate.

The Board regularly reviews the Company's capital and its potential uses, including whether there is surplus capital available to distribute to our shareholders.

Looking forward over the next financial year, the Board has concluded that the priorities, and best returns, for the Company's capital are to invest in our organic opportunities and to build further its capital base.

### Board changes

On 6 April 2022, Fiona MacAulay joined the Board as an independent non-executive director and became a member of the Company's Audit, Nomination and Remuneration Committees. Fiona became chair of the Remuneration Committee at the conclusion of the Annual General Meeting on 5 May 2022, taking over from Jacqueline de Rojas, who chaired the Remuneration Committee on an interim basis following the resignation of Alison Wood.

As detailed in our 2021 full year results, Paul Golby announced that he wished to step down as chair and non-executive director. The Board wishes to thank Paul for his considerable contribution to Costain for more than six years.

The Nomination Committee, led by Tony Quinlan as senior independent director, concluded a search for Paul's successor in September 2022. I am delighted that I was appointed to the Board on 1 November 2022 as an independent non-executive director and chair designate, and I assumed the role of chair on 1 December 2022.

The Board thanks Sharon Harris, who stood down as Company Secretary, for her contribution to the Group and we welcomed Nicole Geoghegan to the role on 5 July 2022.

### Outlook

It has been three years since the start of the pandemic and, together with our customers, we have been able to navigate our way through what has been, on many levels, a demanding time. The Board would like to thank our people, our customers and our suppliers for their efforts during 2022 and their long-term commitment to the Group.

We expect that the ongoing improvement in the business will deliver positive results for the Group in 2023 and beyond, and we expect to see an increase in adjusted operating profit in 2023 compared to this year, while delivering further free cash flow and ensuring a robust balance sheet.

Our shift in business mix, together with other measures we are taking to transform the business internally, means that we expect to progressively increase our adjusted operating margin in the coming years. Alex discusses this in more detail in his statement on the following pages.

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



**Kate Rock**  
Chair

13 March 2023

**Above:** Kate Rock on site at HS2



## Chief Executive Officer's statement

# Delivering for our customers.

I am pleased to report that we have made positive progress in 2022 across a number of key measures.

*"A strong operational performance, benefitting from our strategy."*

**Alex Vaughan**  
Chief Executive Officer

In 2022, we:

- **Delivered a strong financial performance in difficult conditions:**
  - An adjusted operating profit of £36.3m, up 20.6% on last year<sup>1</sup>.
  - A net cash position of £123.8m at the end of the year, well ahead of expectations, resulting from a positive free cash inflow of £72.9m<sup>2</sup>.
  - An unchanged adjusted operating margin of 2.6%<sup>1</sup>.
  - Secured a strong order book and preferred bidder position.
- **Strengthened our resilience:**
  - Benefitting from the embedding of our risk management.
  - Strengthened our balance sheet.
  - Broadened our Tier 1 customer mix across our growth markets.
  - Secured a contract portfolio that is lower risk.

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

<sup>2</sup> Net cash balance is cash and cash equivalents in FY22 and is cash and cash equivalents less interest-bearing borrowings (excluding leases under IFRS 16 and net of unamortised arrangement fees of £0.6m) in FY21.

## Chief Executive Officer's statement continued

Adjusted revenue<sup>1</sup>

**£1,421.4m**

2021	£1,178.6m
------	-----------

Adjusted profit before tax<sup>1</sup>

**£34.2m**

2021	£26.3m
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Net cash balance<sup>2</sup>

**£123.8m**

2021	£119.4m
------	---------

- **Benefitted from our strategic positioning:**

- The scale of our future work is now more than three times annual revenue.
- Continuing to have a positive market outlook supporting our growth ambitions.
- We have increased our position as a Delivery Partner consultant.
- We have now built an unrivalled range of expertise.

- **Navigated the short-term challenges, and are positioned for long-term opportunities:**

- We have managed inflation.
- We are addressing the impacts of Government changes.
- In our markets, national needs are growing.
- We are seeing digital transformation being part of the future.

- **Set out a clear roadmap for our strategic positioning for:**

- Increasing margin growth, which I discuss below.
- Demonstrating the progress of our broadening business mix.
- Positioned for key growth spend areas in devolved government, rail, energy and water.

I'm very grateful for all the hard work and support that has been provided by all of our employees and partners, to both deliver this progress and to navigate the challenging operating environment. Thank you.

### Our strategy

The Group is benefitting from being strategically positioned in four markets; Transport, Water, Energy and Defence, where long-term investment continues to be made, and which provides us with a strategic, diversified and resilient customer base. We expect a broad investment, underpinned by legislative and regulatory commitments, in infrastructure of around £66bn per year until the end of the decade across our markets.

Our customer focus, combined with our differentiated offering, is positioning Costain strongly. We are benefitting from the long-term investment plans in place, and continue to see significant opportunities for growth.

We have specifically 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 expertise and focus on key blue-chip customers allows us to truly understand their specific needs and how we can best support them right across their business portfolio. With our expert broader service offering, we are servicing more of our customers' business investment, and creating greater competitive advantage by being increasingly relevant to our customers' changing needs. Our vision is to create connected, sustainable infrastructure to help people and the planet thrive and you can read more about our strategy and markets on pages 10 to 14.

Our order book reflects a prudent view on work secured, as well as a changing mix of our contracts. At the end of 2022, our order book, where contracts are signed and ready to proceed was £2.8bn (FY 21: £3.4bn). This reflected the timing of major contract bids, our customers' investment programmes, maintaining discipline in contract selection and the shorter lead time of consulting and digital work.

Our preferred bidder book, increased to £1.6bn (FY 21: £0.9bn), and is a positive outcome to the year, see page 23 for further details.

We have made good progress in securing new work that demonstrates how we are working in deeper partnerships with our customers. During 2022, we announced that National Highways has appointed a Costain/Mott MacDonald joint venture as Delivery Assurance Partner for the A303 Stonehenge Improvements Scheme, our fourth delivery partner major consultancy commission. We are also working with Heathrow Airport as a solution delivery partner providing construction, consulting and digital capabilities over their next regulatory period. We were selected by bp as their design partner for the net zero scheme in Teesside.

<sup>1</sup> See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics

<sup>2</sup> Net cash balance is cash and cash equivalents in FY22 and is cash and cash equivalents less interest-bearing borrowings (excluding leases under IFRS 16 and net of unamortised arrangement fees of £0.6m) in FY21.

## Strategic Priorities

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

**PERFORMANCE** – This is where we provide insight via our relationships with our customers and work with them to help shape, create and deliver their broader infrastructure requirements. During the year we continued to embed our risk controls in securing new business (contract selection, independent risk review and enhanced legal process). As a result, we have managed the risk and return criteria of contracts, and chose not to bid on a small number of opportunities. We have also enhanced operational contract delivery via an Operational Excellence Model (OEM), comprehensive financial reviews, and senior management ownership, which has improved contract margin resilience.

As a result of the implementation of our strategy and risk management processes, at year end FY22, our order book does not include any fixed-price construction contracts.

Our strategy is delivering a transformation in the business in terms of assured delivery, lower risk contracts in our order book, and a broader business mix; and our ambition remains to deliver strong long-term operating margins. Our pathway towards these margins is a 3.0% Group adjusted operating margin for the second half of 2022 and then deliver:

- An adjusted operating margin run-rate of 3.5% during the course of 2024, as we implement our Transformation plan and grow our consultancy business.
- A medium-term Group operating margin run-rate of 4.5% during the course 2025. This will be reached by improving margins of complex programme delivery (construction contracts), while growing our consultancy and digital services. In addition, we will enact further efficiencies across the business.
- We have the ambition to reach a long-term Group operating margin in excess of 5.0%.

**PEOPLE** – Here we focus on safety, diversity, inclusion, and social impact for our people and the wider community, which are key values for the Group. As noted by our chair, we have responded to the cost of living crisis and refreshed our values, as well as stepping up our engagement with ESG issues, please see pages 32 to 35 and 58 and 59.

During the year our Accident Frequency Rate in 2022 was 0.05 alongside a Lost Time Injury Frequency Rate of 0.09. We discuss our work in the community to deliver social value on pages 30 and 31.

However, in July, with deep sadness, we experienced a fatality on one of our rail projects and following our investigation, to prevent a recurrence we are implementing a number of recommendations across our business including changes to current industry practice.

**PLANET** – It is important that we continue to strive to deliver environmentally positive actions within the Group and for our customers. We continue to implement our climate change action plan, working towards net zero carbon by 2035. To validate our plan, we have submitted our climate change action plan to the Science-Based Target Initiative and await endorsement. We have absolute greenhouse gas (GHG) emissions, including Scope 3, as one of our key non-financial performance indicators (see page 34), as it is fundamental that however much our business grows, we still reduce the carbon dioxide we are releasing into the atmosphere.

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, such as providing diesel-free sites for HS2 and reducing carbon for Tideway.

## Outlook

Overall, I'm pleased with the progress that we have made and the momentum and ambition across the Company. We have navigated our way through the pandemic and the material availability and inflation challenges seen through 2022.

As well as the long-term work already secured, we are well placed to capitalise on the positive opportunities across the UK's infrastructure market. We have had good growth in adjusted operating profit and delivered good free cash flow during 2022. Given our position in the market and the quality of our order and preferred bidder books, we expect to achieve further growth in adjusted operating profit and increase our net cash balance in 2023.

**Alex Vaughan**  
Chief Executive Officer

13 March 2023



## Our strategy

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

Our strategy focuses on transforming 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 by becoming 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

To be our customers' strategic partner, helping them meet their critical infrastructure needs.

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

Our target is to increase revenue and deliver increasing profits. We aim for increased adjusted operating margin of 3.5% run-rate during the course of 2024 and 4.5% run-rate during the course of 2025, and for margins in excess of 5.0% thereafter.

At the same time, we recognise our wider responsibilities and report on ESG matters on pages 32 to 35 in our separate report at [www.costain.com/our-culture/performance-and-reports](http://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 and thrive.

During 2022, we refreshed our values and behaviours and are embedding these into all aspects of the employee experience. We have also run an engagement survey and are working with our employees on integrated action plans.

In addition, we are investing in five 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.

## Planet

Protecting nature and the environment to safeguard our planet for future generations is fundamental. Working with our customers we are helping to decarbonise their businesses and the infrastructure ecosystem (see pages 12 to 15 for more information on how climate change presents a market opportunity for Costain).

We are focused on driving an orderly transition to net zero, while adapting to overcome the physical climate risks that will impact infrastructure. For further information please see page 34 for our TCFD disclosure.

As a Group, we are also increasing our focus on maximising our social and environmental contribution. This includes an ambition to generate significant intrinsic and extrinsic social value through our construction work, while having a workforce that is reflective of society.

We are working with our customers on a wide range of projects to enable them to reach their ESG targets.

## 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, we are developing our consultancy capabilities to 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 margin growth, assure project delivery and ensure the highest safety performance, we focus on:

**Safety:** we continue to embed our Learning Organisation Model to continuously improve our safety performance and make sure that the lessons learned from the fatal incident at Gatwick are rolled out.

**Environment:** we aim, by the end of 2023, that all solutions proposed will include a low carbon option in line with PAS 2080.

**Assurance:** we are improving our risk and assurance function to strengthen our management of risk, support decision making and coordinate assurance activities across the business (see pages 40 and 41 for more information).

**Step change in delivery:** we are implementing standard practices across our contracts such as mobilisation and reporting, while strengthening our Operational Excellence Model, to drive better decision making and project performance.

**Developing skills:** we continue to implement development programmes to drive excellence for our project directors, commercial managers and frontline supervisors.



## Market overview

# Infrastructure is experiencing enormous change.

Within the infrastructure market, the opportunities arising from a shift towards a more connected, sustainable future with a focus on productivity, are counterbalanced by headwinds such as price inflation, skills and resource shortages, and the changes in government spending patterns. We are at the forefront of meeting many of these challenges and work to balance these to achieve growth in this market.

## 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. We expect the investment in the UK across our target markets to total £600bn by 2030.**

Policy, investment and regulation trends are reinforcing our strategy in terms of change in market needs and our need to focus on productivity. Reports by the National Infrastructure Commission and the Infrastructure and Projects Authority (IPA) *Transforming Infrastructure Performance: Roadmap to 2030* confirm a need for a different approach to transform delivery performance of major infrastructure. 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, including DfT, the Department for Energy Security and Net Zero, and the IPA, as well as other industry bodies like Institute for Civil Engineers (ICE), Association for Project Managers (APM) and Institute of Environmental Management and Assessment (IEMA) to shape the future of infrastructure delivery.

Strategic investment programmes – expected infrastructure spend<sup>1</sup>

	Current business plan investment	2022	2023	2024	2025	2026	2027	2028	2029	2030	
National Highways	£27bn	RIS2				RIS3					
High Speed rail	c.£50bn	Phase 1 (London – West Midlands)									
		Phase 2a (West Midlands – Crewe)									
						Phase 2b (Crewe – Manchester)					
Integrated Rail Plan	£54bn	IRP									
Network Rail	£44bn	CP6			CP7					CP8	
Local Government	£11bn	Regional development funds									
Water	£51bn	AMP 7				AMP 8					
Energy	£12bn	10 Point Plan									
	£30bn	RIIO 2					RIIO 3				
Defence	£240bn	Defence Estates Plan									
	£5bn	Defence Estates Optimisation									
Nuclear	c.£10bn	Nuclear Decommissioning Authority Business Plan									
	c.£20bn		Sizewell C								

<sup>1</sup> 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 2022.

We estimate that the total addressable annualised market for infrastructure in the UK is £66bn across all the markets during the period outlined above, with a five-year growth rate of 3.0% per year from 2023 to 2027.

## Transport market

Within Transport our market is twofold. Firstly, supporting key customers such as National Highways, HS2 and Network Rail with strategic development, major infrastructure delivery and existing asset optimisation; and secondly supporting local and devolved authorities to drive economic growth through investment in transport infrastructure to support the levelling up agenda, and the growing market of aviation, as well as ports. We are focused on improving transport infrastructure delivery efficiency through digital transformation, accelerating the transition to net zero and delivering better outcomes for transport users and communities as an established integrator of future transportation nodes.

National Highways is 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, network operations and asset management.

HS2 has a committed spend of £55–75bn between 2020 and 2033, with multiple phases and types of contracts, playing to both our construction and digital strengths.

The Integrated Rail Plan, alongside commitments to regional rail development, demonstrates a long-term commitment to significant rail investment across the UK. In addition, Network Rail is currently in Control Period 6 (CP6), a five-year £53bn investment programme, moving to CP7 in 2024, with further committed spend of £44bn. There are additional long-term investment opportunities with HS2 Eastern leg, Northern Powerhouse Rail and East West Rail.

Investment continues to be focused on a regional level through local authorities and regional transport bodies through levelling up investment and further devolution deals. This investment is focused on developing sustainable, connected transport infrastructure. The aviation market continues its recovery from COVID and the Flightpath to the Future strategy outlined in May 2022 outlines a recovery that focuses on a decarbonised future with aviation, including urban airports, delivering local benefits.



Please see **pages 24 and 25** for details on our progress in the sector during 2022.

## Water market

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 Period 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 Asset Management Period (AMP8).

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.



Please see **page 26** for details on our progress in the sector during 2022.

RIS2 investment

£27bn

HS2 investment

£55–75bn

## Market overview continued

### Energy market

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. Our ambition is to support the UK in these areas.

The sector is diverse, and our target customers are private entities, where we are focused on supporting them through the whole lifecycle of their onshore project delivery and decommissioning, with a particular focus on industrial clusters. The UK Energy Security strategy, as well as further updates to the energy transition strategies across the UK, is committing investment towards ensuring energy security as we transition to greener energy, which is aligned to our strategy. An ongoing focus on nuclear, hydrogen and carbon capture, usage and storage (CCUS), as well as supporting the oil and gas sector to decarbonise, forms the core of our energy offering. The recent confirmation to delivering the Sizewell C nuclear facility further supports this aim.



Please see **pages 26 and 27** for details on our progress in the sector during 2022.

### Defence market

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. Our focus to date has been on work on the Continuous At-Sea Deterrent submarine programme and our ambition is to grow into a long-term partner for defence customers' most complex infrastructure engineering needs.



Please see **page 27** for details on our progress in the sector during 2022.

Integrated Rail Plan investment

**£54bn**

Energy investment

**£42bn**

AMP7 and AMP8 water investment

**£51bn**

Nuclear investment

**£30bn**



## Our business model

We work to shape, create and deliver infrastructure projects 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.



#### Shape

- Rethinking the approach to infrastructure.
- Developing strategic solutions designed to optimise value and reduce risk.

#### Create and deliver

- Engineering innovative solutions that are sustainable, efficient and practical, and deliver projects in a safer, greener, faster and more efficient way.

#### Maintain, optimise and repurpose

- Enhancing and maintaining existing assets to ensure safe, efficient and cost-effective operations.
- Extending asset life or repurposing, while delivering economic and environmental value.

### Underpinned by our Environmental, Social and Governance (ESG) commitments

Operating responsibly and with integrity is an integral part of our strategy and forms part of our core values.



Read more / Pages 32 to 35

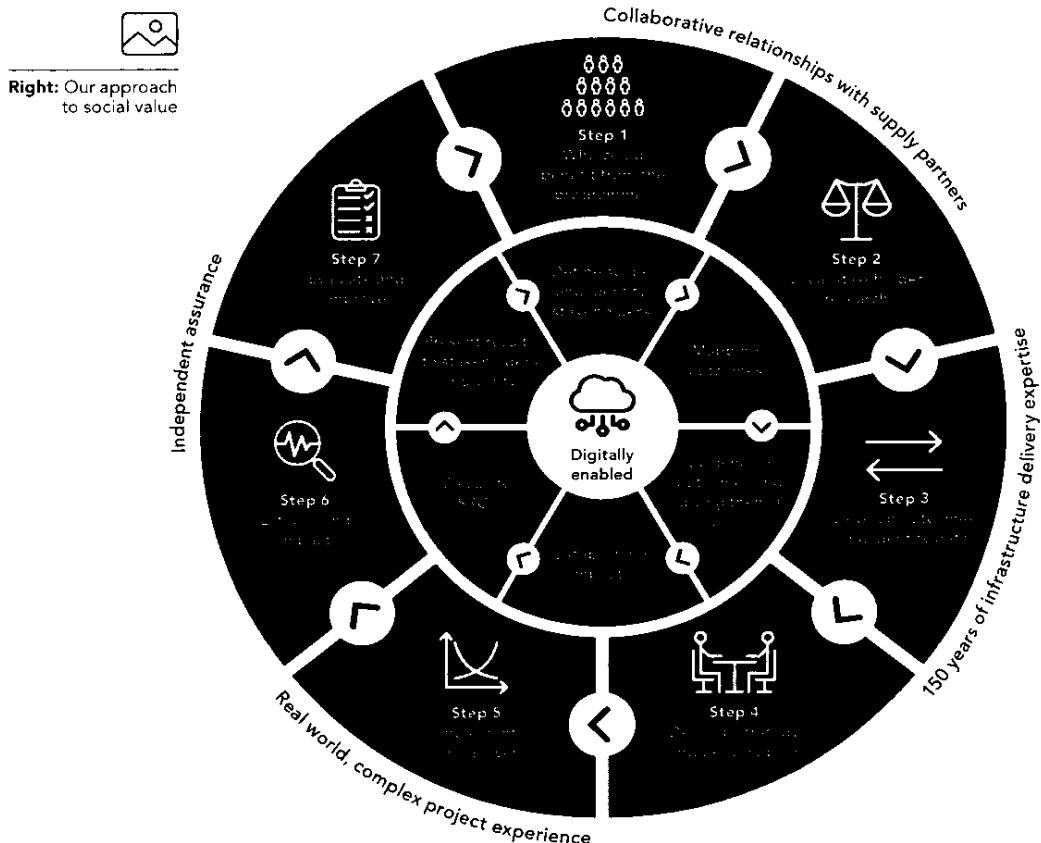
## Purpose in action

# Together we're focusing on...

Some examples of the activity across our portfolio of work, across early stage and major projects, in the areas of People, Planet and Performance, in a series of case studies.

### Value Toolkit

Safety, diversity and inclusion, and social impact are key values for the Group. We have helped develop the Value Toolkit, a government-backed initiative designed to change the way the construction industry thinks about and measures value. This was in partnership with more than 200 experts from across industry.



# People

## The Value Toolkit in action

Costain has incorporated the Value Toolkit's process and suite of tools into our social value consultancy planning and has certified practitioners that help our customers, in their decision-making, consider the environment, social and economic impact.

Some examples from 2022 include:

- Working with South Staffordshire Water to trial the Value Toolkit on a major water treatment project, with a particular emphasis on decision making processes and alignment with Ofwat's Periodic Review 2024 (PR24).
- We were commissioned by the UK Water Partnership to lead the multi capitals water group and this work includes supporting Southern Water with early development of a wellbeing rating to support business case decisions that deliver long-term value for society.

## Tideway

Costain has also been actively increasing social value in major joint venture projects such as Tideway. Tideway is London's new Super Sewer and will prevent tens of millions of tonnes of pollution from discharging into the Thames river.

With the project, we implemented a social value programme 'Breaking Barriers' promoting careers in science, technology, engineering and maths to a diverse group of local pupils. See pages 32 to 35 for details of our ESG policies.

Purpose in action continued

# Together we're focusing on the...

Working with our customers as we progress towards net zero carbon in the UK. Costain aims to be net zero by 2035.



**Below:** FlyZero's exploration into the operation of hydrogen fuelled aircraft

**We are working with our customers on a wide range of projects to enable them to reach their and the UK's emission targets, using a broad range of technologies. These include the drive towards using hydrogen and reducing the carbon impact from infrastructure.**

## Reducing carbon in infrastructure

We are continually looking to see how we can reduce the amount of carbon emissions from our projects.

The East Section of Tideway, delivered by Costain, Vinci and Bachy Soletanche (CVB) in a joint venture, has started secondary lining of Greenwich Connection Tunnel and Main Tunnel D. Secondary lining requires significant quantities of carbon intensive materials, primarily concrete and steel fibres. CVB challenged the design to achieve material efficiencies by reducing the thickness of the secondary lining to achieve a significant carbon reduction of 4500 tCO<sub>2</sub>e as a result of reduced concrete and steel fibre volumes. CVB has demonstrated a leading edge solution in the industry's journey to net zero by designing out carbon.

Within rail, on the HS2 project during 2022, the Canterbury Road Vent Shaft in South Kilburn became HS2's first diesel-free site, while the Euston Approaches and Victoria Road Crossover Box sites also achieved diesel-free status.

## Developing natural capital

Costain has worked in a joint venture on the upgrade of Southern Water's Hailsham South Wastewater Treatment Works where the opportunity was identified to go beyond normal industry practice and create a natural 'wilded' biodiverse environment from three tertiary lagoons that were to be retired from service.

Soil from the construction process was retained and used to backfill one of the lagoons, which was planted with native woodland tree species and a swathe of wildflowers.

A great crested newt pond was also established with additional aquatic planting. The reuse of the excavated spoil ensured the project did not need to dispose of over 3,500m<sup>3</sup> of soil to landfill, avoiding over 300 lorry movements, which saved an estimated 17t of carbon. The enhancements provided an overall biodiversity gain by providing additional habitat for the great crested newts, reptiles and bats, enhancing the aquatic environment.

We are working with the Welsh Local Government Association (WLGA) to develop a geographic information system-based tool to help local authorities understand carbon emissions associated with their land, plus the carbon sequestration potential for different land uses.

# Planet

The tool is being delivered through the WLGA's Transition & Recovery Support Programme, a Welsh Government funded programme to support councils to decarbonise and adapt to the impact of climate change.

## Hydrogen to decarbonise

Costain is working with Dwr Cymru Welsh Water, Wales and West Utilities, and food and drink manufacturer Princes Group on a feasibility study to produce hydrogen from biogas from the Cardiff East Wastewater Treatment Works that will fuel boilers to provide heat for fruit juice pasteurisation. The programme was funded through the Department for Business, Energy and Industrial Strategy's (BEIS) £1bn Net Zero Innovation Portfolio, which aims to accelerate the commercialisation of innovative clean energy technologies and processes.

Led by the Aerospace Technology Institute and also backed by BEIS, the one-of-a-kind FlyZero research project set out to realise zero-carbon emission commercial aviation by 2030. The project brought together experts from across the UK to conduct a detailed and holistic study of the design challenges, manufacturing demands, operational requirements and market opportunity of potential zero-carbon emission aircraft concepts. Costain's remit included assessing the practical and regulatory requirements for the safe and efficient ground operations needed to support hydrogen-powered aircraft, as well as the commercial implications of these and future requirements. We examined the conditions required for storing hydrogen and the impact of its use on turnaround times of planes at airports.

Alongside FlyZero, we undertook a detailed study into the potential use of hydrogen for the Zero Emission Flight Infrastructure programme. The research is being led by Connected Places Catapult, the UK's innovation accelerator for cities, transport, and place leadership, in collaboration with the Department for Transport. Our report provides a high-level overview of the infrastructure requirements to support the transition to net zero.

We have also trialled a hydrogen-powered generator on the Preston Western Distributor Road project's M55 compound. This trial is the first of its kind for Lancashire County Council. Together with hydrogen start-up Hydrologiq, we demonstrated carbon savings from on-site operations of between 70% and close to 100%, when powered by grey and green hydrogen respectively. Moving from diesel to green hydrogen on a similar compound could save up to 11 tonnes CO<sub>2</sub>e per month.

Purpose in action continued

# Together we're focusing on...

Working with our customers to deliver efficient, affordable and practical solutions to complex challenges.

**Infrastructure increasingly needs to deliver more and cost less, both economically and environmentally. We are investing in our digital and consulting capabilities to help our customers with a broadened offering, to optimise existing networks and future proof new ones, as well as using new technologies such as 3D concrete printing.**



**Right:** Tunnel boring machines as part of the HS2 project

**Below:** The UK's first 3D printed concrete water chamber on behalf of United Utilities

## Delivery

We work across a variety of infrastructure projects to ease congestion and provide additional capacity, across rail, road and integrated transport, such as aviation.

Examples of our work in rail includes HS2, which we discuss on the following page, while road projects undertaken in the year includes:

- A1. Costain and our design partner Jacobs, on behalf of National Highways, have successfully completed a multi-million-pound upgrade of the A1, supporting the UK levelling up agenda by unlocking economic growth in the North East. The A1 Scotswood to North Brunton improvement will boost accessibility to jobs and services, while also supporting new business and development opportunities and housing developments along the route.
- A19. Costain delivered a £51.6 million upgrade of the A19 to budget and ahead of programme, which is now open to traffic. The National Highways A19 Downhill Lane scheme provides extra capacity on the junction between the A19 and the A1290 near Sunderland, supporting the regional economy and providing access to the planned development of the International Advanced Manufacturing Park (IAMP) to the north of Nissan's motor manufacturing plant.
- A40. Our A40 project ensured that critical upgrades to the London road network were completed ahead of the Queen's Jubilee celebrations, five weeks ahead of schedule. We were appointed by Transport for London to replace the life-expired roller shutter joint on a key section of the road at Westway, near Paddington station. This commission included the concept design, detailed design and construction phases, culminating in the replacement of the bridge deck.

This took place over eight months, while ensuring that the road remained open from Monday to Friday.

## Innovation

Costain supported United Utilities and technology innovator's ChangeMaker3D to advise, deliver and install the first 3D printed concrete chamber, 'Printrastructure', for testing in the UK water sector to reduce carbon, cost, and time.

During a 12-month period, ChangeMaker3D worked in partnership with United Utilities to successfully design, 3D-print and install a wastewater chamber at one of the utility company's test facilities in Cheshire. Printrastructure delivered a 25% reduction in carbon, 20% cost saving and 55% reduction in labour versus traditional methods. The wastewater chamber was built in under four hours with a significant reduction in the materials used and demonstrated safety benefits by reducing the requirement to work at height, or in confined spaces.

# Performance

## Consulting and digital

We use automation, business intelligence and asset management strategies to create competitive advantage for our customers. Costain has used data and trend analysis to optimise the asset strategy within the United Utilities maintenance service provider framework to provide a dedicated maintenance project delivery service across the North West of England. Through the use of Power BI applications, Costain has reduced the number of reactive activities from 50% to 30% since the start of the contract.

To date the Core Services team of United Utilities has responded to over 13,000 maintenance work orders and the approach has optimised communication between their teams, boosting customer satisfaction from 18% to 75% (on average) between 2019 and 2021.

## HS2

Costain is delivering complex projects in the London area for HS2.

The six year enabling works programme, delivered in joint venture with Skanska and completed in December 2022, prepared 15 miles of the HS2 route from Euston station out to West Ruislip.

A vanguard project with a culture of learning and continuous improvement, smoothly and assuredly delivered on time while reducing work package costs by up to 30%. The team submitted 30 technical papers to the HS2 learning legacy for sharing best practice with all HS2 construction partners in key areas including design management, communication, procurement and programme planning.

This learning has been a vital benefit for HS2 as the enabling works team has progressed to the Mainworks Civils contract, delivering the new infrastructure for the high speed railway along the same line of route through West London.

Working in joint venture again with Skanska and also with STRABAG, Costain's UK construction experience has been valuable in the design and planning for the 10m diameter Northolt and Euston tunnels and the approach structures to Euston station.

In October 2022, the twins, Caroline and Sushila, our 2,000 tonne tunnel boring machines (TBMs) began their five mile journey from West Ruislip towards Euston. Two further and equally massive machines will set off later this year from the new high speed rail super hub station at Old Oak Common and head West to meet their sister machines at Greenford in 2025.

Each TBM takes two months to assemble by a group of 40 specialist engineers with 56 separate supply companies contributing to the build. Once launched the machines do not stop and with a team of 15 per shift working around the clock our quartet of TBMs will build 8.4 miles of twin bored tunnels under some of the most complex and sensitive infrastructure in London.

## Chief Executive Officer's introduction

Operational  
review

*"Our 2022 results show the ongoing operational improvements that are taking place in the Group."*

**Alex Vaughan**  
Chief Executive Officer

### We have delivered a 20.6% increase in adjusted operating profits and strong free cash flow in the year.

We report both our statutory results, 'reported', and results excluding adjusting items, 'adjusted'. Key adjusting items for FY22 include the impact of restructuring and reorganisation, impairment of tangible assets and an insurance receipt relating to the Peterborough & Huntingdon contract.

Reported revenue increased from £1,135.2m in FY21 to £1,421.4m in FY22, an increase of 25.2%, and adjusted revenue was up 20.6% to £1,421.4m (FY21: £1,178.6m) driven by increased volumes in complex programme delivery and the impact of inflation, as well as increased revenue in our consultancy-led sectors, predominantly in Energy and Defence.

Reported operating profit increased from £9.5m loss in FY21 to £34.9m profit in FY22, while adjusted operating profit grew by 20.6% to £36.3m (FY21: £30.1m), driven by improved profitability in Natural Resources. The adjusted operating margin was unchanged at 2.6% (FY21: 2.6%) and reflected volume increases, an improved mix and operational improvements, offset by the impact of inflation costs, up-front investment in our consultancy capability, and the additional cost of increased bid activity on a series of major opportunities during FY22, primarily in Transportation. H2 22 adjusted operating margin was 3.0% (H2 21: 3.0%).

Adjusted profit before tax was up 30.0% to £34.2m (FY21: £26.3m), while adjusted basic earnings per share (EPS) was higher by 3.1% at 9.9p (FY21: 9.6p) due to increased profitability partially offset by the recognition of a tax credit in FY21 benefitting the prior year comparable. Reported profit before tax was £32.8m (FY21: £13.3m loss) reflecting the £43.4m provision for the Peterborough & Huntingdon contract in FY21. Diluted basic profit per share (EPS) was 9.4p (FY21: 2.1p loss) reflecting the above.



Adjusted revenue<sup>1</sup>**£1,421.4m**

2021 £1,178.6m

Adjusted operating profit<sup>1</sup>**£36.3m**

2021 £30.1m

Free cash flow<sup>2</sup>**£72.9m**

2021 £53.1m

<sup>1</sup> See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics

<sup>2</sup> Free cash flow is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure

### Adjustments to reported items

We incurred £5.0m (FY21: £nil) of restructuring costs on our Transformation programme, £0.7m (FY21: £nil) of reorganisation costs, £1.4m (FY21: £nil) of aged tunnel boring machine write-off costs, and £nil (FY21: £0.4m) on amortisation of acquired intangible assets. We also recognised an insurance receipt of £5.2m (FY21: £nil) relating to the Peterborough & Huntingdon contract, as well as a profit of £0.5m (FY21: £nil) on the sale of a non-core asset.

### Cash flow and liquidity

Adjusted free cash inflow was £72.9m in FY22 (FY21: £53.1m), reflecting continued enhanced working capital management and increased adjusted profitability. Cash from operations was £16.7m, (FY21: £33.2m), and was lower in FY22 than FY21 following the expected settlement of the Peterborough & Huntingdon contract of £43.4m in February 2022. Partially offsetting this settlement payment, we received £5.2m from an insurance claim during FY22 relating to the Peterborough & Huntingdon contract.

During FY22 we paid more than 98% of invoices within 60 days. Costain has been ranked as one of the top three fastest-paying main contractors in construction following the submissions to the Government's Duty to Report on Payment Practices and Performance.

Reflecting the above, this resulted in a net cash position at the end of FY22 of £123.8m (FY21: £119.4m), considerably higher than market expectations.

### Business model resilience

Our markets remain characterised by strong customer demand and Costain enjoys good overall forward visibility with our combined order book and preferred bidder book at FY22 increasing to £4.4bn (FY21: £4.3bn). This combined view is increasingly relevant as we anticipate a shift in our business mix towards the preferred bidder book as we secure long-term frameworks positions with our customers.

Our order book stood at £2.8bn at the end of FY22 (FY21: £3.4bn). This reduction reflected the timing of major contract bids, our customers' investment programmes, maintaining

### 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**

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, therefore it does not provide a complete picture of potential future revenue expectations.

The preferred bidder book grew to £1.6bn (FY21: £0.9bn), with the main additions being contracts in Road, Water and Integrated Transport, including Heathrow and the A66 contract. The preferred bidder book comprises awards for which there is no other competitor and we are in final negotiations prior to entering a contract, or exclusive frameworks where a further works order is required.

### Outlook

Looking ahead, despite the market headwinds and as a result of our broad customer focus, we have already secured more than £1bn of revenue, representing around 80% of expected revenue for 2023.

We remain mindful of the macro-economic and geopolitical backdrop, recognising the challenges it has created for inflation and energy costs and its importance for near-term government priorities and timing of spending. With our broad customer focus, further improvements to our operational performance, strong cash position and clear strategic priorities, we remain confident of navigating these market headwinds and are well positioned for further growth.

## Operational review continued

Transportation revenue growth was driven mainly by complex scheme delivery for High Speed 2 and National Highways, which represents the majority of our revenue.

*"Transportation has worked closely with our customers to help them navigate the impact of inflation on project costs."*

**Sue Kershaw**  
Managing Director – Transportation

### Transportation highlights

- Reported and adjusted revenue of £1,046.3m, was up 21.1% against prior year as a result of increased project delivery and inflation.
- Reported and adjusted operating margin<sup>1</sup> was 3.0%, down 1.8 percentage points year-on-year.
- We have seen good progress across Road and Rail and recently won a contract to be delivery partner for Heathrow.
- New contract wins of £427.5m were secured in the year, with FY23 secured revenue of £746.0m.

**Road** reported and adjusted revenue increased by 17.0% in 2022 over the prior year driven by increased schemes delivery and the impact of inflation on delivery costs. 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 upgrades.

On RDP, we continued to upgrade the A1 around Newcastle, with the A1 Scotswood to North Brunton scheme opening early, and we are upgrading to dual carriageway a section of both the A1 Birtley to Coal House and the A30 in Cornwall. Pre-construction and design activities continue on the A12 Chelmsford to A120 scheme, M60 Simister Island scheme and we completed and opened early the A19 improvements at Downhill Lane.

With the SMP Alliance, our work delivering the M6 Junction 21a-26 smart motorway upgrades continues, and we delivered infrastructure for cameras to detect stopped vehicles, and safety improvements to the central reserve on M62 junction 25–30.

During 2022, National Highways selected Costain as one of its Delivery Integration Partners for the A66 Northern Trans-Pennine project which will upgrade east-west connectivity in the north of England; and in joint-venture with Mott MacDonald, Costain was appointed as Delivery Assurance Partner for the A303 Stonehenge Improvements Scheme. Costain also continued to provide specialist advice to National Highways under the SPaTS2 framework, to shape the future and help critical challenges around automation, decarbonisation and future programme delivery

**Rail** reported and adjusted revenue increased by 34.9% in 2022, principally as a result of our growth of work in delivering HS2.

December 2022 saw the Costain Skanska joint venture (JV) successfully complete its 7-year programme of enabling works for the HS2 route from Euston to West Ruislip. The follow-on contract with the Skanska Costain STRABAG JV to construct the same section of route in twin bore tunnel has fully mobilised and launched the first two of seven tunnel boring machines (TBMs).

## Divisional results

Transportation	FY22 adjusted <sup>1</sup>	FY21 adjusted	Adjusted <sup>1</sup> change
Road	498.7	426.3	17.0%
Rail	480.8	356.4	34.9%
Integrated transport	66.8	81.5	-18.1%
<b>Total revenue</b>	<b>1,046.3</b>	<b>864.2</b>	<b>21.1%</b>
<b>Operating profit/(loss)</b>	<b>31.5</b>	<b>41.4</b>	<b>-23.9%</b>
<b>Operating margin</b>	<b>3.0%</b>	<b>4.8%</b>	<b>-1.8pp</b>

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

The completion of rail heads at Willesden and at Northolt means the TBMs are fully serviced by rail, removing thousands of heavy lorry journeys from local roads. Our project-wide carbon reduction initiatives have set the path to reduce CO<sub>2</sub> emissions by around 40% and led to the first fully diesel-free sites on the HS2 programme.

Throughout the year our specialist planning and constructibility teams have continued to support HS2 by producing information for the Hybrid Bill submission that will promote the 'levelling up' agenda and enable the HS2 route from Crewe on to Manchester.

Our work on the Gatwick Airport Station Project for Network Rail continues with the opening of platform 5 and 6 enabling Network Rail timetable improvements, and we expect to finish work on this project during FY23. We completed our final work on Crossrail, with the Elizabeth Line successfully opening during the year. We continue to expand our portfolio of work for Network Rail through our framework contracts.

**Integrated Transport** provides a mix of consulting and complex project delivery to Local Authorities, Central Government and to customers in Aviation. Reported and adjusted revenue decreased by 18.1% in FY22 on the prior year, reflecting the timing of complex schemes delivery. We continue to focus on supporting customers with inter-modal connectivity and decarbonisation solutions.

During 2022, we completed work on A40 Westway for Transport for London (TfL) and initiated work for TfL for the Gallows Corner project. We extended the contract for CCTV video management system for TfL for a further four years and we were appointed by TfL to design critical upgrades to the signalling infrastructure on the Piccadilly line.

Our delivery of the Preston Western Distributor Project continues to plan, and we continue to support Lancashire County Council with constructibility advice in the development of their South Lancaster highway scheme. We have successfully grown consulting services revenue across a range of local authorities, such as Lancaster, Bradford, Liverpool and in Cornwall.

## Planet

### Reducing carbon in infrastructure

We continually aim to reduce carbon in our projects and we discuss the use of leading edge solutions for Tideway and the development of diesel-free sites for HS2 on pages 16 to 21.

During the year, we announced that we are a delivery partner to Heathrow Airport, providing construction, consulting and digital capabilities to help deliver its new investment programme. We will work with Heathrow throughout project lifecycles 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. The first commission is the design phase of the upgrade of baggage handling facilities and systems at Terminal 2, via the Major Project Partner lot. We also have secured work for ZEFI (zero emissions flight infrastructure) and with other aviation customers at Stansted, Gatwick and Manchester airports.

We continue to grow our consulting services to local government customers in support of accelerating progress to net zero carbon (including a decarbonisation project for Swindon council), green economic recovery and levelling up the UK, and have secured places on a number of targeted frameworks.

Costain has continued its growth with the UK Government in helping deliver key policy interventions including embedment of the Construction Playbook, securing our borders through infrastructure investment and accelerating decarbonisation through being involved in projects such as the Electric Roads System and Net Zero Innovation programme.

### Sue Kershaw

Managing Director – Transportation

13 March 2023

## Operational review continued

# Natural Resources engages with customers to understand their needs for new infrastructure solutions.

*"Natural Resources delivered increased revenue and returned a strong operating margin performance for 2022."*

**Sam White**

Managing Director – Natural Resources

## Natural Resources highlights

- Adjusted revenue was £375.1m, an increase of 19.3% driven by increased activity levels in all three sectors and particularly across AMP7 water programmes.
- Adjusted operating profit<sup>1</sup> was £15.0m, up £17.6m, and operating margin was 4.0%, 4.8 percentage points higher.
- Good progress with water programmes, Tideway, and our Energy and Defence customers
- Contract wins of £69.1m in the year, with FY23 secured revenue of £257.0m.

**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 £38.2m, 19.1% on the prior year with good visibility across our five-year water AMP7 programmes through to 2025. We have made good progress in delivering on Tideway, where, in a joint venture, we are responsible for the eastern section.

The breadth of our service offering continues to grow with capital delivery programmes for Anglian Water, Severn Trent Water, Southern Water, and Thames Water; maintenance service provider services for United Utilities; a range of consultancy services for Yorkshire Water, Thames Water, Southern Water, and Welsh Water; digital services to Anglian Water and data and clear energy innovation projects with Ofwat.

Alongside core AMP8 requirements, we continue to engage with customers to understand their potential needs for new value-added solutions for AMP8 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.

As reported in FY21, we recognised a provision in respect of one water contract. There was no adverse net impact to the income statement in FY22 and no material net impact is expected going forward. See note 20 for further details.

**Energy** has shown good growth, increasing by 9.7% in FY22 on the prior year. Our contract with Cadent, managing the mains replacement across the East of England, our Project Controls contract with EDF and our nuclear decommissioning contract with Sellafield continue to perform strongly. We have performed well in energy resilience and are building our position in energy transition. Throughout FY22 we have strengthened our core strategy to support the development of the industrial clusters throughout the UK, spearheaded by our delivery for bp on the track 1 net zero contract at Teesside (part of the East coast cluster) and we continue to work on the track 2 schemes including the Acorn carbon capture and storage scheme in St Fergus, Scotland.

## Divisional results

Natural Resources	FY22 adjusted <sup>1</sup>	FY21 adjusted	Adjusted <sup>1</sup> change
Water	238.2	200.0	19.1%
Energy	79.0	72.0	9.7%
Defence	57.9	42.4	36.6%
<b>Total revenue</b>	<b>375.1</b>	<b>314.4</b>	<b>19.3%</b>
<b>Operating profit/(loss)</b>	<b>15.0</b>	<b>(2.6)</b>	<b>N/A</b>
<b>Operating margin (loss)</b>	<b>4.0%</b>	<b>-0.8%</b>	<b>4.8pp</b>

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

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. As part of our regional focus, which includes the delivery of the South Wales Industrial Cluster, we won an energy transition project, H2Juice, with Dwr Cymru Welsh Water, Wales and West Utilities which uses hydrogen to decarbonise carbon-intensive industries and was funded by BEIS.

**Defence** supports several public and private sector organisations, in a variety of customer-side, delivery partnership roles, across the UK defence nuclear enterprise. Reported and adjusted revenue increased by £15.5m, 36.6% 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). In both contracts, we work alongside the customer, as a construction delivery partner, delivering major infrastructure projects, providing expertise in design and construction management, and the coordination of the work of several subcontractors.

We also provide ongoing support to the Defence Nuclear Organisation (DNO), helping them develop portfolio management capabilities and developing its programme definition for future infrastructure requirements. We provide customer-side support to BAE Systems, in the form of portfolio management expertise on the Dreadnought programme, to replace the Royal Navy's Trident missile Vanguard Submarines. 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) strategic infrastructure needs.

## People

### Value Toolkit

Costain, in partnership with experts across industry, has created the Value Toolkit, a suite of processes and tools which is incorporated into our social value planning.

Examples from 2022 include working with South Staffordshire Water and the UK Water Partnership, please see pages 16 to 21 for more details.

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



For more examples, visit our website  
[www.costain.com/solutions/](http://www.costain.com/solutions/)

To maximise the potential for growth we have combined our Defence and Nuclear activities, bringing together capability for the division in a more operationally efficient and effective structure. From H1 23 we will report revenue reflecting the new Natural Resources structure for the Water, Defence and Nuclear, and Energy sectors, as we progress our activity within the energy transition market.

### Sam White

Managing Director – Natural Resources

13 March 2023

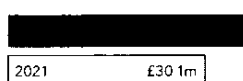
## Key performance indicators

# How we've performed

### Financial metrics

Adjusted operating profit<sup>1</sup>

£36.3m



#### Measure

Adjusted operating profit<sup>1</sup>.

Adjusted operating profit margin<sup>1</sup>

2.6%



Adjusted operating profit margin<sup>1</sup>.

Adjusted diluted earnings per share<sup>1</sup> (EPS)

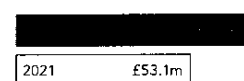
9.9p



Adjusted diluted earnings per share<sup>1</sup>.

Free cash flow<sup>2</sup>

£72.9m



Free cash flow is defined as net cash flow from operating activities, excluding 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 to be 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. However, we believe that we can deliver significant operating profit growth, and therefore the combination of the two KPIs (operating profit and margin) provides a complete picture of performance.

#### Target

Double digit compound growth in the medium term.

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 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% thereafter.

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 diluted weighted average number of ordinary shares ranking for any dividend in the period.

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

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. We calculate free cash flow as net cash flow from operating activities, before adjusting cash flow items, less capital expenditure.

Cash conversion rate of 90%.

#### Performance

Adjusted operating profit was £36.3m (FY21: £30.1m) and adjusted operating growth was 20.6% reflecting strong growth in both divisions, as we show both growth in our projects, increasing efficiencies in the business and the impact of inflation.

Adjusted operating margin was broadly flat year on year as we saw improvement in the business mitigated by project fee margin diluted by inflation.

Improvement in EPS is driven by overall improvement in profitability.

Strong free 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 1 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 adjusting items and pension deficit contributions, less taxation and capital expenditure.



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.

## Non-financial metrics

### Safety

0.09 LTIR



#### Measure

Lost Time Injury Rate (LTIR).

### Social contribution

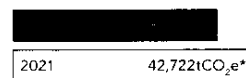
£391k



Community investment.

### Environmental impact

36,283tCO<sub>2</sub>e



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

#### 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 Injury Rate which is calculated by dividing the number of Lost Time Injuries by the number of hours worked, multiplied by 100,000.

A Lost Time Injury is a work-related injury resulting in an employee's inability to work the next shift or day following the initial injury.

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. We measure our contribution to the community through the social value of the hours spent volunteering and sum of our charitable giving. As rigour around social value reporting improves, this measurement is likely to evolve over time.

Climate change is the challenge of our generation and we are committed to becoming a net zero business by 2035 at the latest. 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 33.

#### Target

Target is to keep LTIR less than 0.15.

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

Net zero GHG emissions by 2035 at the latest, regardless of business growth.

#### Performance

Our indicators show that workforce engagement is high and injury rates are low, mirroring our previous record-breaking years. In July, the Group experienced a fatality on one of its rail contracts, and following our investigation, to prevent a recurrence we are implementing a number of recommendations across our business including changes to current industry practice.

2022 saw a significant increase in our community and charity activity. This was due to many factors including our colleagues wishing to support their communities through challenging social and economic times, the mobilisation of certain key contracts and our targeted campaign to fundraise for our charity partner Samaritans.

Our total absolute footprint reduced by 15% year-on-year, in part driven by measures to reduce energy consumption and the mandated use of HVO fuel in replacement of gas oil. These measures contribute to reductions of 38% reduction for Scope 1 and 17% in Scope 2 emissions.

\* Restated figures for 2021 due to additional data obtained after reporting.

#### Link to strategic priorities



#### Key to Strategic priorities

People

Planet

Performance



See our full GHG disclosure /  
Page 33

## Our stakeholders

# Working together to achieve our goals

**We know that being socially responsible is imperative to building a long-term, sustainable business.**

We have a responsibility to work together with our customers and partners, our people, our communities, and our supply chain to minimize 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 impact and to help make a positive contribution to support 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.

The Board and Executive Board of Costain remain accountable for Environmental, Social and Governance (ESG) related

activities, for developing and implementing policies that align with our wider business objectives. The board recognise 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.

## What matters to our stakeholders

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

### Stakeholder ESG materiality assessment

Ensuring we prioritise the right sustainability issues is crucial and perhaps has never been as important as it is today. In reflection of the rate of social and environmental change at both a micro and macro level, we have increased the frequency of our materiality assessment.

Costain now completes an annual stakeholder materiality survey (previously a biennial activity) and from 2023 will be undertaking a quarterly assessment using an artificial intelligence platform. Also in 2023 Costain will be undertaking a double materiality assessment to help inform its new sustainability strategy (summer 2023) and in preparation for possible future sustainability reporting requirements.

### Material issues for our stakeholders

Greenhouse Gas emissions for the first time ranked as Costain most material ESG issue, replacing safety. On average all environmental issues increased in importance for all stakeholder groups, alongside social sustainability issues. However, safety will continue to be our most important operational priority.



Please see page 45 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.



## 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

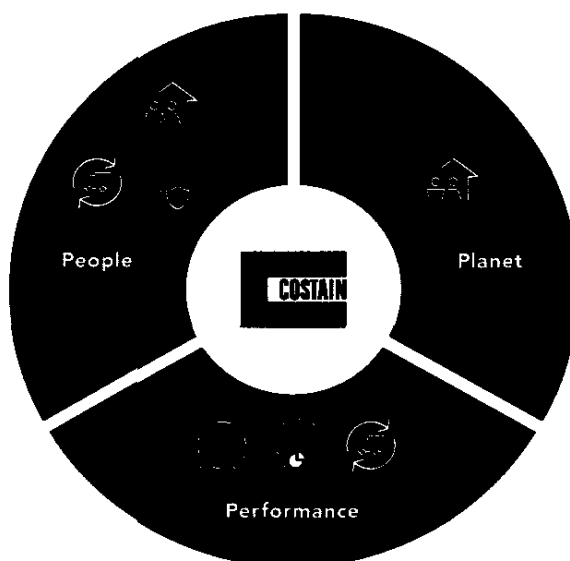
We value the opportunity to engage with our local communities across all of our projects. We generate social value as a result of our work in our local communities.

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 58 to 61

## Aligning our strategic priorities and key stakeholder groups



### People

Offering rewarding careers to our people, while delivering pioneering solutions for our customers and social value through the supply chain and wider society.

### Planet

Putting the environment and our impact on it at the forefront of how we operate and design and deliver solutions for our customers.

### Performance

Improving our operating performance to better anticipate, solving challenges for our customers across the infrastructure ecosystem, while improving our financial performance.

## Environmental, Social and Governance (ESG)

# Our ESG performance

### Reporting progress against our ESG goals

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

In 2020 we set our ESG goals for 2030, aligning to priorities shared by our stakeholders. Our goals are underpinned by policies, procedures, enabling plans and strategies (wellbeing, safety, innovation, inclusion and environment (WiiSE), climate change action plan and inclusion strategy).

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



Find our 2022 ESG report on our website / [www.costain.com/our-culture/performance-and-reports/](http://www.costain.com/our-culture/performance-and-reports/)



### Environment



### Social



### Governance

#### OUR COMMITMENTS

- Net zero carbon by 2035, supporting the UN Paris Agreement
- Eliminating waste through circular thinking
- Enhancing biodiversity and natural capital

- Prioritising the safety of the public and our people
- Inclusive and accessible to all
- Enabling people to be at their best
- Community and customer focused to deliver social value

- Responsible procurement and supply chain management
- Transparency in our reporting
- Ethical conduct

#### 2030 GOALS

- Eliminate waste through an active role in the circular economy
- Net positive biodiversity impact and increased natural capital
- Net zero company car fleet
- 50% reduction in emissions from plant and machinery

- Targeting the elimination of harm in all we do
- Exceeding all relevant regulatory customer satisfaction measures
- People rate Costain highly as a great place to work
- Recognised as the leading inclusive employer in the industry

- Our alignment to the UN Sustainable Development Goals (SDGs) has delivered enhanced shareholder value
- Spend £1bn in the 2020s with small businesses and voluntary, charitable and social enterprises (VCSEs)
- Recognised in our industry as a champion for human rights

Our commitment to the environment is a key part of our business strategy. We are committed to reducing our carbon footprint and achieving net zero by 2035. We are also committed to protecting biodiversity and enhancing natural capital. Our commitment to the environment is a key part of our business strategy. We are committed to reducing our carbon footprint and achieving net zero by 2035. We are also committed to protecting biodiversity and enhancing natural capital.

- We have committed to achieving net zero by 2035, supporting the UN Paris Agreement
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[www.costain.com/what-we-do/climate-change/solutions](http://www.costain.com/what-we-do/climate-change/solutions)

## 2022 OBJECTIVES

- Reduce plant idling by a further 20%
- 100% of all relevant designs and delivery contracts to establish bespoke carbon baselines and develop reduction plans
- Eliminating harm in all we do, achieving an Environmental Incident Frequency Rate of <0.11
- Continue to measure biodiversity impact on all relevant contracts

- 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 social value, created through Costain contracts
- Raise £250k through employee fundraising and drive a 30% increase in employee volunteering through the roll-out of our volunteer hub

- > 35% of our spend to be with SMEs
- Have an average Considerate Constructors Scheme score of >42
- Conduct further scenario analysis to progress our TCFD disclosure

## OUR 2022 PROGRESS AND PERFORMANCE

CO<sub>2</sub> equivalent emissions (across all legal entities)

	2022	2021	% change
Total emissions tCO <sub>2</sub> e	36,283	42,722*	-15%
Scope 1 tCO <sub>2</sub> e	6,634	10,772*	-38%
Scope 1 kWh	63,408,675	46,102,531	38%
Scope 2 tCO <sub>2</sub> e	926	1,116*	-17%
Scope 2 kWh	4,689,997	4,787,774	-2%
Scope 3 tCO <sub>2</sub> e	28,723	30,834*	-7%
Emissions intensity (tCO <sub>2</sub> e/£m)	25.53	37.46*	-32%
Environmental incident frequency rate	0.10	0.15	-38%
Major environmental incidents	2	0	N/A

\* Restated figures for 2021 based on additional data obtained after reporting.

Our emissions data is calculated in line with the GHG Protocol and is third party accredited under CEMARs by Achilles. 100% of our emissions were incurred in the UK. For a detailed breakdown of our emissions including totals of energy consumption as per the Streamlined energy and carbon reporting (SECR) requirements, see our ESG report page 10.



[www.costain.com/our-culture/performance-and-reports/](http://www.costain.com/our-culture/performance-and-reports/)

## Lost Time Injury Rate (LTIR)

0.09

2021: 0.15

- 16 reportable accidents in over 32 million working hours

## Community giving

£391k

2021: £200k

- 3,300 hours volunteered in our local communities (2021: 2,200)
- £57k raised in 2022 for our charity partner Samaritans out of a total £337k for UK charities
- 337 disadvantaged young people supported with their employability skills

- £322m spent with small businesses and VCSEs
- 14 SMEs took part in our supply chain academy, taking the total number of businesses to 304 since 2012
- Average Considerate Constructors Scheme score for Costain contracts. 45.3%. Industry average is 39.7%
- Please see page 34 for more information on our TCFD disclosure

## Diversity of our workforce

## Employees



## Board members



## Senior management



Female

## Spend with SMEs

38% 38%

2022 2021

## IN 2023 WE WILL...

- Continue to ensure 100% of all relevant designs and delivery contracts have a carbon baseline and reduction plans
- Deliver a ≥6% reduction in our Scope 1 and 2 emissions
- All solutions proposed to include a low carbon option in line with PAS2080

- Eliminating harm in all we do, achieving an LTIR of 0.15
- Supporting 100 people previously classed as NEET to enhance their 'Green and digital skills'
- 10% year-on-year increase in employee volunteering

- > 35% of our spend to be with SMEs
- ≥ 19.0% of our spend to be with small businesses and or, voluntary, community or social enterprises (VCSEs)
- Progress towards full compliance with the TCFD recommendations

## Environmental, Social and Governance (ESG) continued

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

At the time of publication, Costain has made climate-related financial disclosures consistent with the TCFD recommendations:

- Governance (all recommended disclosures)
- Risk management (all recommended disclosures)
- Strategy (all recommended disclosures)
- Metrics and targets (disclosures (b) and (c)).

For metrics disclosure (a) further work is underway to enhance data consistency across projects to help better understand how climate change impacts on our project cost base and therefore could have wider strategy implications.

The table below provides a high level summary of our disclosure, including what we consider to be strategically important. We have included the main detail of our TCFD disclosure in our ESG report which is published in parallel to this annual report, so it can be read in context with our wider efforts to transition to a net zero carbon business.

Governance	
(a) Describe the Board's oversight of climate-related risks and opportunities.	The Costain Board has overall accountability and discussed climate change, decarbonisation and carbon management in three Board meetings in 2022. For further information on Costain's climate-related governance please see our ESG report (page 6).
(b) Describe management's role in assessing and managing climate-related risks and opportunities.	In 2022 a climate change steering group was formed to provide oversight of the delivery of Costain's climate change action plan and management of principal risk 10. The steering group is chaired by the chief people and sustainability officer, reporting into the Executive Board. During the year climate change was discussed at four Executive Board meetings and scenario analysis was undertaken (ESG report page 6).
Strategy	
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Physical and transition risks and opportunities have been identified across three time horizons. Risks include productivity loss, regulatory change, flooding and physical damage to assets. Opportunities include the possibility of leading the decarbonisation of our industry, see pages 12 and 13 and our ESG report (page 8).
(b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Despite being exposed to the societal impacts of climate change, we hold a certain degree of climate resilience. This is due to the nature of contracting and holding minimal non-current assets on site. However, we have recognised that some climate-related risks could have an impact on our operating cash flow. We expect these risks to be identified, prioritised and managed to limit the impact. Conversely, climate-related opportunities will continue to generate additional revenue through innovation and environmental specific consultancy discipline.
(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	We have assessed our exposure to changes in chronic heat (physical risk), increased flood events and our exposure to changes in carbon pricing (transition risk). This is further explained in our ESG report (page 9).
Risk management	
(a) Describe the organisation's processes for identifying and assessing climate-related risks.	Risks are identified both top-down and bottom-up and then assessed against whether they threaten delivery of the Group's strategy. The Risk Committee reviews the principal risks and assesses emergent risks (see pages 39 to 40). For details on Costain's principal risk 10 see page 43 and for further climate-related risk management information see our ESG report (page 9).
(b) Describe the organisation's processes for managing climate-related risks.	
(c) Describe how these processes are integrated into the organisation's overall risk management.	
Metrics and targets	
(a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Please see page 10 of our ESG report for information on how we monitor our greenhouse gas performance against our climate change action plan. Costain has made good progress in improving the data to monitor climate risks and the performance of our mitigation measures. In our next disclosure (2023) we will provide a more comprehensive set of metrics.
(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Please see page 33 for our GHG emissions data and page 10 of our ESG report for a more detailed breakdown of our emissions footprint.
(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Please see page 33 for our GHG emissions data and our ESG report (pages 10 and 11) for information on our progress towards our net zero objective.



To access our full TCFD disclosure please visit our ESG report [www.costain.com/our-culture/performance-and-reports/](http://www.costain.com/our-culture/performance-and-reports/)

# Ethnicity pay gap statistics

In 2020 we committed to voluntarily share our ethnicity pay gap results as part of the Confederation of British Industry (CBI) Change the race ratio campaign.

2022 was the first year we have conducted ethnicity pay gap analysis, applying best practice shared by Business in The Community. Our ethnicity pay gap is calculated as the average hourly pay for Black, Asian, All other Minorities and our unknown population compared as a percentage against the All White population.

Our data tells us that despite having an overall ethnic diversity of employees comparable with the UK population, Costain does have a pay gap for all ethnic groups when compared to the white population. An under representation of ethnic diversity in both the upper and upper middle pay quartile is the main reason for our pay gap.

We are committed to reducing our ethnicity pay gap and are pleased to report an increase in the population of ethnically diverse colleagues to 14.5%, and 47% of our 2022 graduate programme intake comprised of Black, Asian and Minority Ethnicities (BAME\*).

We are aware that there is a proportion of our employees who have not disclosed their ethnicity, and this population has a higher mean pay than the 'White' employee population (demonstrated by a negative value). The population of this group is low, however it is still an indication that we have work to do to improve the psychological safety around the sharing of ethnicity data. We are actively encouraging people to share data with us through education and demonstrating the benefits of ethnicity disclosure for the entire workforce.

As part of our commitment to reducing our ethnicity pay gap, we have evolved our reverse mentoring scheme between members of our Religion, Ethnicity and Cultural Heritage (REACH) Network and senior leaders, to a mutual mentoring scheme, based on feedback. The mentoring programme is designed to share experiences on the barriers to progression, helping leaders to understand how they can be active allies for equitable progression across all ethnicities, as well as helping to identify and remove any organisational barriers that may remain.

Our REACH Network has talked about 'imposter syndrome' among ethnic minorities, and acting on feedback we now proactively reach out to applicants via our employee networks and via their managers, to encourage applications to our development programmes. In 2022, we saw 22% of our emerging leaders programme cohort from Black, Asian and Minority Ethnicities.

\* We recognise the term BAME (Black, Asian and Minority Ethnic) is not preferred by everyone. We use it here to refer to ethnic groups which are in the minority in the UK



Costain also publishes an annual gender pay gap report which can be found on our website:  
[www.costain.com/our-culture/equality-diversity-and-inclusion](http://www.costain.com/our-culture/equality-diversity-and-inclusion)

## Ethnicity pay gap statistics

This is the first time Costain is publishing our ethnicity pay gap statistics which are outlined below:

	All White 2022	All Asian 2022	All Black 2022	All other Minority 2022	Unknown/ prefer not to say
<b>Overall pay gap</b>					
Median	N/A	12.12%	20.28%	15.5%	5.14%
Mean	N/A	12.87%	22.15%	17.4%	-2.97%
<b>Salary quartiles</b>					
Upper quartile		90.72%	5.95%	1.94%	1.39%
Upper middle quartile		86.57%	7.06%	4.16%	2.21%
Lower middle quartile		86.29%	6.93%	3.60%	3.18%
Lower quartile		79.39%	10.79%	7.05%	2.77%
<b>Number at 05 April 2022</b>					
Number of employees	2,756	242	133	76	3,207
Percentage	79.45	6.98	3.83	2.19	7.55

## Chief Financial Officer's review

# Delivering strong positive free cash flow performance.

*"We have delivered strong adjusted profit growth and increased cash generation, with year end net cash of £123.8m."*

**Helen Willis**  
Chief Financial Officer

Adjusted operating profit<sup>1</sup>

**£36.3m**

2021	£
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## Adjusting items

We incurred £5.0m (FY21: £nil) of restructuring costs on our Transformation programme, £0.7m (FY21: £nil) of reorganisation costs, £1.4m (FY21: £nil) of older tunnel boring machine write-off costs, and £nil (FY21: £0.4m) on amortisation of acquired intangible assets. We also recognised an insurance receipt of £5.2m (FY21: £nil) relating to the Peterborough & Huntingdon contract previously provided for, as well as a profit of £0.5m (FY21: £nil) on the sale of a non-core asset. We expect additional Transformation costs in FY23.

## Net financial expense

Net finance expense amounted to £2.1m (FY21: £3.8m). The interest payable on bank overdrafts, loans and other similar charges was £2.7m (FY21: £3.0m) and the interest income from bank deposits amounted to £0.5m (FY21: £0.1m). In addition, the net finance expense includes the interest income on the net assets of the pension scheme of £1.3m (FY21: £nil) and the interest expense on lease liabilities of £1.2m (FY21: £0.9m) under IFRS 16.

## Adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	2022	2021	Change	2022	2021	Change	2022	2021	Change
<b>Revenue £m</b>									
Adjusted <sup>1</sup>	<b>1,046.3</b>	864.2	21.1%	<b>375.1</b>	314.4	19.3%	<b>1,421.4</b>	1,178.6	20.6%
Adjusting items	–	–		–	(43.4)		–	(43.4)	
Reported	<b>1,046.3</b>	864.2	21.1%	<b>375.1</b>	271.0	38.4%	<b>1,421.4</b>	1,135.2	25.2%
<b>Operating profit £m</b>									
Adjusted <sup>1</sup>	<b>31.5</b>	41.4	-23.9%	<b>15.0</b>	(2.6)		<b>36.3</b>	30.1	20.6%
Adjusting items	<b>(1.4)</b>	8.4		<b>4.5</b>	(48.0)		<b>(1.4)</b>	(39.6)	
Reported	<b>30.1</b>	49.8	-39.6%	<b>19.5</b>	(50.6)		<b>34.9</b>	(9.5)	N/A

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

### Tax

The Group has a tax charge of £6.9m (FY21: £7.5m credit) giving an effective tax rate of 21.0%. The FY21 net tax credit arose primarily from the £6.2m impact of the tax rate change (from 19% to 25% in 2023, which has now been substantively enacted) on deferred tax recognised in respect of losses and pensions. The adjusted effective tax rate was 20.5% (FY21: 0.4%). We expect the effective tax rate to remain close to the statutory tax rate of 19% until April 2023, and 25% subsequently, giving an FY23 effective tax rate of close to 23.5%.

### Cash flow

The Group generated a £72.9m free cash inflow for the year (FY21: £53.1m). The Group had a positive net cash balance of £123.8m as of 31 December 2022 (HY22: £95.9m, FY21: £119.4m) comprising Costain cash balances of £67.3m (HY22: £76.5m, FY21: £101.3m), cash held by joint operations of £56.5m (HY22: £55.4m, FY21: £58.1m).

### Free cash flow reconciliation

£m	FY22	FY21
Cash flow from operations	<b>16.7</b>	33.2
Add back adjusting items	<b>46.4</b>	11.6
Add back pension deficit contributions	<b>10.8</b>	10.4
Less taxation	<b>(0.5)</b>	0.1
Less capital expenditure	<b>(0.5)</b>	(2.2)
<b>Free cash flow</b>	<b>72.9</b>	53.1

### Net cash reconciliation

£m	FY22	FY21
Cash and cash equivalents at the beginning of period	<b>159.4</b>	150.9
Net cash flow	<b>(35.6)</b>	8.5
FX	–	–
Cash and cash equivalents at the end of period	<b>123.8</b>	159.4
Borrowings	–	(40.0)
<b>Net cash</b>	<b>123.8</b>	119.4

We remain in a positive net cash position, following the final settlement payment made during the first quarter of the financial year in respect of the Peterborough & Huntingdon contract.

## Chief Financial Officer's review continued

### Financial resources

In November 2022, the Group successfully concluded its negotiations with its bank and surety facility providers to secure a one year 'amend and extend' of its facilities.

The Group has in place banking and bonding facilities from banks and surety bond providers to meet current and projected usage requirements, and has a £125.0m (FY21: £131.0m) revolving credit facility with its relationship banks with a maturity date of 24 September 2024. The revolving credit facility remained undrawn throughout 2022. In November 2022, the Group prepaid in full the £36.0m balance of its Term Loan facility from its cash resources.

In addition, the Group has in place bonding facilities of £280.0m (FY21: £310m). Utilisation of the total bonding facilities as of 31 December 2022 was £88.8m (FY21: £100.7m).

Since the end of FY22, the Group has converted its £125.0m revolving credit facility to a £125.0m sustainability-linked revolving credit facility with three ESG key performance indicators.

### 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 for growth, maintaining a strong balance sheet and returns to shareholders. We look to prioritise uses of cash as follows:

1. Investing for growth – disciplined investment in key areas such as bidding activity and digital to help 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 underlying earnings taking into account the cash flow generated in the period.
3. Selective M&A – retaining optionality to pursue strategic investments in technology, skills and capabilities to enhance our ability to support customers in the face of significant change.
4. Returning surplus capital – after ensuring a strong balance and cash position, surplus capital is identified and returned to shareholders through share buy backs or special dividends.

Looking forward over the next financial year, the Board has concluded that the priorities, and best returns, for the Company's capital are to invest in our organic opportunities and to build further the company's capital base (see page 6 for further details).

### Pensions

As at 31 December 2022, the Group's pension scheme surplus in accordance with IAS 19, was £60.2m (FY22: £86.2m surplus, FY21: £67.1m surplus).

The movement in the IAS 19 valuation, being a slight reduction in surplus from 31 December 2021 to 31 December 2022 was due to the impact of a reduction in the value of scheme assets, primarily due to the fall in the value of Liability Driven Investment portfolio due to the significant increase in long term bond yields over the year, being slightly greater than the reduction in scheme liabilities, primarily driven by changes in the principal actuarial assumptions, in particular a higher discount rate of 5.00% used in the IAS 19 valuation as at 31 December 2022 compared to the discount rate at 31 December 2021 of 1.80%.

Cash contributions were made to the scheme during the year amounting to £10.8m (FY21: £10.4m) and the charge to operating profit in respect of the administration cost of the UK Pension Scheme in the year was £0.3m (FY21: £0.3m).

### Helen Willis

Chief Financial Officer

13 March 2023



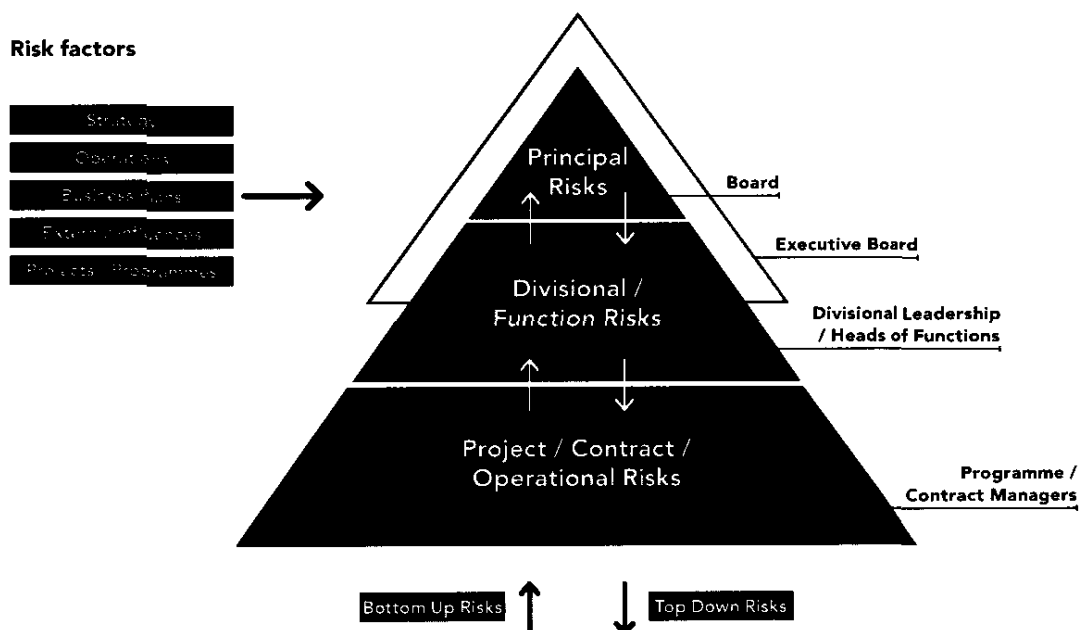
## Principal risks and uncertainties

### Managing risks and opportunities is integral to the delivery of our strategic objectives

#### Approach to identifying our principal risks

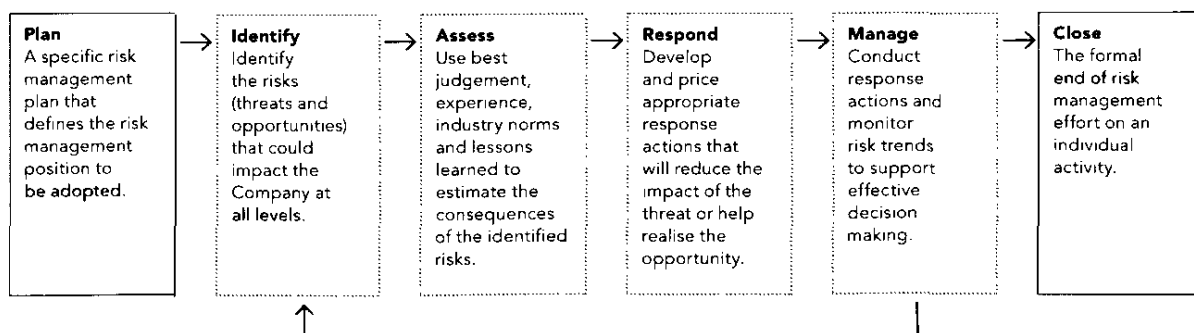
Our risk management approach is not designed to eliminate risk entirely, but provides a means to identify, prioritise and manage risks and opportunities in accordance with the Group's risk management process.

Risks are identified both top-down from the Group strategy and bottom-up from the major projects, programmes, joint ventures and ongoing, business as usual, operational activities. These are then escalated or consolidated (as appropriate) and assessed based on a consistent methodology to identify and prioritise those that could threaten the achievement of the Group's strategic priorities.



#### Risk management process

There is continuous consultation between the top-down and bottom-up reviews to ensure consistency and appropriate decision making across the Group, guided by our risk management process.



## Principal risks and uncertainties *continued*

### Top-down review

All principal risks are integrated with our strategic priorities. These are reviewed by the Executive Board members at various times throughout the year. 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 with the owners to update the risk status and review progress of response actions together with any supporting metrics to review their effectiveness.

Emergent risks are reviewed and assessed by a Risk Committee with nominated members from the Executive Board and the Group risk & assurance director. Identified emergent risks are developed and monitored with dedicated risk owners.

### Bottom-up review

Risk management is embedded at all levels of the business. Sectors, functions, major programmes, projects and operations ensure that their risks can be effectively managed within their areas. If additional support or assistance is required, the risk can be escalated to the next management level, up to executive level where appropriate.

Risk dashboards are updated and reviewed at the various levels within the business to determine the current risk position such as any changes in risk description, their causes, the impact statements and importantly to assess the progress of the mitigating activities.

The flow of risk within our risk management process is illustrated in the diagram on page 39.

### Governance

The Board is responsible for defining risk appetite and determining the nature and extent of the principal risks the Group is willing to take to achieve its long-term strategic objectives. On behalf of the Board, the Audit 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 Committee report on pages 76 to 81.

To undertake a robust assessment of the risks which could threaten the business objectives, performance, 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 continues to oversee risk deep-dives and to receive presentations on these from the Executive Board risk sponsor.








During the year we outsourced our internal audit function to ensure we had access to the depth and breadth of resources required to effectively audit our work. We also appointed a new risk & assurance director and a new, dedicated, specialist fraud investigator, demonstrating our commitment to effective risk management.

### Key areas of focus

Our risk profile continues to evolve. Although overall our principal risks have largely remained consistent, the areas of emphasis within each one adapts as the risks to the business change. Pressures on the UK economy evident at the end of 2022 mean we have noted an increase in our principal risks related to Group financial performance and changes in our customers' circumstances, while the strengthening of our information technology arrangements have helped to mitigate our principal cyber risk.

As part of our wider Transformation activities, we have changed our risk & assurance (R&A) function to strengthen our arrangements for managing risk and coordinate assurance activities across the business. Key areas of focus for the R&A function in 2023 will be developing our risk appetite thresholds to support decision making and enhance contract governance, updating our risk framework and supporting teams across our divisions, functions and contracts in proactively evaluating and managing risk.








The table below sets out the principal risks faced by the Group, the link to our strategic priorities, change in the risk and relevant controls and mitigations. Read about our strategy on pages 10 and 11.






Principal Risk	Description and impact	Controls and key mitigations	Strategic link
① <b>Prevent a major accident, hazard or incident</b>	<p>We operate in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards, including pandemics, may result in illness, loss of life or significant damage to the environment. Failure to manage this risk could result in reputational damage, loss of business and financial penalties.</p> <p>↔ <b>Risk trend: Neutral</b> (FY21: Neutral)</p>	<p>Safety, Health and Environment (SHE) management policies and procedures.</p> <p>The Costain Behavioural Safety (CBS) programme.</p> <p>Mandated accident and near miss reporting and embedding of lessons learned.</p> <p>SHE governance, monitoring and assurance.</p> <p>SHE Assurance Review Delivery Process aligned with the Learning Organisation Model.</p> <p>An incident occurred at our Gatwick site in 2022, however, the risk trend for 2022 remains Neutral until the formal findings of the incident are released. It is noted that Costain's LTR and AFR 2022 figures remain some of the best in class.</p>	  
② <b>Increase the profitability and margin performance of the Group</b>	<p>The effective implementation of our strategy is critical to the Group's ability to increase profitability and margin performance of the Group and effectively align our services to meet the changing needs of our customers. Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value.</p> <p>↑ <b>Risk trend: Increasing</b> (FY21: Neutral)</p> <p>As a result of impacts of cost inflation on customer spending plans.</p>	<p>Quarterly Business Reviews (QBRs) – to understand changes in the market, customers, capabilities and associated impact on business plan and budget.</p> <p>Commercial review process which examines in depth the performance of all projects and the strength of the pipeline across the business to assess progress in achieving our strategic objectives.</p> <p>Transformation Plan – incorporating all five implementation essentials in a prioritised and sequenced plan with clarity on timelines, key performance measures and accountability. This includes strengthening of work winning and contract risk management arrangements to improve financial performance</p>	  
③ <b>Maintain a strong balance sheet</b>	<p>A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our customers. Failure to manage this risk could affect our ability to achieve our business goals and our resilience to withstand economic downturns.</p> <p>↔ <b>Risk trend: Neutral</b> (FY21: Neutral)</p>	<p>Quarterly profit and cash forecast produced for current and following fiscal year including monitoring of covenant compliance and cash headroom and liquidity.</p> <p>Purchase to pay projects to improve invoice processing to all suppliers.</p> <p>Developed a balance sheet strategy for the Group during 2022 along with defining measures/targets to demonstrate progress.</p>	

Link to strategic priority

 People
  Planet
  Performance

## Principal risks and uncertainties continued

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
④ <b>Secure new work</b>	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.  ↔ <b>Risk trend: Neutral</b> (FY21: Neutral)	Directors quarterly progress review of Group and Divisional Business plan objectives.  Leverage market intelligence, data analysis and bid learning to improve and better target work winning activities.  Develop processes to manage and analyse information entered into Customer Relationship Management (CRM), ensuring customer and pipeline data is available to support work winning and business development activities.	
⑤ <b>People</b>	The successful implementation of our strategy is dependent on our ability to attract, develop and retain talent, to grow the skills and capabilities of our employees and maintain a high-performing, ethical and inclusive culture where our team can be at their best.  ↔ <b>Risk trend: Neutral</b> (FY21: Increasing)	A fair remuneration policy, monitored via the Remuneration Committee including annual benchmarking review, and both market and equal pay reviews.  Annual review and update of Costain People Strategy. People risks and opportunities embedded into Group business plan. Reports and management information are used to identify trends or issues.  Cost of living: review and implement measures to address key pinch points for our staff. Market benchmarking of Costain's overall reward package to ensure this remains competitive.	 
⑥ <b>Deliver projects effectively</b>	Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our customers and investors.  ↔ <b>Risk trend: Neutral</b> (FY21: Neutral)	Development and implementation of 'step-change' which includes; new 'Production Thinking' methodologies, standardised reporting, consistency in mobilisation and an improved project controls and risk management approach for all contracts, to increase value and improve performance.  Development and implementation of digital solutions to deliver real time project data and performance reports, and improve productivity.  Monitoring supply chain performance against enhanced standards established in Operational Excellence Model.	  
⑦ <b>Manage the legacy defined benefit (DB) pension scheme</b>	Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base and do not adversely impact our balance sheet.  ↔ <b>Risk trend: Neutral</b> (FY21: Neutral)	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.  Review and refine long-term pension scheme strategy in agreement with Executive and PLC Boards.	

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
<b>8</b> <b>Ensure that our technology is robust, our systems secure and our data protected</b>	<p>Our ability to enable safe, secure and resilient business operations (including finding, winning and delivering work supported by efficient corporate services) is dependent on the delivery of our core IT strategy. The delivery of this strategy is also key to our ability to safely and securely acquire, host, use and dispose of Costain, customer and third-party data.</p> <p>Costain has continued to invest in cyber protection in 2022 through additional resources and IT upgrades.</p> <p>↔ <b>Risk trend: Neutral</b> (FY21: Increasing)</p>	<p>Costain information security strategy integrates information systems, personnel and physical aspects to prevent, detect and respond to information security threats and incidents.</p> <p>Maintain annual IS 22301 accreditation. Disaster Recovery (DR) and Business Continuity Plans (BCP).</p> <p>Maintain annual Cyber Essentials Plus (CE+) accreditation.</p> <p>Focus on improving cyber resiliency in technology and people, improving our SETA (security education, training and awareness).</p> <p>Introduce Cyber security awareness training into the corporate induction programme.</p>	
<b>9</b> <b>Anticipate and respond to changes in customer circumstances</b>	<p>We have seen changes in the business operations and investment priorities of our core customers and customers challenged by ever-evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our customers and respond effectively could restrict our ability to grow margins and increase market share.</p> <p>↑ <b>Risk trend: Increasing</b> (FY21: Neutral)</p> <p>Due to changes in customer spend due to inflation.</p>	<p>As part of annual strategy review process, changes in markets and customers 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).</p> <p>Ensure continuous building of good customer and stakeholder relationships at all levels by business development teams at sector and key account level.</p> <p>Customer zipper (stakeholder relationship map) plans in place to shape relationships with central government, local authorities and trade bodies from Board downwards.</p>	
<b>10</b> <b>Climate change resilience</b>	<p>The risk that we lack the resilience to survive and thrive amid the impacts of climate change on a local, national and international level.</p> <p>↔ <b>Risk trend: Neutral</b> (FY21: New risk)</p>	<p>Annual strategy and Business planning cycle – functional business plans reviewed for alignment with climate change action plan.</p> <p>Integration of core climate change competencies for all disciplines into SHE training matrix.</p> <p>Roll out of carbon eLearning modules 1 and 2 across Group.</p> <p>Incorporate climate change into current supply chain management process following on from 2022 TCFD findings.</p>	  

Link to strategic priority



People



Planet



Performance

## 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 2024 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 41 to 43). 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 new work or deliver at improved 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.

### 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 Board confirms 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 2025.

### Going concern

The Group's going concern statement is detailed in note 2 of the consolidated financial statements on pages 144 and 145.

### Strategic Report

Our 2022 Overview and Strategic Report on pages 1 to 45 have been reviewed and approved by the Board of directors and signed by order of the Board.



**Nicole Geoghegan**  
Company Secretary

13 March 2023

## Non-financial 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 CDP and the Global Reporting Initiative.

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

#### Environmental ●●●●

Our ESG commitments / **pages 32 to 35**

Climate change action plan ([www.costain.com/what-we-do/climate-change-solutions](http://www.costain.com/what-we-do/climate-change-solutions))

#### Employees ●●●●●●●●

Our ESG commitments / **pages 32 to 35**

Board composition and diversity / **pages 64 and 65**

Gender pay gap report and Inclusion strategy ([www.costain.com/our-culture](http://www.costain.com/our-culture))

#### Human rights ●●●●●●●●

Supplier code of conduct ([www.costain.com/suppliers](http://www.costain.com/suppliers))

Modern slavery statement ([www.costain.com/our-culture](http://www.costain.com/our-culture))

#### Social matters ●●●●●●

Our ESG commitments / **pages 32 to 35**

Gender pay gap report and Inclusion strategy ([www.costain.com/our-culture](http://www.costain.com/our-culture))

#### Anti-corruption and anti-bribery ●●●●

Supplier code of conduct ([www.costain.com/suppliers](http://www.costain.com/suppliers))

#### Policy embedding, due diligence and outcomes

Principal risks and uncertainties / **pages 39 to 43**

#### Description of principal risk and impact on the business

Principal risks and uncertainties / **pages 39 to 43**

#### Description of business model

Business model / **page 15**

#### Non-financial KPIs

See **pages 29, 32 and 33**

### 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 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 sponsor for this policy is the head of IT.

#### 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 ISO44001:2017 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 objective to be net zero carbon by 2035 at the latest. 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 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, equality and diversity, 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/](http://www.costain.com/our-culture/policies/)

## Board of Directors

## Dynamic and effective leadership

## EXECUTIVE DIRECTORS

**Alex Vaughan**BSc (Hons), FRICS,  
Dip IoD, FloD, FICE

Chief Executive Officer

**Appointed**

Alex was appointed to the Board as CEO in May 2019.

**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 a smart infrastructure solutions business through his leadership of the development and growth of the Group's consultancy and technology services. In his role as MD, 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. Alex was chair of the CBI regional council from 2019 to 2021.

**External Appointments**

- None

**Helen Willis**

BSc, ACA

Chief Financial Officer

Helen was appointed to the Board as CFO in November 2020.

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.

- None

**Kate Rock**

BA

Non-Executive Chair

Kate was appointed to the Board on 1 November 2022 and became chair of the Board and chair of the Nomination Committee on 1 December 2022.

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.

- Keller Group plc; senior independent director, chair of social and community committee and non-executive director with responsibility for workforce engagement.
- Unbound Group plc; non-executive director and chair of remuneration committee.
- The Prince's Countryside Fund; trustee.

**Tony Quinlan**

BSc, ACA

Senior Independent Director

Tony was appointed to the Board in February 2021, became chair of the Audit Committee in May 2021 and senior independent director on 12 January 2022.

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 Committee and, as senior independent director of another listed company, had the experience required to successfully lead the search for our new chair in 2022.

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.

- Hill & Smith Holdings PLC; non-executive director and senior independent director.
- Associated British Ports; non-executive director.
- Laird Thermal Systems (Adparatus GmbH); advisory board member.



A Audit Committee

N Nomination Committee

R Remuneration Committee

A Chair

A

**Bishoy Azmy**

BSc, MBA

**Non-Independent  
Non-Executive Director**

Bishoy was appointed to the Board in June 2020.

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.

A N R

**Neil Crockett**

BA

**Independent  
Non-Executive Director**

Neil was appointed to the Board in October 2021.

Neil was chief digital officer at Rolls-Royce where, in partnership with business unit leaders, he accelerated the development of the group's digital strategy. Neil previously held several global, European and UK leadership positions with Cisco Systems.

Neil brings a passion and a strong track record in digital innovation and transformation and has gained experience of the wider UK digital innovation community in his previous role as the founding CEO of Digital Catapult, a UK Government funded digital innovation organisation and in his current role as a non-executive director at Catalyst, a business accelerating innovation and growth in the Northern Ireland knowledge economy. Neil is also a member of the Queen's Awards for Enterprise Innovation panel.

- Barnardo's; trustee board member and chair of the risk committee.
- Catalyst; non-executive director.

A N R

**Jacqueline de Rojas**

CBE

**Independent  
Non-Executive Director**

Jacqueline was appointed to the Board in November 2017.

Jacqueline brings to the Board a wealth of global experience in fast moving technology businesses, having previously held senior roles in major global technology companies such as Citrix Systems, CA Technologies, McAfee and Novell. She brings a deep understanding of how technology can be used to transform a business and insight into the development of new commercial models that deliver attractive economics.

Jacqueline is a passionate advocate for diversity and inclusion in the workplace. She was awarded a CBE for services to international trade in technology in 2018.

- Rightmove plc; non-executive director and senior independent director.
- FDM Group Holdings plc; non-executive director and board member responsible for employee voice.
- IFS; non-executive director and board member responsible for ESG.
- techUK; board member and former president.
- Merryck & Co.; executive mentor.

A N R

**Fiona MacAulay**

MSc

**Independent  
Non-Executive Director**

Fiona was appointed to the Board on 6 April 2022 and became chair of the Remuneration Committee on 5 May 2022.

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 Environmental, Social and Governance (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 programme, stakeholder and global supply chain management from BG Group, Mobil, Rockhopper Exploration and Echo Energy. Fiona was, until 2022, a non-executive director, remuneration committee chair and HSE committee chair of Coro Energy and is a past President of American Association of Petroleum Geologists Europe.

- IOG plc; non-executive chair and chair of the remuneration committee (to step down after AGM, expected to be May 2023).
- Ferrexpo plc; senior independent director and chair of the remuneration and ESG committees.
- Chemring Group PLC; non-executive director.
- Dowlais Group plc; non-executive director (listed company from late April 2023, subject to approvals).

- Innovo Holdings Limited; CEO.

## Executive Board

## Running the business

**Alex Vaughan**BSc (Hons), FRICS,  
Dip IoD, FIoD, FICE**Chief Executive Officer****Helen Willis**

BSc, ACA

**Chief Financial Officer****Nicole Geoghegan**

LLB

**General Counsel and  
Company Secretary****Catherine Warbrick**

BSc (Hons)

**Chief People and  
Sustainability Officer****Appointed**

Appointed in May 2019.

Appointed in November 2020.

Appointed in July 2022.

Appointed in September 2019.

**Skills and Competencies**For more information please  
go to / **Page 46**For more information please go  
to / **Page 46**

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.

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.

**External Appointments**

• None

• None

• None

• None

**Sue Kershaw**

BSc (Hons), FICE, FAPM, HFRICS

**Managing Director – Transportation**

Appointed in March 2020.

Sue Kershaw has a strong track record for driving complex, high profile transport and construction programmes to delivery. Before joining Costain she was managing director, Infrastructure Advisory Group at KPMG. Prior to that she was UK infrastructure head of programme management for KPMG Major Projects Advisory. Previous positions include director of rail-Europe at CH2M and deputy director of transport for the Olympic Delivery Authority. Sue is a civil engineer and started her career with Taylor Woodrow.

- President of the Association for Project Management, and honorary Professor at the Bartlett School of Sustainable Construction, University College London.

**Sam White**

BSc, MBA

**Managing Director – Natural Resources**

Appointed in January 2022.

Sam White 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.

- None

**David Taylor**

FRICS, FloD

**Group Commercial Director**

Appointed in January 2015.

David Taylor joined the Company in 2009 and was appointed to the Executive Board as Group commercial director in January 2015. He has held a number of senior leadership roles within the business and is currently responsible for the commercial function. David also has significant supply chain and procurement experience and has long advocated the benefits of strategic partnerships. Since December 2020, David is the executive sponsor for wellbeing for the Group and represents Costain on BITC's Wellbeing Leadership Team.

Prior to joining Costain, David acquired more than 25 years' experience with Taylor Woodrow where he held the position of commercial director for its UK operations.

- None

**Abida Lalani**

BSc (Hons)

**Director of Strategy and Transformation**

Appointed in October 2022.

Abida Lalani joined Costain as change programme director in November 2019 and is focused on accelerating the implementation of Costain's strategy across its four markets in transportation, water, energy and defence. Abi has since also taken on day to day strategy and planning for the Group and oversees the running of our Group wide transformation programme and other business improvement activities. Prior to Costain, Abida worked for HSBC, KPMG and Lloyds Banking Group where she formed a niche in large-scale transformation programmes, in particular integration or separation activity as a result of mergers, acquisitions, divestments or carve-outs. She has lived and worked across the UK and continental Europe, the USA, Middle East and Asia. Abi is also the Executive Sponsor for the Religious Ethnic and Cultural Heritage (REACH) Network at Costain.

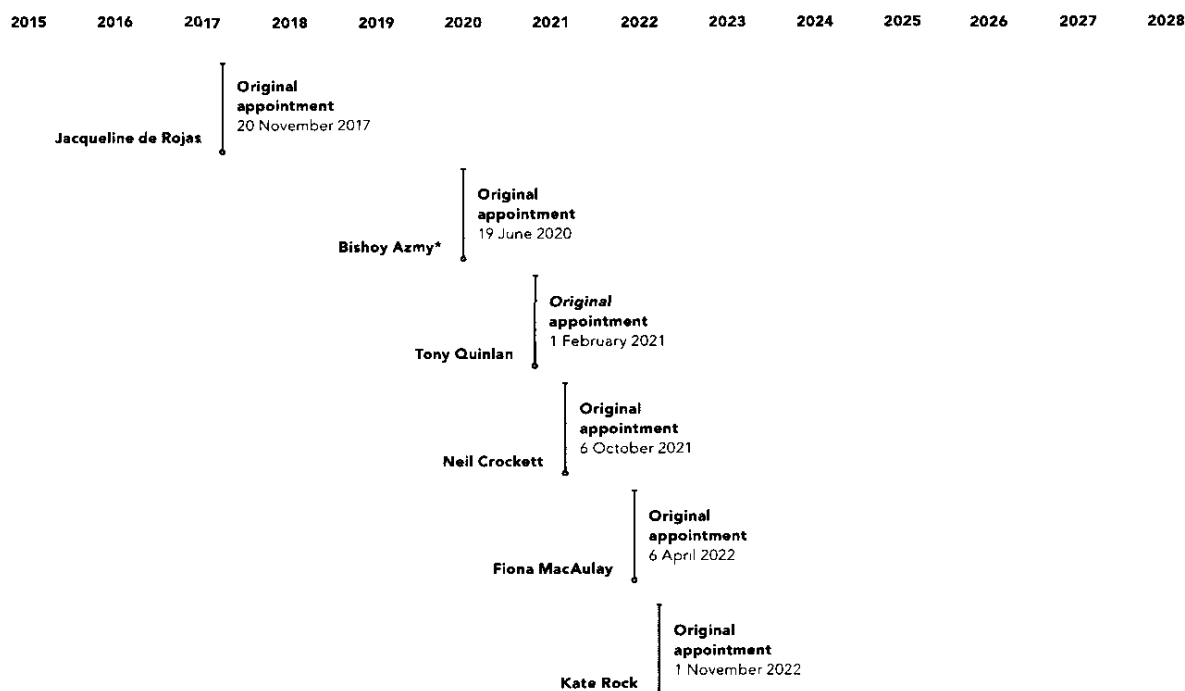
- Chair of the Board of Trustees at Volunteer Centre Camden and member of Business in the Community London Leadership Board.

## Governance at a glance

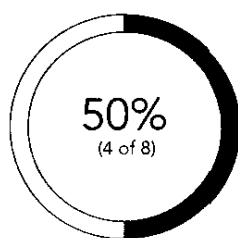
# Leading a responsible business

## Non-executive director service timeline

Below we demonstrate the length of service of our non-executive directors. While each non-executive director is appointed or reappointed on an annual basis by shareholders at the AGM, their letters of appointment provide for a three-year term, after which the director's appointment may be extended for a further one or two terms.



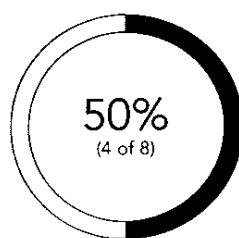
### Board independence



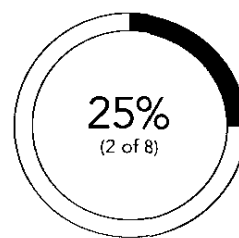
Chair*	1
Non-independent directors	3
Independent directors	4

# The chair was independent on appointment

### Board diversity – female



### Board diversity – other ethnicity



All other ethnic groups combined  
(excluding white minorities)

## Statistics from people survey

# 88%

Colleagues believe they can make a valuable contribution to Costain's success

# 93%

Colleagues say Costain takes health and safety seriously

# 81%

Line managers exhibit the Costain behaviours

### Governance focus

- Conducted in-depth review and lessons learned on Gatwick fatality.
- Further alignment of Board skills to strategy with new Board appointments.
- Appointed a dedicated, specialist fraud investigator and new risk & assurance director.
- Outsourced the internal audit function.
- Consulted on the proposed remuneration policy.
- Reviewed progress with the transformation and restructuring.
- Appointed a professional independent trustee as a pension trustee director.

### Key Board matters considered

- Director changes and responsibilities.
- Settlement of contractual disputes.
- Cost-of-living crisis.
- 'Amend and extend' of banking facilities.
- Communications strategy.
- 2023 budget and four-year business plan.
- Dividend policy.

## 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 2022 annual report.

### 1. Board leadership and Company purpose

- A Effective Board (pages 46, 47 and 72)
- B Purpose, values and culture (page 66 and 67)
- C Governance framework and Board resources (pages 28, 29 and 39 to 43)
- D Stakeholder engagement (pages 30, 31, 58 and 59)
- E Workforce policies and practices (page 45)

### 2. Division of responsibilities

- F Board roles (pages 56 and 57)
- G Independence (pages 46, 47, 50, 57 and 73)
- H External appointments and conflicts of interest (pages 46, 47, 74 and 124)
- I Key activities of the Board during 2022 (pages 62 and 63)

### 3. Composition, succession and evaluation

- J Appointments to the Board (pages 82 to 85)
- K Board skills, experience and knowledge (pages 46, 47, 50 and 72)
- L Annual Board evaluation (page 55)

### 4. Audit, risk and internal control

- M Financial reporting, external auditor & internal audit (pages 76 to 81)
- N Review of the 2022 annual report (page 75)
- O Internal financial controls and risk management (pages 39 to 43 and 75)

### 5. Remuneration

- P Linking remuneration with purpose and strategy (pages 87, 90 and 91)
- Q Remuneration policy review (pages 89 to 101)
- R Performance outcomes in 2022 (pages 86, 105 to 109)  
Strategic targets (pages 109 to 113)

## Chair's introduction

# As a Board we continually look for improvements in our governance processes

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

**Kate Rock**  
Chair

## Dear shareholder

I am delighted to be writing to you for the first time as the newly appointed chair of Costain. The Board has continued to maintain high standards of corporate governance across the Group. It has done this by promoting integrity and openness, valuing diversity and being responsive to the views of shareholders and wider stakeholders.

In July, we experienced a fatality on one of our rail contracts, at Gatwick. Following our investigation, to prevent a recurrence, we are implementing a number of recommendations across our business including changes to current industry practice. I and many of our Board members have visited the Gatwick site to offer support to the teams there.

Since my appointment, I have met with a number of large shareholders to hear their views and to discuss the opportunities and challenges for Costain. I have visited several of our operational sites and been delighted to see first hand the commitment of our employees to their work and evidence of them modelling the Costain values and behaviours.

The Board recognises the value of good corporate governance to long-term sustainable business success and has demonstrated full compliance with the 2018 UK Corporate Governance Code (the 2018 Code).

## ESG

The Board continues to prioritise matters relating to Environmental, Social and Governance (ESG) matters.

The Board has spent time in the year understanding our customers and levels of customer engagement, often in relation to the social value of projects, relations with Government, and progress with delivering our climate change action plan and net zero carbon strategy (see pages 30 to 35, together with our separate ESG report at [www.costain.com](http://www.costain.com)).

## Strategy

The Board establishes the Group's purpose, values and strategy, ensuring these are aligned to the culture of the business. 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.

Recognising that our share price does not reflect the value of the Group, the Board wishes to build stronger investor and market confidence in the Company. Following the work in 2021 to review Costain's strategy, including its purpose, vision and mission, the Company's values and behaviours have been refreshed in 2022 to align with the strategy (see page 67). By means of implementing the transformation and delivering our strategy, we believe we can achieve strong growth. Further details of our strategy are on pages 10, 11 and 66.

## Risk management

Effective risk management is a fundamental aspect of the Group's operating, financial and governance activities (see pages 39 to 43).

The Board conducted an in depth review of the principal risk 'prevent a major accident, hazard or incident' as a result of the fatality at Gatwick. The Audit Committee undertook a 'deep dive' of a number of the Group's principal risks, including climate change, balance sheet strength, effective project delivery and securing new work. During the year we outsourced our internal audit function to ensure we had access to the depth and breadth of resources required to effectively audit our work. We also appointed a new risk & assurance director and a new, dedicated, specialist fraud investigator, demonstrating our commitment to effective risk management.

## 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 2022, the Company is reporting in accordance with the 2018 UK Corporate Governance Code (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](http://www.frc.org.uk)

Costain was compliant with the provisions of the 2018 Code in 2022. In 2021 we were not compliant with Provision 41 relating to opportunities for employees to discuss executive pay. During 2022 we actively used the 'Your Voice' employee forum for this dialogue (see page 70 for details of Your Voice) with the Head of Reward attending a meeting of the Forum to discuss pay and benefits across the organisation.

The Audit Committee Report on pages 76 to 81, the Nomination Committee Report on pages 82 to 85 and the Directors' Remuneration Report on pages 86 to 119 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.**

## Chair's introduction continued

Further details of all Audit Committee matters are provided in the Audit Committee Report on pages 76 to 81.

Board members use their engagement visits to site (see page 68) as an opportunity to lead a risk conversation.

### Board and Committee governance

The Board approved the appointment of Tony Quinlan as senior independent director, and Jacqueline de Rojas as Remuneration Committee chair on an interim basis, both effective 12 January 2022. Alison Wood stepped down from the Board on 28 January 2022.

To align with our strategy and further strengthen our Board, Costain made two non-executive director appointments in the year. Fiona MacAulay was appointed to the Board on 6 April 2022 and became Remuneration Committee chair in May 2022. I was appointed as an independent non-executive director and chair designate from 1 November 2022 and assumed the role of chair of the Board and chair of the Nomination Committee from December 2022 when Paul Golby stepped down from the Board. These two appointments were in line with the Board's succession plan and followed extensive independent external search processes.

These external searches were the key focus for the Nomination Committee during the year. Further details of all Nomination Committee matters are provided in the Nomination Committee Report on pages 82 to 85.

### Remuneration

In the application of the remuneration policy approved in 2020, 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, particularly in the context of the cost-of-living crisis. During the year, the Remuneration Committee reviewed the existing policy and, as required, will be submitting a new remuneration policy for approval by shareholders at our 2023 AGM.

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. We concluded a consultation with our largest investors and their representative bodies in March 2023 on the proposed new remuneration policy. Fiona MacAulay, our Remuneration Committee chair, met with shareholders who wished to discuss the proposals in more detail and we corresponded with others on their further enquiries arising from the consultation.

Please see the Directors' Remuneration Report on pages 86 to 119 for more information on the proposed remuneration policy and implementation of the existing policy in 2022.

### 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 66). Towards the end of 2022, the Company carried out an employee engagement survey. 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 as a Best Companies 1 Star organisation, meaning that Costain is a 'Very Good Company' to work for (see page 69 for more information).

### Board effectiveness review

For the second year running an internal effectiveness review of the Board and its Committees was conducted in 2022. Actions are being taken as a result of the Directors' collective feedback (see opposite for more details of the review). An external Board and Committee effectiveness review will be undertaken in 2023.

### Kate Rock

Chair

13 March 2023



Above: Kate Rock on site at HS2



## Board evaluation

The Board has a formal process for the evaluation of the effectiveness of the Board and its Committees. For 2022, in recognition of the chair transition, the annual evaluation was conducted internally by the newly appointed general counsel and company secretary, Nicole Geoghegan. At the October Board meeting, having sought the preliminary views of the then chair, senior independent director and CEO, Nicole obtained approval for the process for conducting the Board effectiveness evaluation in 2022. The review was formal and rigorous with two meetings held with most non-executive and executive directors. Topics covered many aspects of the terms of reference and activities of the Board and its Committees, including the following:

- what's working well at the Board and Committees
- what would help the Board be more effective
- Costain's largest challenges
- strategy and business planning
- culture, behaviour and boardroom dynamics
- approach to risk management
- Board's priorities
- ESG.

Using the detailed notes provided by the general counsel and company secretary, the new chair discussed the findings with the Board which agreed the following actions for 2023:

- increase time on strategic matters
- embed ESG commitments

- refresh the risk appetite
- heighten engagement with stakeholders
- chair to reach out to other directors immediately prior to each meeting to discuss the papers and any proposals
- continuous improvement of Board papers
- bring outside views into the boardroom.

As a result of the review, the Board considered that the directors continue to have sufficient time, knowledge and commitment to contribute effectively to the Board and its Committees, and that the Board as a whole demonstrates good practice on the key indicators of Board effectiveness.

In accordance with best practice in the third year since the last external review, the Board has committed to conduct an external review in 2023, which will likely be undertaken in Q4.

As Paul Golby had indicated his intention to step down as chair, and Kate Rock was appointed as chair from 1 December 2022, an assessment of chair effectiveness was not undertaken. However, as part of her review as incoming general counsel and company secretary as described above, Nicole Geoghegan discussed with each director their expectations of a new chair. These have been shared with the new chair and a review of chair and individual director effectiveness will be undertaken as part of the external effectiveness review in 2023.

The procedures, effectiveness and development of the Board will continue to be kept under review, recognising in particular that this is a relatively new Board.

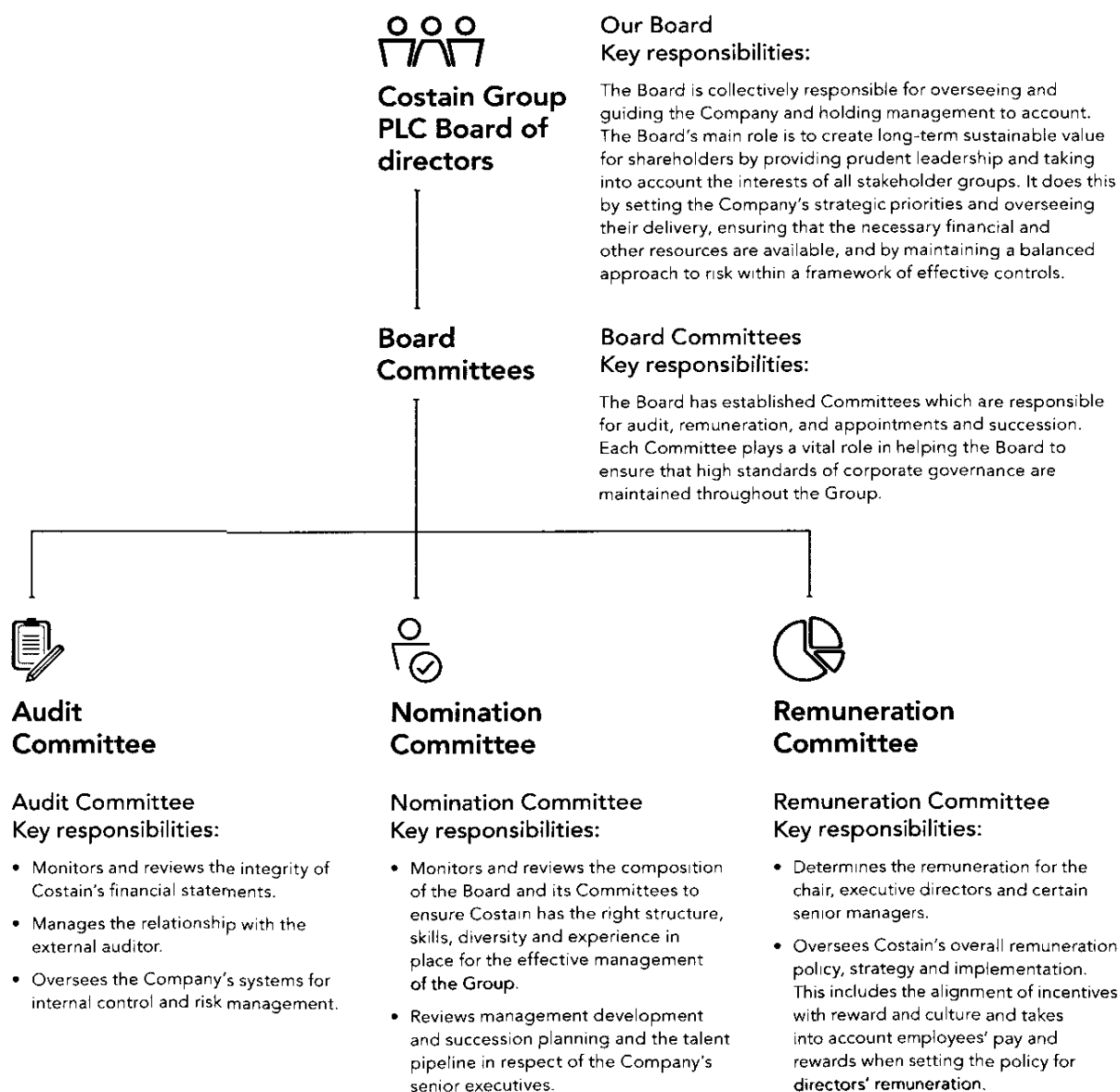
Progress made in 2022 against the areas of focus that were identified during the 2021 internal evaluation are shown below.

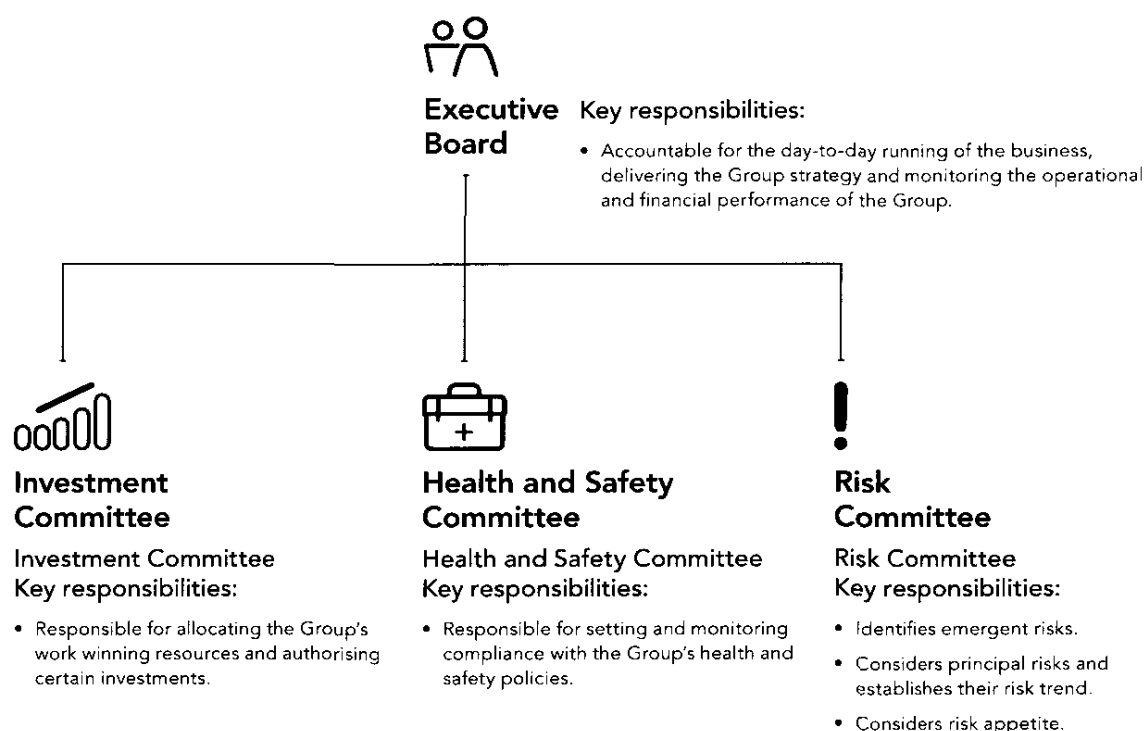
Areas of focus identified in 2021	Purpose, link to strategy and actions undertaken
<b>Undertake a deep dive review of the digital strategy</b>	<ul style="list-style-type: none"> <li>• The following were presented and discussed at Board meetings in 2022: digital landscape and cyber security (March); the digital growth strategy and risk (May); digital addressable market (July); and digital plan (December).</li> </ul>
<b>Monitoring the performance of KPIs that underpin the delivery of the strategy, business plan and transformation</b>	<ul style="list-style-type: none"> <li>• KPIs were agreed at the March Board meeting and performance against them is regularly monitored.</li> <li>• The Board received a presentation on strategy and market update at its July and October meetings.</li> </ul>
<b>Creating additional opportunities for engagement with management and the talent pipeline</b>	<ul style="list-style-type: none"> <li>• The Board has engaged with various members of the Executive Board and the senior leadership team at various Board and Committee meetings and at other meetings.</li> <li>• Members of the Executive Board joined the Board members for dinner in May and August 2022.</li> <li>• Non-executive directors have accompanied members of the leadership team on site visits, including the new chair visiting Gatwick, HS2 and Tideway. Fiona MacAulay attended a Natural Resources briefing focused on Energy in November in our Manchester offices.</li> </ul>

## Our governance structure

# Delivering effective decision making and meeting corporate governance standards

The Group's organisational structure is established and overseen by the Board and designed to enable effective decision making and to meet corporate governance standards.





#### How we divide up our responsibilities

<b>Chair</b>	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.
<b>Chief executive officer</b>	The CEO, Alex Vaughan, is responsible for managing the business of the Company through the implementation of policies and strategies approved by the Board. Alex is responsible for maintaining constructive dialogue with the chair, the Group's shareholders on strategy and performance and other stakeholders.
<b>Senior independent director</b>	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.
<b>Non-executive directors</b>	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 being present from time to time as a matter of good corporate governance.

#### Further information



In December 2022, the Board approved one change to the matters reserved for the Board in relation to clarity around approvals for any joint venture and subsequent contracts relating to that same joint venture. No changes were made to the terms of reference of Board Committees in 2022 other than to update them for changes in job role titles largely resulting from the transformation project. The matters reserved for the Board and Committee terms of reference, which are reviewed 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 46, 47, and 72.

## S172 statement

## Engaging with our stakeholders

## Our commitment to stakeholders

We set out on page 31 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 60 and 61 (Principal decisions), shows how the directors have performed their duty under Section 172 Companies Act 2006, having regard to a range of stakeholder feedback.

Via our Your Voice forum, the Board heard directly from our people on the challenges they face arising from the cost-of-living crisis. The Board responded proactively with a number of interventions (see here and page 70 for full details).

**Signed by the Board**  
13 March 2023



Workforce



Customers



Shareholders



Suppliers

Communities  
and environment

## HOW WE ENGAGED

- Board members took part in several site visits and attended virtual meetings with colleagues.
  - We held two leadership impact days where our people stopped their usual activities and took part in discussions related to the day's themes.
  - We conducted a Group-wide people survey.
  - We convened our quarterly employee forum, Your Voice.
  - We launched a series of live divisional quarterly briefings for all employees.
  - We refreshed our new joiner induction programme and annual code of conduct compliance training for all employees.
  - We launched our Samaritans 24/7 fundraising campaign in 2022.
- 
- We conducted customer satisfaction surveys for individual projects to help monitor our performance.
  - The Board received presentations from the divisional managing directors on major customers and from the Infrastructure Projects Authority on trends and ambitions in the construction industry.
  - We took our customers 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 the Tideway Project.
  - We attended a number of events with industry associations including the Hydrogen Summit.
  - Visits to customers were undertaken by members of the leadership team with strong CEO and CFO customer engagement.
  - In April, our 3,500 people, site teams, customers and suppliers came together on one of our leadership impact days to discuss increasing inclusion, receiving positive feedback across our stakeholders.
- 
- Our Annual General Meeting (AGM) was again broadcast live. Questions could be asked before the meeting.
  - We issued other regular announcements and streamed webcasts to accompany results announcements.
  - We wrote to our largest shareholders describing the Directors' Remuneration Report in the 2021 annual report and later in the year on the proposal for the remuneration policy renewal (see page 89).
  - Since appointment, the chair has been meeting with major investors to discuss their views on the Company and receive feedback.
  - The investor relations director has also dealt with shareholders on an ad hoc basis during the year on issues including the new chair appointment and the pension fund.
- 
- Our supply chain managers provide a crucial link with suppliers, developing strong, enduring relationships to seek out 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.
  - We facilitated a series of supplier engagement sessions focused on alignment of their wellbeing, inclusion, safety, environmental and ethical business alignment to our ESG commitments.
- 
- Costain's community relations continues to be recognised by the Considerate Constructors Scheme, averaging 45.5 compared to the industry average of 39.7 (out of 50). Every contract has an individual or team responsible for community/stakeholder relations.
  - We use digital tools to help us keep our neighbours informed of our work, with inclusive and accessible communications.
  - To ensure we are abreast of the societal issues affecting our neighbours, Costain has five senior leaders serving as regional board members for Business in the Community (BITC) and Catherine Warbrick is member of the Prince's Trust's Built Environment Group.

## DISCUSSIONS &amp; ACTIONS

- We have been engaging with and listening to feedback from the workforce in relation to the impact of the cost-of-living crisis.
- We welcomed the feedback from our people survey. We asked a set of core questions about leadership, the Company, managers, teams, wellbeing, personal growth, fair deal and giving something back. In addition, we asked questions about SHE, culture, advocacy, communication and career progression.
- We consulted our people on our existing values to assess their continued relevance.
- The Your Voice forum focused on key themes: cost of living, systems and processes, reward and benefits, values and behaviours, communication and policies.
- We gave back to Samaritans for their support in the pandemic. Focused on promoting their services and taking care of our mental health.
- Maintaining customer relationships is fundamental to us understanding our customers' needs and those of their customers. In 2022 we reviewed how we gain feedback from our customers and in 2023 will be updating our process to better suit customer preferences.
- We hosted a number of events including Tomorrow's Net Zero conference and Disruption 2030 series and Digital Twin webinar.
- We have undertaken customer roundtable sessions which explored best practice programme management by focusing on the following topics: selecting the right delivery model; culture and behaviours; benefits realisation; and sustainable procurement.
- We responded to consultations, for example on the construction playbook and framework procurement.
- We have also taken customers to our Worle facility to showcase our digital and technical capabilities and options.
- We talked to shareholders about our share price, results announcements, new chair, trading and executive remuneration.
- We engaged with investors on their enquiries on our releases on A303 and Heathrow.
- We engaged on the 'amend and extend' financing arrangements.
- 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 appointed a new investor relations director.
- 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 WiiSE strategy and our ESG commitments.
- We invited suppliers to attend 'Walk and Talk' events 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 the materials and labour shortages.
- 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 works and maintain a service level agreement for customer contact.
- Some of our high-profile projects have attracted protester interest and in those cases we have taken efforts to de-escalate tensions and engage in productive conversations.














## OUTCOMES

- We have used workforce feedback to inform our programmatic approach to cost of living interventions.
- Our first leadership impact day focused on inclusion and we published a 'Little Book of Respect' to supplement the learning.
- We embedded refreshed Costain values and behaviours into the whole employee lifecycle (see page 67).
- We evidenced high levels of engagement with the people survey (see page 69).
- At end February 2023, we have raised £66,570 for the Samaritans 24/7 campaign.
- We have undertaken working groups to better support our customers with upcoming projects.
- We developed a four-year business plan to take into account our customers' changing requirements and created plans to enhance ways of working.
- 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.
- During the year the Board held several discussions in relation to the dividend policy and appropriate timings for reinstating the dividend (see page 38).
- In considering 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 (see page 89).
- The Board received an update from its financial advisers on market challenges, the competitive landscape and any opportunities for growth. The Board confirmed its strategy aligned to the current market position.
- 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 in teaching modules.
- We took proactive measures to procure materials ahead of time and, where practicable, stockpiled certain critical materials to ensure productivity.
- We submit our statistics on prompt payment performance publicly every six months.
- Costain senior leaders took part in various BITC events, including meeting with community groups to discuss the cost of living challenges.
- Costain worked in partnership with the Prince's Trust to deliver a 'Get into Green and Digital Construction' Programme.
- We introduced a volunteer hub which can be accessed by all employees. Opportunities can be filtered by date, type, discipline or professional, so everyone has the ability to find the right opportunity.

## S172 statement continued

## Principal decisions

In making the following principal decisions in 2022, the Board, in accordance with Section 172(1), considered the outcome of stakeholder engagement (as set out on pages 58 and 59), 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 progress with the net zero carbon strategy 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 4 of our ESG report at <a href="http://www.costain.com">www.costain.com</a> .	
		The Board noted social value from projects including HS2, together with the focus on carbon reduction on infrastructure projects.	
	Safety	The Board discussed updates and reports on the Gatwick fatality including observations from their own engagement visits.	
		The Board monitored progress with legal proceedings in relation to previous fatalities.	
		The Board endorsed the removal of COVID-19 restrictions in March 2022.	
Strategy	Financing	The Board approved the 'amend and extend' proposals in respect of its banking facilities.	
		The Board noted the banks' proposed metrics for factoring ESG into their risk analyses for returns and any impact on Board decision-making.	
	Delivery of strategy	The strategy, four-year business plan and 2023 budget were approved by the Board. This followed a comprehensive review over a number of meetings of our strategic priorities, addressable market including UK Government spend, and risks to the business. The business plan takes into account our customers' changing requirements and enhanced ways of working resulting from the transformation.	
		The Board received frequent updates on progress with the transformation programme; project design, people, timescales, benefits, risks, KPIs and investment requirements, together with details of the digital strategy. The Board supported the aim to reduce process complexity and improve systems.	
		The Board approved the sale of the Company's minority shareholding in a legacy non-core business, Sleeperz Hotels Limited.	
	Communications strategy	The Board approved the repositioned purpose, vision, mission and narrative plan.	
		The Board approved new external PR advisers who in May presented to the Board on the communications and investor relations strategy.	
			
	Capital markets	In order to assess the opportunities and risks, the Board received an update on market activity from its financial advisers, which included options for growth and consideration of certain shareholder views.	



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, including after the settlement of the Peterborough & Huntingdon contract dispute. The Board has since determined that typically trading updates will no longer be made, with a focus on the full and half year results.  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 contemplated the details of the Peterborough & Huntingdon contract dispute negotiations with National Grid and agreed the final settlement. The Board reviewed lessons learned from the dispute including information flow and record keeping.  The Board approved the outsourcing of the internal audit function.  The Board reviewed the status of cyber security management.	
	Margin	The Board contemplated the impact of inflation and other factors on margin.	
	Pension	As a matter of good governance, a professional independent pension scheme trustee was appointed in 2022.	
	Dividends	Having regard to what it considered, in good faith, to be for the benefit of its shareholders, after in depth analysis, the Company recommended no dividends in respect of 2022 (see pages 6 and 38).	
Culture and governance	Appointments	To further align with the strategy and enhance its skillset, the Board approved the appointments of Fiona MacAulay as non-executive director and later chair of the Remuneration Committee, and Kate Rock as non-executive chair designate and later chair of the Company (see Nomination Committee Report on pages 82 to 85). The Board approved actual or potential conflicts of interest.  The Board approved the appointment of a new general counsel and company secretary.	
	Board governance	Progress was made in increasing the quality and transparency of information provided to the Board.  The Board recommended for approval by shareholders new articles of association.  The Board allotted shares in connection with the Company's share plans.  A change was approved to the delegated authorities in relation to joint ventures.	
	People	The Board endorsed various initiatives in relation to the cost-of-living crisis (see page 70) and determined, for the third consecutive year, to not make an invitation under the sharesave scheme due to the prevailing share price.	

## Key activities

The following summarises the Board's main activities and areas of discussion during 2022

Key area of activity	Link to Principal Risk
<b>Safety, health and environment</b>	
Continued to review the robustness of the Company's safety procedures and working practices particularly following the Gatwick fatality, including employees' wellbeing.	① ② ③ ④ ⑤ ⑥ ⑨ ⑩
Monitored safety, health and environment performance against the WISE strategy (see pages 32 and 33).	
Monitored progress against the climate change action plan and targets set in 2020 and with our net zero strategy (see pages 29, 32, 33, 34, 43 and 60).	
The Board reviewed ESG initiatives for their viability, both financially and sustainably.	
<b>Strategy</b>	
Reviewed the progress made in delivering the Group's strategy, including interactive and in-depth strategy sessions attended by various members of the Executive Board. The Board monitored closely macroeconomic and market trends together with the Company's customer mix, competitor landscape and labour shortages.	① ② ③ ④ ⑤ ⑥ ⑨ ⑩
Reviewed progress with the transformation in relation to people, functions, restructuring costs and longer term cost savings.	
Received a presentation from representatives of the Infrastructure Projects Authority to discuss trends and ambitions in the construction industry and adoption of the Construction Playbook, together with Government spend.	
<b>Business and financial performance</b>	
Received detailed updates on our business performance against our strategic priorities and KPIs.	① ② ③ ④
Reviewed and discussed financial performance against budget, including exceptional items and any deviations from expectations. Considered the operational improvements.	⑤ ⑥ ⑦ ⑧ ⑨ ⑩
Reviewed and approved some large projects to support the growth and strategy of the Group, in accordance with the matters reserved for the Board.	
Considered the Company's performance on major contracts.	
Reviewed and approved the 2021 annual report and preliminary results announcement, the 2022 interim results statement and the dividend policy. Continued to review the timing of the reinstatement of future dividends.	
Noted centralisation of the procurement function in order to achieve further efficiencies.	
Received reports on analyst and investor feedback and received a presentation from the Company's financial advisers.	
Oversaw the project to 'amend and extend' the Company's bank and surety facilities (see page 144).	

## Principal Risks:

①

**Prevent a major accident, hazard or incident**

②

**Increase the profitability and margin performance of the Group**

③

**Maintain a strong balance sheet**

④

**Secure new work**

⑤

**People**



Key area of activity	Link to Principal Risk
<b>Risk and opportunity</b>	
Set parameters around the settlement with National Grid in respect of the Peterborough & Huntingdon contract dispute and agreed the terms of the final settlement at the beginning of 2022. Reviewed the position with other legacy contracts and the progress made to resolve them.	1 2 3 4 5 6 7 8
Undertook deep dive reviews of our principal risks to reassess these in light of the risk mitigation actions undertaken.	9 10
Received presentations on risks including on safety, health and environment, specifically in relation to the Gatwick fatality (see pages 53 and 78), increasing the profitability and margin performance of the Group, and anticipating and responding to changes in customer circumstances.	
Monitored the impact of inflationary pressures on the Company's supply chain and the Company.	
<b>Culture and governance</b>	
Approved recommendations from the Nomination Committee regarding Board and Committee chair appointments including senior independent director and chair succession.	2 3 4 5 7
Implemented actions to address the findings from the 2021 internal Board effectiveness review and considered the outcomes of the 2022 internal Board evaluation process (see page 55 for further information).	
Approved for publication the Group's Modern Slavery Statement, Gender Pay Gap Report and the Board's diversity and inclusion policy.	
Approved the treatment of actual and potential directors' conflicts of interest, including the actual conflict of interest of Kate Rock who is a director of Keller Group plc (a non-material supplier to the Company).	
Approved minor changes to the delegated authority matrix, matters reserved for the Board and share dealing code.	
Noted progress with operating the new whistleblowing process.	
Appointed new PR advisers.	
Received updates on the Group's defined benefit pension scheme. Endorsed the appointment of a professional independent trustee as a trustee director.	
<b>Talent and people</b>	
Discussed and endorsed interventions in relation to the cost-of-living crisis.	1 4 5 6
Engaged with high potential employees through presentations and deep dives at Board meetings.	
Reviewed and discussed feedback from the 'Your Voice' forum and engagement visits to site (see pages 68 and 70).	
Noted progress with recruitment and reviewed employee turnover rates.	

6

**Deliver projects effectively**

7

**Manage the legacy defined benefit pension scheme**

8

**Ensure that our technology is robust, our systems secure and our data protected**

9

**Anticipate and respond to changes in customer circumstances**

10

**Climate change resilience**

## Board diversity

## Diversity and inclusion

Costain is committed to maintaining a diverse Board. We have long believed that diversity in all its forms is a requisite for strong decision making and delivering high performance. Costain is committed to a culture of inclusion, setting a clear tone from the top, with the Board and Executive Board championing diversity and inclusion.

The Board endorses the objectives and actions set out in the 2022 inclusion strategy which can be located at [www.costain.com/our-culture/equality-diversity-and-inclusion](http://www.costain.com/our-culture/equality-diversity-and-inclusion).

The Board continues to be supportive of the boardroom diversity targets set by the Hampton-Alexander and Parker Reviews respectively:

- By 2020 women to make up at least 33% of a company's board positions – achieved by Costain in 2017 and maintained (with a brief dip in 2022) with the chair and CFO positions currently held by women and women now representing 50% of the Board.
- By 2024 for FTSE 250 companies to have at least one non-white director on their boards – in 2017 Costain met, and continues to meet, the target with currently two BAME directors.

The Board places an emphasis on developing diversity within senior management and the wider workforce. The Board has overseen the Group's aim to increase female representation within senior positions. Since 2020, 50% or more of our Executive Board have been female.

As stated in our 2021 annual report, we recognise there is progress to be made on the ethnic diversity of our senior management and we therefore made this a specific focus in our 2022 succession planning work. This is evidenced within our 2022 emerging leaders programme cohort, with 56% of representatives female and 22% BAME.

We also continued our REACH (Religion, Ethnicity And Cultural Heritage network) mutual mentoring programme following a pilot in 2021, with 15 mentors and 15 mentees participating in the scheme with members of our REACH and senior leadership. CEO Alex Vaughan was a mentor in this year's mentoring programme.

## Female representation

Level	Actual 31 Dec 2021	Actual 31 Dec 2021 (number)	Actual 31 Dec 2022	Actual 31 Dec 2022 (number)	Actual 13 March 2023	Actual 13 March 2023 (number)
Board	37.5%	3 of 8	50%	4 of 8	50%	<b>4 of 8</b>
Executive Board	56%	5 of 9	62.5%	5 of 8	62.5%	<b>5 of 8</b>
Senior Management	38%	11 of 29	36%	10 of 28	35%	<b>11 of 31</b>

## Ethnicity representation

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority white groups)	6 of 8	75%	4 of 4	7 of 8	87.5%
Mixed / Multiple Ethnic Groups	1 of 8	12.5%	0 of 4	0 of 8	0%
Asian / Asian British	0 of 8	0%	0 of 4	1 of 8	12.5%
Black / African / Caribbean / Black British	0 of 8	0%	0 of 4	0 of 8	0%
Other ethnic group, including Arab	1 of 8	12.5%	0 of 4	0 of 8	0%
Not specified / prefer not to say	0 of 8	0%	0 of 4	0 of 8	0%

Costain has a clear implementation plan in place to improve diverse representation, close its gender and ethnicity pay gaps and continue building an inclusive culture that allows employees, suppliers and stakeholders to be at their best. Initiatives include targeted development programmes for diverse talent and attracting diverse shortlists.

We collate diversity as part of our onboarding process within our 'MyHR' system, asking employees to self-report their data. 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 categories listed. We provide a 'prefer not say' for non-mandatory fields for those employees who would prefer to not disclose their characteristics.

## Achievements in 2022



To read our diversity and inclusion policy and inclusion strategy in full, please visit:  
[www.costain.com/our-culture/equality-diversity-and-inclusion/](http://www.costain.com/our-culture/equality-diversity-and-inclusion/)

## Purpose, values and culture

## Who we are

## PURPOSE

Improving people's lives  
(see page 2 for more  
on purpose)

## 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 people surveys



See page 69



Whistleblowing reports



See page 81



Internal audit reports and findings



See page 79



Health and wellbeing performance



See pages 29 and 69



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



See pages 29, 32 and 33



Progress in respect of diversity and inclusion



See pages 32, 33, 35, 64 and 65

81%

of our employees told us that their line manager exhibits the Costain behaviours.

## People

### Refreshing our values

Our values are what we believe in, what we stand for as an organisation and what we hold true. Having a clear set of shared values across our business is the cornerstone of the culture at Costain.

In 2022, we undertook extensive research and testing to determine if the existing Costain values were still relevant to the business today.

Using our networks and forums from a cross section of the organisation, we ran a series of focus groups to review the existing values, identify what resonated, what might be missing and what we could build on. We researched customers' and joint venture values, as well as looking at what investors, future employees and wider society expect from Costain.

#### We engaged with:

**Internal stakeholders:** Your Voice, employee networks, contract leaders board, front line managers, senior leadership teams and the Executive Board.

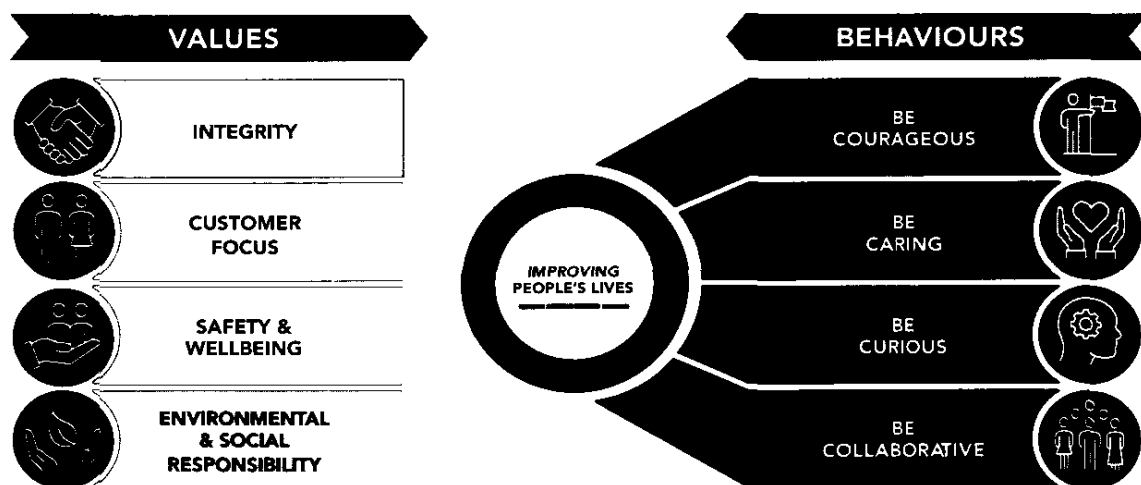
**External stakeholders:** Customers, joint ventures and investors.

### Embedding the values

Our refreshed values and behaviours have been embedded across the whole employee lifecycle to make sure they are turned from words into real actions as follows:

- Engaged the leadership community at the leadership conference in May 2022 and provided a digital toolkit to share with their teams.
- Re-launched our quarterly, internal recognition awards as the Costain Awards. Each category has been aligned to a core value, ensuring the business is recognising and celebrating teams and colleagues who are living the values and displaying the behaviours.
- Re-designed the intranet portal homepage.
- Incorporated the values into our performance review process.
- Published a special edition, all-employee communication from Alex Vaughan explaining why the values are important.

In our recent Best Companies people survey (see page 69), 81% of colleagues told us that their line manager exhibits the Costain behaviours.



### Outcome

Following research and testing, Costain has a refreshed set of four liveable values underpinned by four core behaviours.

## 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 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, people surveys and the Your Voice forum. In addition, the Board continues to use a number of recognised indicators of culture on page 66.



## Engagement visits to site

**Our non-executive directors carry out engagement tours 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 with members of the site team (including employees, operatives and members of the supply chain) to enable two-way communication with the Board member. 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 bi-annual Company-wide 'Leadership Impact Days' was held in April and was focused on inclusion, fully involving our customers and supply chain. Video stories demonstrated inclusive behaviours and then multiple real-life case studies of non-inclusive behaviours were used for discussion. The day reinforced the importance of creating the right working environment and ensuring everyone in our teams feels safe to be their true selves so they can perform at their very best.

The second 2022 Impact Day, in October, focused on our refreshed values and behaviours and their alignment to our safety and wellbeing value. Accompanying Alex Vaughan at Gatwick, Jacqueline de Rojas met with the workforce, listening to their thoughts and capturing safety and wellbeing ideas.

From Gatwick, the project director gave a live opening address and was joined virtually by managing director Transportation, Sue Kershaw, from Tideway.

Jacqueline reported a high level of engagement at Gatwick. There was recognition of the quality of work performed while dealing with the sad loss of a valued colleague. Jacqueline commented, "I was particularly struck by their openness to embrace change and new thinking. The crews obviously like working together and strive hard to bring new team members up to their high standards".

During 2022, Neil Crockett visited our projects at HS2, Tideway and for EDF, and also our offices at Worle, and took part in an employee digital webinar. Tony Quinlan visited HS2 at Ruislip. Since appointment, Kate Rock has visited Tideway, Gatwick and HS2. Fiona MacAulay attended a Natural Resources employee briefing on Energy at our Manchester offices.

Each member of senior management, including Executive Board members, completes a site visit monthly and feeds back all observations to the SHE team.



## People survey – a ‘Very Good Company’ to work for

**Towards the end of 2022, Costain worked with Best Companies to launch a new Group-wide people survey 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 was measured against Best Companies eight factors of engagement methodology and scored against the following themes: *Leadership, My company, My Manager, My team, Wellbeing, Personal Growth, Giving something back and Fair deal*. In addition, Costain asked bespoke questions to obtain feedback on important topics for our business.

Costain is delighted to be accredited as a Best Companies 1 Star organisation, meaning that Costain is a ‘Very Good Company’ to work for.

The data from the survey has been used to establish our people priorities by recognising and celebrating those things that we are doing well and helping us to understand what we might improve to make Costain an even better place to work.

Group, divisional, sector and functional results have been cascaded and informed action plans produced to increase engagement at local and Group levels. Teams were encouraged to discuss the results and talk about the local actions they will take.

The Board will monitor progress against the actions throughout the rest of 2023 and later in the year Costain will re-run the survey to measure performance against our 2022 benchmark to ensure continuous improvement.

### Action we will take:

- continue to focus on the wellbeing of our teams
- review fairness and transparency of pay
- improve our systems and processes
- increase visibility of career opportunities and development.

# 93%

of colleagues agree that health and safety is taken seriously in Costain, with health and safety our top performing area.

# 82%

of colleagues think Costain provides a great service to its customers.

# 88%

of colleagues believe they can make a valuable contribution to the success of Costain.

# 81%

of line managers are exhibiting the Costain behaviours (collaborative, caring, curious and courageous).

## Workforce engagement continued



## Employee forum: Your Voice

**Our colleague forum Your Voice continued to meet in 2022 and this year was attended by CFO, Helen Willis.**

Your Voice meets quarterly and comprises of eight elected champions representing all sectors and capabilities, along with representatives from the people function, engagement lead and rolling Executive Board member. The group meets quarterly to discuss ideas and share feedback.

The objectives of the forum are to:

- Share and take forward ideas and experiences to accelerate how we make Costain a better business – safer, faster, greener and more efficient.
- Share ideas and proposals to help make Costain an even better place to work.

- Seek feedback from our employees on important workplace matters.
- Be a career and skills development opportunity for those taking part.

Outputs from the forum are fed back to the Board via the chief people and sustainability officer who also attends *certain Board meetings and the Remuneration Committee meetings* to give updates on matters relating to the wider workforce and to answer questions raised by the directors.



## Supporting colleagues through the cost-of-living crisis

**Costain responded to the UK's biggest societal challenge in 2022 by taking action to help support colleagues, customers and suppliers during the cost-of-living crisis.**

As a responsible business, Costain has taken a collaborative approach, with business functions working together to develop a programme of support initiatives for colleagues.

Unsurprisingly, cost-of-living concerns were the most reported issue facing colleagues in 2022. The business listened to feedback from your Your Voice and recognising that the cost-of-living crisis would be an ongoing challenge, Costain has taken a programmatic approach to its interventions.

**Action taken:**

- Increasing the annual salary review budget in 2022 and again in 2023.
- Commitment to paying the Real Living Wage in 2022 and 2023.
- One-off payment of £750 (in January 2023) to all employees earning £35,000 per annum (full time equivalent) or less.
- Launched Costain Lifestyle – a new employee discount platform to help colleagues make savings on everyday purchases.
- Improvements made to the expenses process to speed up recovery of costs and increased electric vehicle rates.
- Introducing a travel card.
- Reviewing entirety of our travel and subsistence policy.
- Ran a series of financial webinars.
- Launched a cost of living community for colleagues to share practical tips and advice.





## 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 refreshed values and behaviours on page 67). The format is then a short update from the CEO on such matters as the cost-of-living crisis, customers, bid wins, organisational changes, and in 2022 was often followed by an update from the director of strategy and transformation on the transformation project and from the chief people and sustainability officer on HR matters. 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 sessions are communicated to the Board by the CEO via his Board report and weekly updates.

Additionally, there are fortnightly blogs ('Costain Connected') from our CEO and other members of the Executive Board to all employees. In response to employee feedback on their preferred ways of receiving information, in 2022 we introduced some video briefings and interviews. These blogs and videos covered topics such as:

- Safety and wellbeing.
- The transformation project including organisational changes and review of processes and systems.
- Meeting Sam White, managing director Natural Resources and Nicole Geoghegan, general counsel and company secretary, both new joiners and members of the Executive Board.
- Update from Sue Kershaw, managing director Transportation, on driving step change in our service delivery to lead and shape the construction and infrastructure industry of the future.
- Cost of living and actions being taken to support the workforce.
- Refreshment of the mandatory code of conduct training and new whistleblowing reporting line and platform.
- Update on Costain policies, including a summary of each policy's purpose and changes for 2022.
- Employees' career journeys in Costain.
- Pensions update and change in our workplace pension provider.
- Update on decarbonisation and net zero.
- Celebrating success – work won, Costain award winners and industry recognition.
- Management of risk with a focus on using our excellence in behavioural management and being vigilant to changes in risk.
- Updates on financial and operating performance.



## Leadership conference

**In May 2022, the 'Sharing the Costain Story' leadership conference focused on the strategy, purpose, vision and mission, as well as introducing the refreshed values and behaviours (see page 67).**

Bringing members of the leadership team together for the first time since the pandemic, they were provided with the digital tools to help embed our Costain story and cascade the values and behaviours.



## Mentoring

**With new Board members in post, the non-executive director mentoring programme has been reinvigorated.**

Each non-executive Board member is expected to mentor two senior mentees. We also continued our REACH (Religion, Ethnicity and Cultural Heritage network) mutual mentoring programme following a pilot in 2021, with 15 mentors and 15 mentees participating in the scheme with members of our REACH and senior leadership. CEO Alex Vaughan was a mentor in this year's mentoring programme.

## Attendance and composition

### Meeting attendance

The Board meets regularly, with seven scheduled full meetings during the year. The directors' attendance record at the scheduled full Board meetings and Board Committee meetings for the year ended 31 December 2022 is shown in the table below. Also shown below is the directors' attendance record at scheduled brief update meetings.

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. No director attended the Remuneration Committee for discussions on their own remuneration.

Board attendance	Scheduled full Board meetings Maximum 7	Other brief update or ad hoc Board meetings Maximum 3	Audit Committee Maximum 4	Remuneration Committee Maximum 5	Nomination Committee Maximum 5
<b>Executive directors</b>					
Alex Vaughan	7/7	3/3	–	–	–
Helen Willis	7/7	3/3	–	–	–
<b>Non-executive directors</b>					
Kate Rock <sup>1</sup>	2/2	–	–	–	1/1
Paul Golby <sup>2</sup>	5/6	3/3	–	–	2/2
Bishoy Azmy <sup>3</sup>	6/7	3/3	–	–	4/5
Neil Crockett	7/7	3/3	4/4	5/5	5/5
Jacqueline de Rojas	7/7	3/3	4/4	5/5	5/5
Fiona MacAulay <sup>4</sup>	6/6	1/1	3/3	2/2	3/3
Tony Quinlan	7/7	3/3	4/4	5/5	5/5
Alison Wood <sup>5</sup>	–	0/1	–	–	–

1 Kate Rock joined the Board on 1 November 2022 and was not eligible to attend any meetings prior to that date.

2 Paul Golby stepped down from the Board on 1 December 2022. Paul did not attend any meetings of the Nomination Committee at which the search for and appointment of his successor were discussed.

3 Bishoy Azmy is the designated representative of our largest shareholder, ASGC Construction L.L.C. and is a non-independent director. As a result of his executive responsibilities, Bishoy is sometimes unable to join Board meetings but does feed back comments on the papers and proposals to the chair prior to those meetings.

4 Fiona MacAulay joined the Board on 6 April 2022 and was not eligible to attend any meetings prior to that date.

5 Alison Wood stepped down from the Board on 28 January 2022.

### 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 46 and 47.

The non-executive directors have a range of business, sector and financial experience that is relevant to the Company. 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 constantly under review.

### Skills and competencies (all 8 directors\*)



\* Self-assessment based on strong or very strong experience.

## Board independence

Having due regard to the results of the internally-facilitated 2022 review of Board performance (see page 55 for details) and the conduct of directors, the Board considers that each of its independent non-executive directors standing for 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. Bishoy Azmy is a non-independent non-executive director and represents the shareholder ASGC. The Board also confirms that these 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.

The current terms of appointment of all the directors are set out in the Directors' Remuneration Report on page 116.

At the time of their original appointments in May 2016 and November 2022 respectively, the former chair Paul Golby and current chair Kate Rock, were 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 appointment 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. During the year, Fiona MacAulay and Kate Rock undertook a comprehensive, formal induction programme tailored to their needs. In the case of Kate Rock, she attended meetings with some of our largest shareholders to gain their feedback on the Company.

### 2. Meetings with senior management and employees

A newly appointed director will spend time meeting the chief executive officer and chief financial officer. They will also have meetings with the other members of the Executive Board and members of the senior leadership team.

### 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 the supply chain. They learn about the nature of each of the projects including health, safety and environment aspects, and obtain insights from the workforce. A feedback form is then returned to the general counsel and company secretary.

### 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 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, Board members, independent of any formal training arranged by the Company, are encouraged to attend seminars and conferences on issues relevant to their appointment as directors of a public company, particularly matters concerned with corporate governance, audit and remuneration issues. In addition, Board site visits are considered essential to ensure that directors have a thorough understanding of the business operations and issues that affect the Group.

## 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.

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

Details of how the Company's remuneration policy approved in 2020 has been implemented in 2022, together with the activities of the Remuneration Committee, can be found on pages 102 to 119 of the Directors' Remuneration Report. In December 2022 and January 2023, the Remuneration Committee consulted with our largest shareholders and their representative bodies on our proposed remuneration policy which is being submitted to shareholders for approval at the 2023 AGM (see pages 89 to 101).

### Shareholder communication and engagement

The Company remains committed to maintaining good relationships with both institutional and private shareholders. There continues to be regular dialogue with institutional investors and this has been enhanced during the year with the appointment of our new chair who is attending meetings with some of our largest shareholders. Tony Quinlan, Jacqueline de Rojas and Fiona MacAulay also met with shareholders in the year. Additional details of how the Company engages with shareholders can be found on pages 58 and 59.

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 Liberum Capital, 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 Board regards the AGM as an important opportunity to communicate directly with shareholders. The AGM provides shareholders with an opportunity to ask questions of the directors during the meeting. The AGM also gives shareholders an opportunity to listen to a presentation from the chief executive officer on the current trading performance and developments within the business.

In May 2022, we were pleased to welcome shareholders to our first AGM in person since the pandemic. Shareholders were also able to watch the AGM via a live webcast which was available on-demand after the AGM. Viewing numbers were low, and therefore in 2023 we have decided not to offer a webcast facility as this will ensure shareholder funds are used more effectively.

At any time, shareholders may raise issues or concerns by contacting investor relations (see contact details on page 197).

#### How the non-executive directors are kept informed

- Deep dive presentations from business sectors and functions.
- Visits to regional offices and operational sites.
- Access to the Executive Board members between meetings.
- Weekly reports from the CEO or CFO.
- Monthly management accounts and regular internal reports.
- Updates on legal, regulatory and governance matters.
- Presentations from external advisers.

#### Health and safety

- The Board considers health and safety its number one priority.
- All Board members hold an appropriate internal certification for site visits.
- The directors also take part in leadership impact days which take place across all our sites. They are asked to complete a feedback form, as they also do after a site visit.

### 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 126 together with the statement on the status of the Company as a going concern and the financial viability statement on page 44.

As can be seen on page 79, the preparation of this annual report involved input from a number of functions across the Group. The Board was involved at an early stage 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 details of the Peterborough & Huntingdon contract resolution on 24 February 2022 and the trading updates on 5 May and 20 July 2022.

#### Business model

The Overview and Strategic Report on pages 1 to 45 give details of the Company's business model.

#### Going concern and viability

The Group's going concern statement is detailed in note 2 to the financial statements on pages 144 and 145. The long-term viability statement is set out on page 44.

#### Risk and internal control

##### Risk management

The Board is responsible for undertaking a robust assessment of the principal risks facing the Group, as described on pages 39 to 43 of the Strategic Report. This includes those risks that would threaten its business model, future performance, solvency and liquidity and ensuring that appropriate mitigating actions are in place to manage them.

The Group's approach to risk management as more fully described on pages 39 and 40 ensures that, on an ongoing basis, the risks to the Group's objectives are identified, assessed and managed.

##### 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 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 79 and 80 of the Audit 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 now 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. The results of all internal audit activity are also shared with the chief executive officer, chief financial officer and the external auditor. The Audit Committee scrutinises the internal audit activity. Further details can be found on page 79 of the Audit Committee Report.

## Audit 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 Audit Committee which describes how the Committee carried out its responsibilities during the year. This year the Committee continued its focus on key contract judgements, risk management and internal controls."*

**Tony Quinlan**

Committee Chair

Meetings held

4

Committee members	Attendance
Tony Quinlan	100%
Neil Crockett	100%
Jacqueline de Rojas	100%
Fiona MacAulay <sup>1</sup>	100%
Alison Wood <sup>2</sup>	N/A

<sup>1</sup> Joined the Board on 6 April 2022.

<sup>2</sup> Stepped down from the Board on 28 January 2022. During the period to 28 January 2022 there were no Committee meetings.

### Governance of the Committee

I have been chair of 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 72 and their biographies are shown on pages 46 and 47. The general counsel and company secretary is secretary to the Committee.

The Company considers that I, as Committee chair, possess the necessary recent and relevant financial experience to effectively chair the Committee and am competent in accounting and auditing. In addition, the Company considers that the Committee as a whole possesses relevant skills 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, the risk & assurance director (see below for appointments during the year), 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. The Committee also regularly meets privately with the external auditor and the lead internal audit partner and the risk & assurance director.

Absent any unforeseen matters to consider, the Committee meets four times a year.

In 2022 the Committee continued to review and challenge management's judgements on significant accounting issues, including the financial performance of key contracts. The Committee also undertook a 'deep dive' of a number of the Group's principal risks including climate change, balance sheet strength, effective project delivery and securing new work. The full Board conducted a review of the principal risk relating to safety as a result of the fatality at Gatwick of a Kilnbridge team member in July 2022.

The Committee was briefed on the Company's approach to cash within joint ventures, the appointment of a new independent pension trustee and provided oversight of the Company's approach to the Government's Russian sanctions. The Committee also continued its oversight of the Company's position in connection with risk appetite and considered the conflicts of interest of all Board members to ensure that appropriate controls were in place.

As part of the Company's transformation, which we referenced in our 2022 half-year results announcement, the structure of its internal audit and risk team was changed. The Committee approved the appointment of Mazars, an international audit, tax and advisory firm with no other connection with the Company, as internal auditor effective 11 November 2022. Subsequently, at its December meeting, the Committee noted the transition of workstreams to Mazars together with its audit charter. A new risk & assurance director was appointed effective 10 October 2022. There was also a restructuring of the finance team to ensure the required skills and experience to support the delivery of the strategy and the transformation. Additionally, projects are underway to automate a number of financial processes to improve the efficiency, depth and insight, not least with regard to contract risk and contingencies, of financial reporting.

### Activities

In accordance with its terms of reference and in compliance with the 2018 Code, on behalf of the whole Board, in 2022 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 audits and reviews

- provided advice on whether the annual report, taken as a whole, was fair, balanced and understandable, and provided the information necessary for shareholders 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 and its effectiveness (see page 81).

In addition, the Committee expended time as follows:

### Provisions

The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports including relevant legal advice.

### Banking arrangements

During 2022, the Company undertook a project, which was completed on 18 November 2022, to amend its banking facilities. Its facilities now comprise an undrawn £125m revolving credit facility (previously £131m) and surety and bank bonding facilities totalling £280m (previously £310m). The Company also prepaid the full balance of £36m of its Term Loan facility from its cash resources. As part of this project, the expiration date for such facilities was extended from September 2023 to September 2024.

## Audit Committee report continued

### Materiality

The Committee considered the auditor's year end materiality benchmark. PricewaterhouseCoopers LLP (PwC) set this at £5.6m taking into account the sector and nature of the Company's contracting activities.

### Pension

In Q4 of 2022, the Company appointed a professional pension trustee as a trustee director, which is independent from the Company. The IAS 19 valuation of the pension scheme has resulted in a slight decrease in surplus as a result of the reduction in the value of scheme assets being slightly higher than the reduction in scheme liabilities, both falls being largely driven by the significant increase in long term bond yields over the year.

### Risk management

The Committee reviewed the principal and emerging risks and the developments to the risk management framework (see pages 39 to 43). The Committee received presentations by principal risk owners on the following principal risks and undertook a deep dive review of them: (i) maintain a strong balance sheet; (ii) deliver projects effectively; (iii) climate change resilience and (iv) secure new work. Other risks were presented to the Board and other Committees, for example at its October meeting the Board received a presentation on the principal risk of 'prevent a major accident, hazard or incident' with a focus on lessons learned from the Gatwick fatality.

### Significant accounting matters

The Committee 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 144 to 155 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 Recognition, which requires them to be accounted by their separately identifiable performance obligations. The costs and revenues of some of these performance obligations 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 any uncertainties are resolved.

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 Company'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 across the Group. This included consideration of inflation impacts on both costs and revenues.

In 2021, Costain recognised a provision of £6.2m 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 is £17.0m, of which costs of £4.8m have been incurred. Accordingly, a provision of £12.2m has been included in the statement of financial position. 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.

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 made an interim payment on account during 2022. On this basis, management has made the judgement that the cost of rectification, after deduction of insurers' excess and amounts already received from insurers, will be recovered. Accordingly, an insurance receivable of £13.4m has been 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 the significant judgement that the 'virtually certain' criteria has been met and having discussed this both with management and the external auditor considers 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 182 to 186 of the financial statements.



### (C) The carrying value of goodwill

As set out in note 12 on pages 165 and 166 of the financial statements, the Group's statement of financial position includes goodwill of £45.1m which is subject to an annual impairment assessment. The Committee focused in particular on the carrying value of goodwill within the Natural Resources division 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.

### (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 (as set out on page 44) should be recommended to the Board for approval.

### (E) Accounting and other regulatory developments

PwC briefed the Committee in August 2022 on the changes to ISA 315. Such changes were considered in the scoping of the 2022 year end audit undertaken by PwC.

### 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 Company's internal financial control and internal controls 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 2022 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 strength 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 ensuring that issues raised by internal audit are addressed within the agreed timetable and their timely completion is reviewed by the Committee. Where internal or external circumstances give rise to an increased level of risk, the audit plan is modified accordingly during the year.

Under the new structure, the lead internal audit partner from Mazars, the newly appointed internal audit provider, reports to the CFO and has a direct relationship with the Committee chair. 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 function (see below), this setting a baseline for delivery of the internal audit function by Mazars. It also reviewed statistics on key staff numbers, qualifications and experience which the Committee considered to be satisfactory. At the December meeting, the Committee received a report from Mazars which covered progress against the 2022 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 2023 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 without management present. Following the appointment of Mazars and a review in December of resource and its charter, the Committee is satisfied the function is competent to deliver the 2023 internal audit plan.

## Audit Committee report continued

### Internal control and risk

Details of the Group's internal controls and risk management framework are more fully set out on pages 39 and 40 in the Strategic Report and page 75 in the Governance Report. The Group's principal risks are set out on pages 41 to 43.

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 fraud perpetrated against the Group; the Group's approach to anti-bribery and corruption and whistleblowing; and reports from both the internal and external auditors.

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

### External auditor

The Company's external auditor is PwC. The audit partner is Andrew Paynter.

### Effectiveness of the external audit process

Following the end of the 2021 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 function. Based on the responses to the questionnaires, the general counsel and company secretary produced a report for consideration by the Committee. The Committee confirms that it remained satisfied with the efficiency and effectiveness of the external audit in respect of the year ended 31 December 2021. 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 2022, the Committee considered and approved the external audit plan for the audit of the Group for the year ended 31 December 2022. The Committee considered significant risk areas for the audit, the proposed scope and the materiality threshold. Seven subsidiary companies sought exemption from audit for 2022 as permitted under the relevant regulations, leading to a cost saving for Costain.

### 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 and the Company that bear on their 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 2023.

### Non-audit fees

The policy on the provision of non-audit services by the external auditor (which 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 2022, the value of non-audit work performed by PwC for the Group was less than £0.1m (2021: less than £0.1m) other than in relation to the review of the half year financial statements.

### Whistleblowing and fraud

In December 2022, a new, dedicated, specialist fraud investigator joined Costain, reporting to the general counsel and company secretary. This appointment recognises the specialist skills required for fraud investigation and mitigation and demonstrates the Company's commitment to ensuring shareholder funds are safeguarded.

In spring 2022, including as part of the onboarding of all new staff, refreshed Code of Conduct training was implemented across the Company, which included details of the Company's whistleblowing line (which is provided by an independent third party). During 2022, the Committee received regular updates on the nature and number of referrals to the whistleblowing line, the outcomes of the resulting investigations and any process improvements that were recommended to avoid recurrence. There were 32 reports, most of which were made via the whistleblowing line, in 2022.

### Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Board was undertaken, which also considered the effectiveness of the Committee (see page 55).

On the basis of such evaluation, the Audit Committee concluded that the Committee and its chair remained effective. There were no significant areas for concern in respect of the performance of the Committee or any of its members. The Committee identified the following areas of focus for 2023:

- continue to challenge Costain's approach to identification and mitigation of risk
- ensure management continues to improve financial reporting on contract risks and contingencies
- monitor closely the effectiveness of the counter-fraud function.

Below is a summary of the agreed areas of focus that came out of the external review of the Audit Committee in 2021 and the actions taken in 2022.

Area of focus	Actions taken
Review the level of qualitative reporting of financial information	The Group director of finance consulted with each Board member individually on their desired format and content of the monthly management accounts.  The report was re-designed and continued to evolve over a few months in response to further feedback from non-executive directors.
Further development of the risk management and control framework	Appointment of Mazars as internal auditor.  Appointment of a new, dedicated, specialist fraud investigator and revised approach to reporting to improve trend identification.  Deep dives of four principal risks and feedback on same.

### Tony Quinlan

Committee Chair

13 March 2023

## Nomination Committee report

In 2022 the Committee focused on the recruitment of a new Group chair and new chair of the Remuneration Committee.

### Meetings held

5

Committee members	Attendance
Paul Golby <sup>1</sup>	100%
Kate Rock <sup>2</sup>	100%
Bishoy Azmy <sup>3</sup>	80%
Neil Crockett	100%
Jacqueline de Rojas	100%
Fiona MacAulay <sup>4</sup>	100%
Tony Quinlan <sup>5</sup>	100%
Alison Wood <sup>6</sup>	N/A

1 Paul Golby was not eligible to attend meetings concerning the search for and appointment of his replacement as chair and stepped down from the Board and as chair of the Committee on 1 December 2022.

2 Joined the Board on 1 November 2022 and became chair of the Committee on 1 December 2022

3 Bishoy Azmy is the designated representative director of our largest shareholder, ASGC Construction L.L.C.

4 Joined the Board on 6 April 2022

5 Tony Quinlan, senior independent director, chaired all meetings relating to the search for and appointment of the new chair.

6 Stepped down from the Board on 28 January 2022. During the period to 28 January 2022 there were no Committee meetings.

The composition of our Board and Executive Board can be found on pages 46 and 47, and 48 and 49 respectively of this annual report.

### Governance of the Committee

The Nomination Committee (the Committee) is comprised of myself as chair together with all the other non-executive directors. The members of the Committee, together with their biographies, are shown on pages 46 and 47 and details of their attendance at Committee meetings is shown on page 72 and in the table below. Alison Wood stepped down from the Board and as a member of the Committee on 28 January 2022. Paul Golby stepped down as non-executive director and chair of the Board and this Committee on 1 December 2022 when I assumed those roles. Fiona MacAulay became a member of the Committee on joining the Board on 6 April 2022. 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 people & sustainability officer, members of senior management and external advisers, may be invited to attend meetings as and when it is considered appropriate.

The outcome of all Committee meetings is reported to the Board for its consideration. The senior independent director chaired the meetings of the Committee that resulted in my appointment as chair of the Company. 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 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. As reported last year, in 2021 the Committee approved a refreshed diversity and inclusion policy. 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 achieving these objectives, can be found on page 64. While progress has been made and strengths recognised, there continues to be a lack of ethnic diversity in Costain senior leadership roles, together with low levels of diversity in contract leadership roles. Actions are in place to address these important areas and equality, diversity and inclusion (EDI) will be included as a performance measure for the 2023 LTIP (see page 112 of the Directors' Remuneration Report).

By appreciating and celebrating our differences, we are creating a Company that is a more dynamic and inspiring place to be for our employees. We are working hard to ensure that our workforce reflects the diverse communities we serve, and we create an inclusive culture where each employee can truly 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 35 and our separate gender pay gap report at [www.costain.com](http://www.costain.com).

At the sign-off of the 2021 annual report on 9 March 2022, female representation on the Board had fallen to 29%. Following the changes in the year, female representation has risen to 50%.

Our principles on Board diversity also apply to the Executive Board and currently 63% (five of eight) of our Executive Board are female. We seek to build a diverse talent pipeline within the business, not just in relation to gender but also to social and ethnic backgrounds and cognitive and personal strengths.

During 2022, as described above, the focus of the Committee was on Board-level recruitment. In 2023, Executive Board composition, succession and development will be a focus for the Nomination Committee, ensuring we have the right balance of skills, experience, and diversity at the most senior levels of the business. To this end, towards the end of 2022, a significant programme of work started to identify or confirm any succession gaps, timings for readiness for promotion and would formalise the position on 'emergency cover', all for review and challenge by the Committee in mid-2023.

### Committee effectiveness review

The effectiveness of the Board and its Committees was, for the second year, conducted internally in 2022. The evaluation process is detailed on page 55. In relation to the work of the Committee, comments were sought on culture, behaviours and boardroom dynamics. On the basis of the review, the Nomination Committee concluded that the Committee remained effective and there were no significant areas for concern in respect of the performance of the Committee or any of its members.

## Nomination Committee report continued

Areas identified for additional focus by the Committee in 2023 were:

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

Following the 2021 internal review, agreed areas of focus for the Committee were the recruitment of a Committee chair, which was successfully completed, and executive team recruitment, talent and succession with a focus on the internal pipeline of candidates. As described above, the latter programme of work continues and is a focus for the Committee in 2023.

### Activities in 2022

Succession planning was the key area of focus during the year in respect of the Board. In considering the Board's structure and composition, the Committee considered how well the skills, knowledge and experience of the Board continued to support the business to deliver our strategy effectively.

Alison Wood ceased to be senior independent director and chair of the Remuneration Committee with effect from 12 January 2022 and stepped down as a director on 28 January 2022 following eight years' service. The Committee recommended the appointment of Tony Quinlan as senior independent director and Jacqueline de Rojas as chair of the Remuneration Committee, the latter on an interim basis, on 12 January 2022. The Committee recommended Fiona MacAulay be appointed as a non-executive director on 6 April 2022 and to assume the role of chair of the Remuneration Committee after the 2022 AGM on 5 May 2022. Later in the year, the Committee recommended my appointment as an independent non-executive director and chair designate from 1 November 2022 and as chair of the Company and chair of the Nomination Committee from 1 December 2022 when Paul Golby stepped down from the Board.

### Reappointment of directors

*At the 2022 AGM, all our directors in post at the time stood for re-election, as required by the 2018 Code.*

The Committee considered all Board members' other appointments and the impact on their time availability in view of shareholders' general concerns regarding overboarding.

All new appointments were approved by the Board, as required under the 2018 Code, and in doing so the Board considered directors' other commitments and shareholder concerns regarding overboarding.

The Committee, on behalf of the Board, is satisfied that all Board members have, and commit, the time required to discharge their roles at Costain effectively. This has been evidenced during the past year when each Board member has again contributed fully and effectively.

### Updated letters of appointment

During the year, the Nomination Committee agreed the update of letters of appointment for Tony Quinlan and Jacqueline de Rojas, to reflect their additional responsibilities as senior independent director and interim chair of the Remuneration Committee respectively, together with Paul Golby whose letter of appointment was renewed at the expiry of his second three-year term on 5 May 2022 to cover the period until his departure.

### Appointment of directors

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board (see opposite). During 2022, Lygon Group was used for Board-level search processes.

As above, careful consideration is given to ensure the proposed candidates have the right skills, knowledge and experience and, can devote sufficient time to the role.

### Kate Rock

Committee Chair

13 March 2023

### Non-executive director succession

Fiona MacAulay and Kate Rock were appointed to the Board effective 6 April 2022 and 1 November 2022 respectively to further strengthen the Board, align its skills, knowledge and experience to the strategy and create the right balance of competencies and diversity. Details of their recruitment and appointment processes are described opposite.

### Fiona MacAulay

1. The Committee, supported by the Group HR director (now the chief people & sustainability officer), agreed towards the end of 2021:
  - a specification for the role and responsibilities for a non-executive director who would have sector experience and the skills and competency to effectively chair the Remuneration Committee, noting, under the Code, they will need to have served on a remuneration committee for at least 12 months
  - 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.
2. Lygon Group provided a long-list of candidates.
3. The then chair considered the formal appraisals of the candidates and agreed a diverse short-list of four candidates to progress to the next stage of the process.
4. The then chair undertook first interviews and recommended other directors meet with two of the candidates.
5. On 10 February 2022, following the departure of Alison Wood, the Committee held a meeting at short notice to discuss the preferred candidate, who was an experienced non-executive director and remuneration committee chair with knowledge of the energy sector, strong insight on ESG matters and a proven track record of developing strong stakeholder relationships. The Board approved the appointment in principle and delegated authority to the then chair to finalise matters in relation to the appointment including the announcement.
6. In the evening of 27 March 2022, the then chair confirmed all matters were concluded in relation to the appointment including execution of a letter of appointment.
7. On 28 March 2022 we announced the appointment of Fiona MacAulay as a non-executive director from 6 April 2022 and as chair of the Remuneration Committee from the conclusion of the 2022 AGM.
8. Having successfully secured a suitable candidate for the role and discharged its announcement obligations, the Committee tasked the general counsel and company secretary with preparing a detailed induction plan for Fiona (see page 73).
- a specification for the role and responsibilities for the Group chair who would have skills and expertise in business leadership and sector knowledge
- 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.
2. Lygon Group provided a long-list of candidates.
3. The SID on behalf of the Committee considered the formal appraisals of the candidates on the long-list and agreed a diverse short-list of four candidates to progress to interview.
4. The SID, Jacqueline de Rojas and Alex Vaughan separately undertook first interviews with the shortlisted candidates.
5. Meetings of the Nomination Committee took place on (i) 6 July 2022 to discuss progress with first interviews and initial feedback and (ii) on 18 August 2022 at which it was noted two candidates remained in the process and further interviews were being conducted by the other directors. Committee members discussed the candidate feedback so far.
6. Following the final interviews, directors reported back to the SID and Group HR director on their views.
7. By written circulation on 22 September 2022, the Committee unanimously agreed to recommend to the Board the appointment of Kate Rock, based on her sector knowledge, public sector insight, communications experience and personality.
8. Also by written circulation on 22 September 2022, the Board approved the appointment of Kate Rock and delegated authority to the SID and CEO to finalise the appointment and announcement, noting the Remuneration Committee had recommended an appropriate fee.
9. In the evening of 26 September 2022, the SID and CEO confirmed all aspects of the appointment had been concluded including execution of a letter of appointment.
10. On 27 September 2022 we announced the appointment of Kate Rock as an independent non-executive director and chair designate from 1 November 2022 and chair of the Company and chair of the Nomination Committee from 1 December 2022.
11. Having successfully secured the right candidate as chair and discharged its announcement obligations, the Committee tasked the CEO and general counsel and company secretary with preparing a detailed and bespoke induction plan for Kate (see page 73).



### Kate Rock

1. The Committee, chaired in this instance by the senior independent director (SID), supported by the Group HR director (now the chief people & sustainability officer) agreed:

## Directors' remuneration report

## Remuneration at a Glance

## Actual remuneration of our executive directors for 2022 and application of policy for 2023

	CEO – Alex Vaughan	CFO – Helen Willis
<b>Base salaries</b>		
	2022 £446,500	2022 £370,800
<b>Pension</b>	10% of salary in line with wider workforce	10% of salary in line with wider workforce
<b>AIP – maximum opportunity</b>	2023: 150% of salary	2023: 150% of salary
	2022: 150% of salary	2022: 150% of salary
<b>LTIP – maximum opportunity</b>	2023: 100% of salary	2023: 100% of salary
	2022: 100% of salary	2022: 100% of salary
<b>Single Figure total for 2022</b>	£1,146,715	£898,708

## How was our performance reflected in our pay for 2022?

## AIP – Award earned by executive directors for 2022

	Group adjusted EBITA <sup>1</sup> (max opportunity: 50%)	Group safety, health and environment (max opportunity: 10%) <sup>2</sup>	Profit secured for 2023 (max opportunity: 15%)	Cash flow <sup>3</sup> (max opportunity: 15%)	Role specific (max opportunity: 10%)	Total achieved (% max)	Actual pay-out (% of salary) <sup>4</sup>
Alex Vaughan	43%	0%	4%	15%	10%	72%	108%
Helen Willis	43%	0%	4%	15%	10%	72%	108%

## LTIP – Award vesting for performance over the three years ending 31 December 2022

	Aggregate adjusted EPS <sup>5</sup> for financial years ended 31 December 2020, 2021 and 2022 (two thirds of the award)	Cash conversion (one third of the award)	Total Achieved
Alex Vaughan	25.3 pence	178%	81.1%
Helen Willis	(maximum vesting level: 26.7p 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, and in the new Policy we have enhanced the post-employment shareholding requirement.



■ Progress toward holding requirement  
□ Balance of 200% holding requirement

We are proposing to introduce a TSR element to the LTIP in order for there to be a clear alignment of executive directors' interests with value created for shareholders and having regard to the feedback received from investors and the importance of execution of the strategy translating to increases in our share price.

- Earnings before interest, tax and amortisation calculated on an underlying basis before other items. See definition on page 94. Target underpinned by 90% cash conversion.
- Taking into account the safety incident in July when the Group experienced a fatality on one of its rail contracts, the Remuneration Committee exercised discretion to reduce the pay-out under the Group safety, health and environment element of the 2022 AIP from 7.5% to 0%.
- Measured as average month end cash balances, pre-acquisition and investments. Actual performance was adjusted to exclude the impact of the £43.4m payment relating to the Peterborough & Huntingdon contract in February 2022 which was one-off in nature in accordance with the target set.
- 33% of the value of the AIP award for 2022 will be deferred into shares under the Share Deferral Plan (SDP).
- Adjusted to exclude pension interest and other items considered to be one-off and unusual in nature or related to the accounting treatment of acquisitions. See definition on page 94.



## Alignment of our Remuneration Policy with our strategy



### People

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

The introduction of an equality, diversity and inclusion measure to the LTIP is aligned with our goal to enhance the proportion of female and ethnic diverse talent in senior leadership roles.



### Planet

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

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

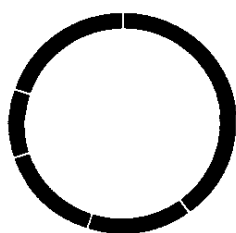


### Performance

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

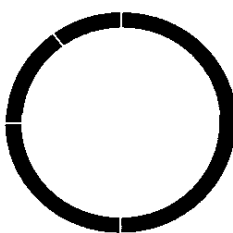
The increased weighting on measurable and robust role specific personal objectives from 10% to 20% of maximum for FY23, provides a *focus on the execution of our strategic priorities* and is aligned with our transformation strategy.

### AIP performance metrics – 2023



- 40% of Group adjusted EBITA<sup>1</sup> with 90% cash conversion
- 15% Profit secured for 2024
- 15% Cash flow<sup>2</sup>
- 10% Safety, health and environment
- 20% Personal performance

### LTIP performance metrics – 2023



- 50% Adjusted EPS<sup>5</sup>
- 25% Absolute TSR
- 15% Carbon emissions reduction
- 10% Social: Equality, diversity and inclusion (EDI)

## Directors' remuneration report *continued*

### Wider workforce

All employee share plan – new Sharesave Plan was approved at the 2022 AGM.	<p>In April 2022, we increased the salary review budget from 3% to 4% targeting those employees on lower incomes.</p> <p>We are proposing an increased April 2023 salary budget of 6%<sup>1</sup> targeted at lower income/vulnerable employees (with a further 1% budget for adjustments to address market pressures). Executive director salaries will be increased at a level below that awarded to the wider workforce.</p>	<p>Promotions in 2022: 18%.</p> <p>Transfers in 2022: 15%.</p> <p>699 chartered professionals in our highly skilled teams.</p>
We are committed to paying the real living wage to all our employees.	Achieved Best Companies 1 Star status – a 'Very Good Company' to work for:	Percentage of females in senior management positions: 36% at 31 December 2022 (see page 64 of the Governance Report).
We made real living wage adjustments in January 2023, ahead of the 1 April 2023 increase coming into effect.	75% of employees are proud to work for Costain.	2024 target: Disability confident level 3; Stonewall Top 100 employer; 33% female and 9% BAME in senior leadership positions.
We have a small number of seasonal workers employed on zero hours contracts. It is our intention to move away from zero hours contracts in 2023.	<p>88% of employees believe they can make a valuable contribution to the success of Costain.</p> <p>See page 69 of the Governance Report for more information.</p>	
As a responsible business, we continue to support our people with the challenges they are facing as a result of the cost-of-living crisis. Further details of how the Board engaged with the workforce throughout the year can be found in the Governance Report on pages 68 to 71.		

<sup>1</sup> Excluding promotions, the graduate half-year review and the structured increases for our apprentices.

# Annual 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. The proposed AIP and LTIP metrics and targets reflect our core financial and strategic priorities which are critical to our success. This includes holding ourselves accountable to the highest safety, health and environment standards and operating sustainably, ethically and inclusively. 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

As the new chair of the Remuneration Committee (the Committee), I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2022.

Our report describes the work of the Committee, how it has applied our Remuneration Policy (the Policy) that was approved by shareholders at the 2020 AGM and sets out the Committee's proposals for changes to that Policy that will be subject to a binding shareholder vote at the 2023 AGM.

A summary of how the pay for our executive directors is aligned with delivering strategy to transform the Group and our performance for 2022 is summarised in the 'Remuneration at a Glance' section.

The Annual Report on Remuneration (on pages 102 to 119) describes how the Policy has been applied for the period ended 31 December 2022, and how we intend to implement the Policy for the 2023 financial period and is the subject of an advisory shareholder vote at the 2023 AGM.

## Investor engagement and Remuneration Policy

In 2022, the Committee has focused on the review and evolution of our Policy which we will ask shareholders to approve at our AGM on 11 May 2023, in line with the normal three-year renewal cycle.

Our new Policy is proposed in the context of us making good progress on our journey to transform the Group, in line with our mission to shape, create and deliver pioneering solutions that transform the performance of the infrastructure ecosystem. The Committee reviewed all elements of the Policy to ensure alignment with our business strategy, the expectations of our shareholders and the wider workforce. We have also been mindful of the need to attract and retain high calibre individuals in an increasingly competitive market and to remunerate executives fairly and responsibly.

The Committee consulted the Company's ten largest shareholders and the main proxy voting advisory agencies on our Policy proposals. I met with shareholders who wished to discuss the proposals in more detail and responded in writing to those requesting more information. Our major shareholders who provided feedback were largely very supportive of the proposals. We had originally proposed that the 2023 LTIP performance measures include a relative TSR measure. As part of the consultation exercise, some shareholders expressed a preference that we use an absolute rather than relative measure, and we took into account this feedback in finalising our proposals. Details of the absolute TSR measure are set out on page 112. The principal Policy changes are summarised below. Other minor changes have been made to reflect the principal changes referred to below and to aid the operation of the Policy.

The Committee has concluded that the Policy approved in 2020 remains largely fit-for-purpose and supports the strategy of the Group. However, the Committee is proposing the following changes to ensure that there is sufficient flexibility built into the new Policy for the next three-year lifecycle:

## Directors' remuneration report continued

- **LTIP, performance measures:** The Policy approved in 2020 provides that at least 50% of an award will be subject to an adjusted EPS performance measure. Additional flexibility has been included in the new Policy to ensure that the Long Term Incentive Plan (LTIP) measures are aligned with the key financial and strategic areas of our business and to allow the LTIP to be measured against strategic/transformation and environmental performance measures. This is particularly relevant in the context of our transformation and growth strategy. Under the new Policy at least 75% of an award will be based on financial and/or share price measures.
- **Executive directors' post-employment shareholding:** Under the Policy approved in 2020, our approach to post-employment shareholding requirements is to apply the 'leaver' provisions in our share plans. In the new Policy we have introduced a requirement that for the first year after cessation, executive directors must retain such of their relevant shares as have a value equal to 200% of salary, reducing to 100% of salary in the second year. In each case all relevant shares must be retained if they have a value less than the required holding. Relevant shares are those acquired from LTIP and deferred bonus awards granted from 1 January 2023 onwards. The 'leaver' provisions will continue to apply to vested and unvested awards. *We consider that this 'tapered' approach is a fair balance taking into account the size of the business, the level of the in-service shareholding requirement, and the size of LTIP awards that are granted.*
- **Non-executive directors' shareholding:** The Policy approved in 2020 includes share ownership guidelines pursuant to which non-executive directors are expected to build and maintain a shareholding worth not less than 100% of their annual fee. In line with typical practice, these have been removed in the new Policy. Non-executive directors may continue to acquire shares in the Company taking into account personal circumstances while remaining cognisant of the importance of non-executive directors' independence requirements.
- **No increases to variable pay opportunity:** The new Policy does not increase the variable pay opportunities available. In the new Policy, as with the Policy approved in 2020, the combined annual incentive plan (AIP) and LTIP maximum opportunities for any year may not exceed 250% of salary.
- **LTIP – tax efficiency:** The new Policy introduces the possibility to grant part of the LTIP award as a tax qualifying CSOP option, *introducing scope for tax savings for the Group and participants without increasing the pre-tax award quantum.*

### 2022 remuneration in the context of our business performance and outcomes for our key stakeholders

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 performance in 2022 delivered strong growth in revenue and operating profits, with adjusted revenue<sup>1</sup> up 20.6%, reported revenue increase of 25.2%, adjusted operating profit<sup>1</sup> up 20.6% to £36.3m (FY21: £30.1m) and significant free cash flow, ending the year with a net cash position of £123.8m. We have grown our core complex programme delivery revenue and further strengthened our position as a delivery partner in the UK infrastructure marketplace. Consequently, we are seeing good opportunities emerge in our chosen sectors, at margins we aspire to.
- We have effectively negotiated the challenges of material availability and inflation, as well as delays to some contract awards, delivering a robust operational performance. We expect to increase margins as we enact further operational improvements in the business during 2023 and beyond, and as we continue to grow the scale of our consultancy services.
- Our markets remain characterised by strong client demand and Costain enjoys good overall forward visibility with our combined order book and preferred bidder book at FY22 increasing to £4.4bn (FY21: £4.3bn). This combined view is increasingly relevant as we anticipate a shift in our business mix towards the preferred bidder book as we strengthen our position as a delivery partner.
- Our people are our principal asset, and their safety remains our number one priority. As previously reported, in July, the Group experienced a fatality on one of its rail contracts, and following our investigation, to prevent a recurrence we are implementing a number of recommendations across our business including changes to current industry practice. Our LTIR rate was lower at 0.09 (FY21: 0.15) with an Accident Frequency Rate of 0.05.
- We continue to drive the implementation of our climate change action plan to deliver low carbon solutions to every customer by 2023, including tackling 'Scope 3' emissions, and to be net zero by 2035. During 2022 all relevant contracts now have a carbon baseline target and implementation plan on how they will achieve their target in line with PAS 2080. We also continued to improve climate and carbon literacy of our broader leadership team, with colleagues completing our bespoke in-house training.

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

- The feedback from our people survey indicates that employee engagement and satisfaction scores remain high.
- As a responsible business, we are committed to paying the real living wage to all our employees and we continue to support our people with the challenges they are facing as a result of the cost-of-living crisis. The programmatic approach we have adopted is detailed in the Governance Report on page 70.
- To further support our employees, we made real living wage adjustments in January 2023, ahead of the 1 April 2023 increase coming into effect. We are proposing an increased April 2023 salary budget of 6% (excluding promotions, the graduate half-year review and the structured increases for our apprentices). The increases will be targeted at lower income/vulnerable employees (with a further 1% budget for adjustments to address market pressures). We believe this to be the most equitable and sustainable approach to supporting our team through the current period. Executive directors will receive an increase below that awarded for the wider workforce. We have also set up a Cost-of-Living Network to allow colleagues to share information and provide peer support. This will also enable us to target support where it is needed.

### Executive director base salary increases and variable pay outcomes for the year ended 31 December 2022

Helen Willis' salary was increased by 3% for 2022, below the enhanced increase awarded to the wider workforce in April 2022.

As set out in the Remuneration Report last year, when Alex Vaughan was appointed as CEO in May 2019, his base salary was set at £425,000 (lower than his predecessor's base salary of £482,700). For 2020 and 2021, the base salary increases for Alex were 0% and 2% respectively (below the 2% and 2.5% increases for the wider workforce). The Committee is mindful that his base 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, notwithstanding the challenging market conditions, and experience gained in role. However, Alex made the decision to decline a 6% increase to £460,000 for 2022 which was proposed last year in order to move his base to a market competitive level. Accordingly, Alex's salary was increased by 3% for 2022, below the enhanced increase awarded to the wider workforce.

The 2022 AIP was subject to a mixture of financial and non-financial performance measures aligned with key strategic priorities. 50% was linked to Group adjusted EBITA and the remainder to continued improvement of our safety, health and environment performance, profit secured for 2023, cash management and personal objectives linked to critical strategic and corporate activities.

Taking into account the safety incident in July when the Group experienced a fatality on one of its rail contracts, management and the Remuneration Committee exercised discretion to reduce the pay-out under the Group safety, health and environment element of the 2022 AIP from 7.5% to 0%.

Based on performance against the performance measures, and after taking into account these decisions, Alex Vaughan and Helen Willis each earned an AIP award equal to 108% of salary. One third of the AIP earned will be deferred into shares for two years. Further details are set out on pages 106 to 108.

The LTIP award granted in 2020 (in October to Alex Vaughan and in November following her appointment to Helen Willis) was subject to adjusted EPS performance for two thirds of the award and cash conversion performance for the balance of the award. Taking into account market conditions at the time, the grant level for the executive directors was reduced from 100% of salary to 55% of salary, with a pro-rata reduction then applied to Helen Willis' award to reflect her period of service during the performance period. Aggregate adjusted EPS measured over 2020, 2021 and 2022 was 25.3p and as a result 71.7% of this element vested. Average cash conversion over the period was 178% and as a result this element of the award vested in full. The 2020 LTIP award is therefore due to vest at 81.1% in April 2023. LTIP awards which vest will be subject to a two year holding period. Further details are set out on pages 108 and 109.

In line with good practice these incentive outcomes were reviewed in the broader context of the stakeholder experience. The Committee considered that these incentive outcomes are a fair reflection of the Group's underlying financial performance achieved in 2022 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.

## Directors' remuneration report continued

### 2022 LTIP awards

Taking into account the need to maintain an overall competitive package and having regard to the stretch in the performance targets, LTIP awards were granted to the executive directors in April 2022 at a level of 100% of salary. Awards are subject to adjusted EPS performance as regards two thirds of the award and cash conversion performance as regards one third of the award. Further details, including the performance targets are set out on pages 109 and 110. The Committee retains 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 2023

- **Executive director base salary increase:** The CEO and CFO will receive a salary increase for 2023 of 5% (ie lower than the wider workforce increases) and that the increases will take effect from 1 April 2023. As noted above, the Committee is mindful that Alex Vaughan's base salary is positioned at the lower end of the market. He has again declined an increase in line with or slightly ahead of the wider workforce rate for 2023.
- **AIP and LTIP quantum:** No changes are proposed to the maximum AIP and LTIP opportunities. For 2023, the maximum AIP opportunity for executive directors will be 150% of salary and the maximum LTIP opportunity will be 100% of salary. Taking the above into account and the need to retain and incentivise the management team needed to deliver the continued transformation of the business, the Committee strongly believes that scaling back the quantum of the LTIPs (which are positioned at the lower end of market vs peers) is not in the best interests of shareholders. Retaining the quantum of the LTIPs at 100% of salary provides alignment with shareholders and an incentive linked to the delivery of *long term sustainable performance*. It is proposed that up to 25% of the maximum opportunity will vest for a threshold level of performance in line with the limit in the current and new Policy. The Committee will retain 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 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.
- **AIP performance measures:** The annual bonus will continue to be based on financial, strategic and role-specific personal metrics with at least 50% based on financial measures. For FY23 a rebalancing of the performance measures will apply as set out below such that 70% of the bonus will be based on financial measures (Group adjusted EBITA, profit secured for 2024 and cash flow), and 30% on non-financial measures (Group safety, health and environment and personal performance).

	Current AIP weightings FY22	Proposed AIP weightings FY23	Rationale
Group adjusted EBITA	50%	40%	Core financial KPI
Profit secured for 2024	15%	15%	Core financial KPI
Cash flow	15%	15%	Core financial KPI
Safety, health and environment	10%	10%	Core non-financial KPI
Personal performance	10%	20%	Increased weighting on measurable and robust personal objectives provides a focus on the execution of our strategic priorities and is aligned with our transformation strategy.

- **LTIP performance measures:** For FY23, the cash conversion metric will be removed from the LTIP taking into account the fact that cash flow is a performance measure for the annual incentive. The 2023 LTIP will be based on the following measures:

Metric and proposed weighting	Rationale
Adjusted aggregate EPS (50% of max)	Captures long-term sustainable earnings performance aligned with the financial performance expected by our shareholders.
Absolute TSR (25% of max)	Provides 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 our share price.
ESG metrics (25% of max)	Reflects our long-term vision of creating connected, sustainable infrastructure, enabling people and the planet to thrive.
Environmental: Reduction in Scope 1 and 2* carbon emissions (15% weighting)	Aligned with our goal to enhance the proportion of female and ethnic diverse talent in senior leadership roles.
Social: Equality, diversity and inclusion (EDI) (10% weighting)	

\* Our climate change targets have been submitted to the Science Based Target Initiative (SBTi).

Further details of the performance targets for FY23 are included on pages 111 and 112.

### Executive Share Plans

Our existing Long Term Incentive Plan and Share Deferral Plan (SDP) were approved by shareholders at the 2014 AGM and will reach the end of their shareholder approved 10-year lives in May 2024. To coincide with the renewal of the Policy, we will be seeking shareholder approval for a new LTIP and SDP at the 2023 AGM. These new plans will reflect the new Policy and typical practice.

Summaries of the principal terms of the new plans are included in the Notice of AGM. Our approach to dilution limits in these new plans is set out below.

Our current LTIP and SDP plans include the standard overall '10% in 10 years' dilution limit on the use of new issue shares and treasury shares for all of the Company's share plans, and also the '5% in 10 years' dilution limit which applies only to 'discretionary' plans. Each of our new plans will retain the '10% in 10 years' limit. However, we have not included the '5% in 10 years' limit.

The current dilution under our discretionary plans is at the '5% in 10 years' limit. This restricts our ability to grant LTIP awards going forwards over newly issued shares. The ability to grant LTIP awards to key executives is critical to our ability to attract and retain high calibre individuals in an increasingly competitive market and to remunerate executives fairly and responsibly. Not including the '5% in 10 years' limit means that we can continue to operate our LTIP in a way which is aligned with our overall approach to reward – enabling us to incentivise and retain the employees who are key to delivery of long-term sustainable performance, including those below the executive director level, while at the same time giving us the flexibility to settle awards in the most appropriate way taking into account all relevant considerations, including cash cost, dilution and the interests of shareholders as a whole.

### New Chair

Kate Rock was appointed to the Board on 1 November 2022 and assumed the role of chair with effect from 1 December 2022. Kate's fee as chair is £195,000 p.a. taking into account the time commitment expected of the role. The chair's fee will not be subject to an increase in 2023.

### Shareholder and employee engagement

As referred to above, I wrote to investors holding in total over 60% of Costain's shares to outline the Committee's Policy and remuneration proposals for 2023 and invited their feedback. The majority of shareholders who engaged were largely very supportive of the proposals. A small number of our major shareholders expressed a strong preference for an absolute rather than relative TSR measure in the LTIP. Reflecting these constructive discussions, we modified our original proposal which was to include a relative TSR measure in the LTIP. As set out above, an absolute TSR measure will account for 25% of the overall LTIP award. This maintains a clear alignment with value created for shareholders, and also addresses any concern that this element of the LTIP awards could vest by reference to strong relative performance without an appropriate level of absolute performance.

As set out on page 101, we engage with employees on executive remuneration via various channels.

## Directors' remuneration report continued

### 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 2022 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 2023 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 2023.

**Fiona MacAulay**

Committee Chair

13 March 2023

### Definitions used in this report

**AIP:** Annual Incentive Plan.

**Adjusted EBITA:** Underlying Earnings Before Interest, Tax and Amortisation as adjusted by the Remuneration Committee to exclude other items considered to be one-off and unusual in nature or related to the accounting treatment of acquisitions and to ensure that the performance measures are assessed on a consistent basis year-to-year.

**Adjusted EPS:** Underlying Earnings Per Share as adjusted by the Remuneration Committee to exclude pension interest and other items considered to be one-off and unusual in nature or related to the accounting treatment of acquisitions and 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 plan approved in 2014 and the plan to be proposed to shareholders at the 2023 AGM).

**SDP:** Share Deferral Plan (and including where relevant the plan approved in 2014 and the plan to be proposed to shareholders at the 2023 AGM).

### Remuneration disclosure

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

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 new 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 new 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 remuneration 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

The directors' remuneration policy for which approval will be sought at the 2023 AGM, is set out below.

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
<b>Salary</b>	<ul style="list-style-type: none"> <li>To attract and retain high-calibre individuals.</li> <li>Reflects skills, experience and performance in role.</li> <li>Provides an appropriate level of basic fixed income while avoiding excessive risk arising from over reliance on variable income.</li> </ul>	<ul style="list-style-type: none"> <li>Generally reviewed annually (with any change usually effective from 1 April) but exceptionally at other times of the year.</li> <li>Set with reference to individual performance, experience and responsibilities.</li> <li>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.</li> <li>Increases will usually not exceed the average salary increases for the wider workforce (in percentage terms).</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>To avoid setting expectations of future salary increases there is no maximum salary value set under the policy.</li> </ul>
<b>Annual Incentive Plan</b>	<ul style="list-style-type: none"> <li>To incentivise the achievement of key financial and strategic targets for the relevant year without encouraging excessive risk taking.</li> <li>Promotes greater alignment with shareholders.</li> <li>To facilitate share ownership.</li> </ul>	<ul style="list-style-type: none"> <li>Two thirds paid in cash.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>Awards may be subject to malus and clawback as described below.</li> <li>Not pensionable.</li> </ul>	<ul style="list-style-type: none"> <li>The Committee considers and approves the performance measures and targets each year and ensures they are aligned with business strategy and are sufficiently stretching.</li> <li>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.</li> <li>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%.</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Maximum: 150% of salary.</li> <li>The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary.</li> </ul>

## Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
<b>Long-Term Incentive Plan</b>	<ul style="list-style-type: none"> <li>Aligned to main strategic objectives of delivering sustainable performance which in turn should deliver enhanced returns.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>Awards are subject to a further holding period of two years following the end of the performance period before they are released.</li> <li>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.</li> <li>Awards may be subject to malus and clawback as described below.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>At least 75% of the opportunity will be subject to financial and/or share price measures.</li> <li>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.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>LTIP awards with a face value of not more than 150% of salary.</li> <li>The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary.</li> <li>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.</li> </ul>
<b>SAYE Scheme</b>	<ul style="list-style-type: none"> <li>Offered to all UK employees, to facilitate share ownership and provide further alignment with shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>Periodic grants which normally vest after three or five years subject to continued service.</li> <li>Operated under HMRC requirements as a tax qualifying plan.</li> </ul>	<ul style="list-style-type: none"> <li>Not subject to performance conditions in line with usual practice.</li> </ul>	<ul style="list-style-type: none"> <li>Participation on the same basis as all other employees.</li> </ul>
<b>Pension</b>	<ul style="list-style-type: none"> <li>To aid retention and remain competitive in the market place.</li> </ul>	<ul style="list-style-type: none"> <li>Annual pension allowance.</li> <li>Paid as a cash contribution to the Defined Contribution pension scheme, personal pension arrangements and/or a cash supplement.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>A percentage of base salary not exceeding the pension contribution available to the majority of the wider workforce (which is currently 10%).</li> </ul>
<b>Other Benefits</b>	<ul style="list-style-type: none"> <li>To aid retention and be competitive in the market place.</li> <li>Healthcare benefits to minimise business disruption.</li> </ul>	<ul style="list-style-type: none"> <li>Company car (or car allowance) and fuel allowance.</li> <li>Medical insurance.</li> <li>Life assurance.</li> <li>Other benefits as appropriate, for example, relocation expenses and travel and subsistence.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

### 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, these non-financial indicators include safety, health and environment targets, and personal objectives, with further information included on page 92.

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, 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 awards will be based on environmental and social measures, with further information on page 93.

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.

## Directors' remuneration report continued

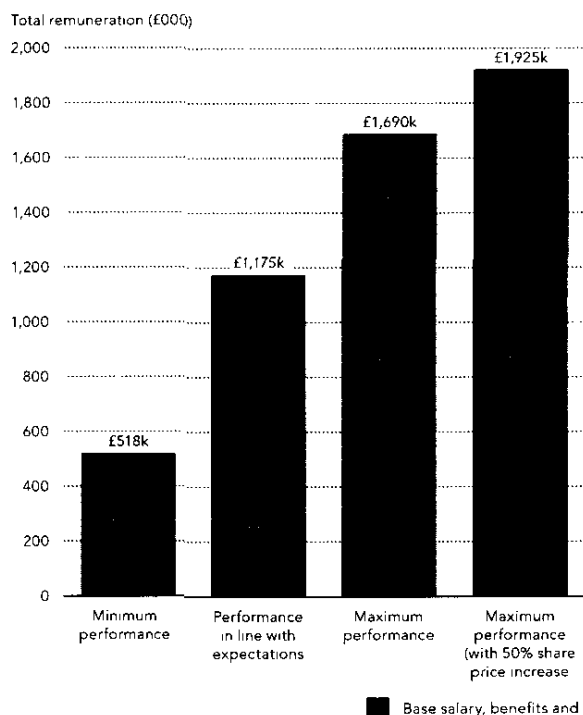
### Incentive plan operation

The Committee will operate the AIP, SDP, LTIP and SAYE Scheme according to their respective rules.

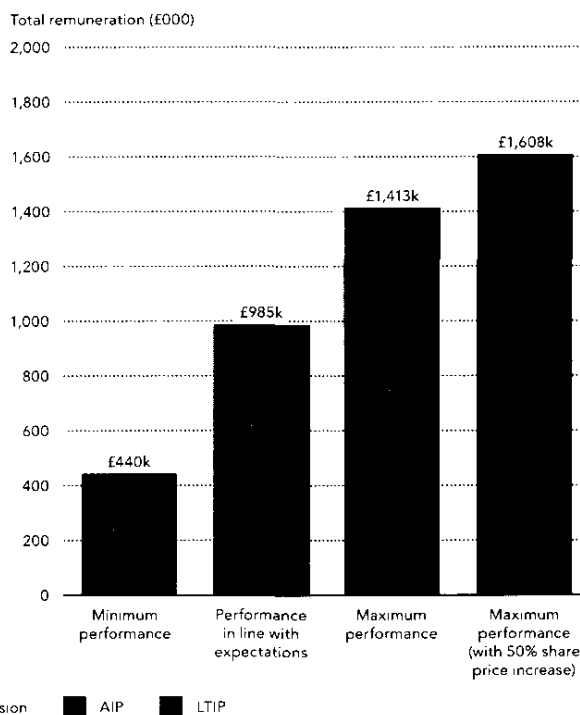
Share awards under the SDP, LTIP and SAYE Scheme (and any applicable performance conditions) may be adjusted in the event of a variation of the Company's share capital or a demerger, special dividend or other event which affects the market price of a share. Share awards under the SDP and LTIP may be 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.

### Illustration of application of remuneration Policy

#### Alex Vaughan



#### Helen Willis



The charts above set out an illustration of the remuneration that might be received by each of the two executive directors for 2023 under the Policy set out above in four different performance scenarios.

Performance scenario	Fixed pay	Variable pay	
	Base salary pension and benefits	AIP	LTIP
Minimum	• Salary effective 1 April 2023	N/A	N/A
On-Target	• Pension contribution: 10% of salary	60% vesting (90% of salary)	50% vesting (50% of salary)
Maximum	• Benefits as paid in 2022	100% vesting (150% of salary)	100% vesting (100% of salary)
Maximum plus share price appreciation		As with the Maximum scenario, but assuming a 50% share price increase for the purposes of the LTIP element.	

### Service agreements and loss of office

The executive directors have service contracts that can be terminated by either party on the giving of 12 months' notice. There is no entitlement to the payment of a predetermined amount on termination of employment in any circumstances. There are no liquidated damages provisions for compensation on termination within the executive directors' service agreements. The executive directors' service agreements do contain provisions for payment in lieu of notice, but these are at the Company's sole discretion.

The Company seeks to avoid any payment for failure. The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period and that any such payments would be paid monthly in arrears.

It is the Committee's intention that any future service contracts will reflect the Policy.

Executive directors	Date of contract	Expiry date	Termination payment	Remuneration entitlement	Compensation on termination following a change of control
Alex Vaughan	7 May 2019	Terminable on 12 months' notice.	Base salary plus benefits ordinarily paid monthly and subject to mitigation. Benefits provided in connection with termination may include for example, pension, outplacement fees, payments in respect of accrued holiday and legal fees.	No other specific entitlements are contained within our contracts.	No additional provisions other than those contained in the 'Termination payment' column.
Helen Willis	30 November 2020				

The treatment of any incentive payment on termination will be determined in accordance with the rules of the AIP, SDP or LTIP. The principal provisions of the rules are summarised below. SAYE Scheme options may vest on termination in accordance with the Scheme rules, which do not include any discretion on the part of the Committee.

<b>AIP</b>	<p>Ordinarily, there will be no entitlement to a bonus unless the participant is employed and not under notice at the bonus payment date.</p> <p>In the event of termination due to death, redundancy, injury, ill-health, disability or retirement (a 'good leaver') a time pro-rated bonus may be earned. The Committee has discretion to pay the bonus following the end of the year (subject to assessment of the performance measures) or at termination (subject to the Committee's assessment of the performance measures at that time).</p> <p>A good leaver will ordinarily only be entitled to a bonus calculated by reference to the proportion of their AIP award which would have been paid in cash, and not to an SDP award. However, the Committee retains discretion to award the SDP element or to pay the whole of the AIP award for the year of termination (and prior year) in cash (after assessment of performance and application of time pro-rating). The Committee would only pay the whole of the bonus in cash where the termination was in compassionate circumstances (such as in the event of death or due to ill-health).</p>
<b>SDP</b>	<p>In the event of termination due to injury, disability, or any other reason at the Committee's discretion, unvested SDP awards shall continue and vest on the normal vesting date, unless, in exceptional circumstances, the Committee permits the award to vest at cessation. If a participant dies, their unvested SDP awards will vest at that time.</p> <p>Unvested SDP awards shall lapse on termination for any other reason.</p>
<b>LTIP</b>	<p><i>Termination during the vesting period</i></p> <p>Unvested LTIP awards will usually lapse on termination.</p> <p>However, in the event of termination due to injury, disability, or any other reason at the Committee's discretion, unvested LTIP awards shall be retained. A retained award shall ordinarily continue and vest and be released on the normal timescale, although in exceptional circumstances the Committee may permit the award to be released at vesting. The extent of vesting will be determined taking into account the extent to which the performance conditions are satisfied and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed at the date of cessation.</p> <p>If a participant dies, their unvested LTIP awards will vest and be released at the date of cessation, with the extent of vesting determined taking into account the extent to which the performance conditions are satisfied at that date (as assessed by the Committee) and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed at the date of cessation.</p> <p><i>Termination during the holding period</i></p> <p>If a participant is dismissed during the holding period for misconduct, their award will lapse.</p> <p>If a participant ceases employment during the holding period other than due to dismissal for misconduct, their award will continue and be released (to the extent vested by reference to the performance conditions) on the normal release date, although the Committee has discretion to release the award at cessation.</p>

Where a new director is granted a 'buy out' award as described below, the leaver provisions would be determined at the time of grant.

## Directors' remuneration report continued

### Recruitment remuneration

*In the cases of hiring/appointing a new executive director, the Committee will typically apply the provisions of the policy set out above. However, the Committee retains the discretion to make payments or awards which are outside the terms of the policy set out above to facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy, subject to the principles and limits set out below. The individual will move over time onto a remuneration package that is consistent with the approved policy.*

The Committee will not use its discretion to make payments or awards outside the policy set out above to offer a non-performance related incentive payment (for example a 'guaranteed sign-on bonus').

In determining appropriate remuneration, the Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure that arrangements are in the best interests of both the Company and its shareholders.

Circumstances in which the Committee may make payments or awards which are outside the terms of the policy set out above include (but are not limited to) the following:

- an interim appointment is made to fill an executive director role on a short-term basis
- exceptional circumstances require that the chair or a non-executive director takes on an executive function on a short-term basis
- an executive director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance; subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis or
- the executive director received benefits at their previous employer that the Committee considers it appropriate to recognise.

The Committee may also alter the performance measures, performance period, vesting period and holding period of the *annual bonus or long-term incentive if the Committee determines that the circumstances of the recruitment merit such alteration*. The rationale will be clearly explained.

The Committee may make an award in respect of hiring to 'buy-out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors regarding the forfeited arrangements, which may include any performance conditions attached to awards forfeited (and the likelihood of meeting those conditions), the time over which they would have vested and the form of the awards (eg cash or shares). It will generally seek to structure buy-out awards on a comparable basis to remuneration arrangements forfeited. These payments or awards are excluded from the maximum level of variable remuneration referred to below. However, the Committee's intention is that the value awarded would be no higher than the expected value of the forfeited arrangements. Where considered appropriate, buy-out awards will be subject to forfeiture or clawback on early departure.

Where necessary, the Company will pay appropriate relocation, travel and subsistence costs. The Committee will seek to ensure that no more is paid than is necessary.

The maximum level of variable remuneration (excluding buy-out awards) which may be awarded to a new executive director is 350% of base salary. Subject to this overall maximum, incentive awards may be granted within the first 12 months of appointment above the normal maximum annual award opportunities. The Committee will ensure that such awards are linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or, other than in exceptional circumstances, continued employment conditions are not met.

Any share awards referred to in this section will be granted as far as possible under the Company's ordinary share plans. If necessary, and subject to the limits referred to above, to facilitate the awards mentioned above, the Committee may adopt a new arrangement in accordance with the provisions of the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of a director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed chair or non-executive director will be in line with the fee policy in place at the time of appointment.

### External directorships

The Company encourages executive directors to take up non-executive appointments, with the prior consent of the Company, in the belief that such appointments broaden their skills and the contribution which they can make to the Company's performance. Generally, no more than one such appointment may be undertaken. There must be no conflict of interest and the time devoted to the external appointment must be reasonable in relation to the individual's commitment to the Company. Fees paid for external appointments may be retained by the individual concerned.

### Chair and other non-executive directors

The non-executive directors have letters of appointment. The 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, or three months for the chair, without compensation for loss of office. Each non-executive director is subject to re-election at the AGM each year. For details of each non-executive director's original appointment see page 116.

### Remuneration policy for chair and non-executive directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
<b>Fees and relevant benefits</b>	Attract and retain high performing individuals.	<ul style="list-style-type: none"> <li>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.</li> <li>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 the senior independent director, and chair of the Audit and Remuneration Committees. Additional fees may also be paid for additional time commitments.</li> <li>Overall fees will remain within the limit set out in the Company's Articles of Association.</li> <li>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.</li> <li>May be entitled to benefits such as travel and subsistence and secretarial support, or other benefits as appropriate.</li> </ul>	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, the staff roadshow 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 as discussed in the Committee chair's statement on page 89. 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 Company'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.

Directors' remuneration report continued

## Annual Report on Remuneration

The Annual Report on Remuneration set out on pages 102 to 119 provides details of how our remuneration policy was implemented in the year ended 31 December 2022 and how we intend for the new Policy (see pages 95 to 101), subject to approval by shareholders at the 2023 AGM, to apply for the year ending 31 December 2023. This Annual Report on Remuneration will be subject to an advisory vote at the 2023 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 given on pages 46 and 47 and details of their attendance at Committee meetings is shown below. The Committee was chaired from 12 January 2022 on an interim basis by Jacqueline de Rojas pending the departure of Alison Wood, with Fiona MacAulay taking over as Committee chair from 5 May 2022. 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 <sup>1</sup>	100%
Jacqueline de Rojas <sup>2</sup>	100%
Neil Crockett	100%
Tony Quinlan	100%
Alison Wood <sup>3</sup>	—

1 Appointed to the Board on 6 April 2022 and as chair of the Committee on 5 May 2022. Fiona attended the Committee meeting on 5 April 2022 by invitation.

2 Chair of the Committee on an interim basis from 12 January 2022 to 5 May 2022.

3 Stepped down as chair of the Committee on 12 January 2022 and from the Board on 28 January 2022. No Committee meetings were held before 28 January 2022.

## Terms of reference

The Committee's terms of reference are available on the Company's website at [www.costain.com](http://www.costain.com). Copies of the letters appointing the Committee's advisers can be obtained from the general counsel and company secretary.

## Remuneration Committee activity

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

Date	Key agenda items
10 February 2022	<p>Consideration given to the extent to which the performance measures were likely to have been met with regard to the LTIP granted in 2019.</p> <p>Determined the level of pay-out of the 2021 AIP.</p> <p>Contemplated whether to defer more than the usual third of bonus into shares in recognition of the wider stakeholder experience.</p> <p>Approved the 2022 AIP performance measures and list of participants.</p> <p>Approved indicative performance targets for the 2022 LTIP grant.</p> <p>Reviewed and approved the chair's fee increase of 3% for 2022 against benchmarked data.</p> <p>Reviewed and approved the executive directors' and senior executives' salary increases for 2022 against benchmarked data.</p> <p>Noted the 2021 people dashboard on key HR metrics across the workforce, which set out the workforce experience, including reward and compensation.</p> <p>Reviewed the draft Directors' Remuneration Report in the 2021 annual report.</p>



Date	Key agenda items
<b>3 March 2022</b>	<p>Update on outstanding matters from the previous meeting:</p> <ul style="list-style-type: none"> <li>• Approval of deferral of one half of the bonus for executive directors (usual one third).</li> <li>• Finalised the 2022 AIP targets.</li> </ul> <p>Reviewed again the draft Directors' Remuneration Report in the 2021 annual report.</p>
<b>5 April 2022</b>	<p>Approved the grant of awards under the 2022 LTIP and determined quantum, performance targets, participants and other terms.</p> <p>Approved the grant of awards under the 2022 SDP in relation to the 2021 bonus pay-out.</p>
<b>5 October 2022</b>	<p>Considered measures taken to date in respect of the cost-of-living crisis.</p> <p>Considered in detail proposals for the new remuneration policy.</p> <p>Received benchmarking data for the CEO, CFO and senior managers.</p> <p>Reviewed progress against actions arising from the 2021 internal Committee evaluation.</p> <p>Considered the current level of dilution against the limits set out in the share plan rules.</p> <p>Considered pay increases to those senior managers promoted or taking on increased responsibilities.</p> <p>Considered the treatment of executive share awards to departing senior managers.</p>
<b>13 December 2022</b>	<p>Endorsed further measures to be taken in respect of the cost-of-living crisis.</p> <p>Received a governance update and market trends paper from the Committee's advisers.</p> <p>Approved the consultation letter to be issued to our largest shareholders and their representative bodies in respect of the proposed remuneration policy.</p> <p>Reviewed and discussed the proposed revised performance targets for the 2023 LTIP and list of participants.</p> <p>Approved a revised 2023 AIP structure and list of participants, with targets to be finalised at the next meeting.</p> <p>Determined 6.0% annual salary increase for the wider workforce for 2023.</p> <p>Reviewed potential CEO and CFO salary increases for 2023 for final approval at the February 2023 meeting.</p> <p>Agreed no changes required to the Committee's terms of reference other than role title changes to reflect the transformation project.</p> <p>Considered the treatment of executive share awards to departing senior managers.</p>

## Directors' remuneration report continued

### Committee effectiveness review

In 2022, the review of the effectiveness of the Board and its Committees was conducted internally. The evaluation process is discussed in greater detail in the Governance Report on page 55. On the basis of the review, the Remuneration Committee concluded that the Committee remained effective and there were no areas for concern in respect of the performance of the Committee or any of its members.

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.

### 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, the chief people and sustainability officer (previously the Group HR director) and the general counsel and company secretary were invited to attend various 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 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 £44,214 (2021: £27,300) for the year ended 31 December 2022 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. 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 2022

Last year's Remuneration Report was approved by shareholders with a 87.94% (2021 AGM: 98.18%) vote in favour (including discretionary votes).

### Voting on the remuneration policy at the AGM in 2020

The current policy was approved by shareholders with a 90.09% vote in favour (including discretionary votes) at the Company's AGM on 19 June 2020 and can be found in the 2019 annual report at [www.costain.com/investors](http://www.costain.com/investors). A new policy is being submitted for approval by shareholders at the 2023 AGM.

### Voting on the Costain 2022 Sharesave Plan at the AGM in 2022

The Sharesave Plan 2022 was approved by shareholders with a 99.72% vote in favour (including discretionary votes).

## Implementation of policy in the year to 31 December 2022

## Single total figure of remuneration for each director

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

	2022							
	Fixed				Variable			
	Salary and fees* £	Taxable benefits £	Pension* £	Subtotal £	Annual incentive £	LTIP £	Subtotal £	Total £
<b>Executive directors</b>								
Alex Vaughan	443,250	2,623	44,325	490,198	482,220	174,297*	656,517	1,146,715
Helen Willis	368,100	11,928	36,810	416,838	400,464	81,406*	481,870	898,708
<b>Non-executive chair</b>								
Kate Rock <sup>1</sup>	20,367	–	–	20,367	–	–	–	20,367
Paul Golby <sup>2</sup>	159,783	–	–	159,783	–	–	–	159,783
<b>Non-executive directors</b>								
Bishoy Azmy <sup>3</sup>	48,000	–	–	48,000	–	–	–	48,000
Neil Crockett <sup>4</sup>	49,050	–	–	49,050	–	–	–	49,050
Jacqueline de Rojas	51,358	–	–	51,358	–	–	–	51,358
Fiona MacAulay <sup>5</sup>	41,211	–	–	41,211	–	–	–	41,211
Tony Quinlan <sup>6</sup>	65,725	–	–	65,725	–	–	–	65,725
Alison Wood <sup>7</sup>	3,692	–	–	3,692	–	–	–	3,692
	2021							
	Fixed				Variable			
	Salary and fees £	Taxable benefits £	Pension** £	Subtotal £	Annual incentive £	LTIP £	Subtotal £	Total £
<b>Executive directors</b>								
Alex Vaughan	431,375	12,892	43,138	487,405	474,683	13,894**	488,577	975,982
Helen Willis	360,000	11,855	36,000	407,855	394,200	–	394,200	802,055
<b>Non-executive chair</b>								
Kate Rock <sup>1</sup>	–	–	–	–	–	–	–	–
Paul Golby <sup>2</sup>	169,770	–	–	169,770	–	–	–	169,770
<b>Non-executive directors</b>								
Bishoy Azmy <sup>3</sup>	47,762	–	–	47,762	–	–	–	47,762
Neil Crockett <sup>4</sup>	11,323	–	–	11,323	–	–	–	11,323
Jacqueline de Rojas	47,762	–	–	47,762	–	–	–	47,762
Fiona MacAulay <sup>5</sup>	–	–	–	–	–	–	–	–
Tony Quinlan <sup>6</sup>	50,106	–	–	50,106	–	–	–	50,106
Alison Wood <sup>7</sup>	59,258	–	–	59,258	–	–	–	59,258

# 2020 LTIP award of 553,909 shares (Alex Vaughan) and 258,705 shares (Helen Willis) vested at 81.1%. Value calculated based on average share price over the three months ended 31 December 2022 being 38.8p per share.

## 2019 LTIP award of 138,942 shares vested at 25%. Value calculated based on share price at first business date after vesting on 9 May 2022 being 40.0p per share. In accordance with the applicable regulations, the value included in the 2021 Directors' Remuneration Report was based on the average share price over the three months ended 31 December 2021 being 53.85p per share.

1 Appointed to the Board on 1 November 2022.

2 Stepped down from the Board on 1 December 2022.

3 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 will be paid in March 2023 backdated to April 2022 and this will be reflected in the Directors' Remuneration Report for 2023.

4 Appointed to the Board on 6 October 2021.

5 Appointed to the Board on 6 April 2022.

6 Appointed to the Board on 1 February 2021.

7 Stepped down from the Board on 28 January 2022.

\* 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.

\*\* A pension contribution of £3,864 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.

## 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 2022 were £446,500 for Alex Vaughan and £370,800 for Helen Willis.

#### (b) Taxable benefits provided to executive directors

The main benefits available to the executive directors during 2022, and their approximate values, were a car benefit of £1,195 (2021: £11,537) for Alex Vaughan, noting a fully electric car selected in 2021, and car allowance of £10,500 (2021: £10,500) for Helen Willis, together with private medical insurance for Alex Vaughan of £1,428 (2021: £1,355) and Helen Willis of £1,428 (2021: £1,355). This package of benefits was unchanged from 2021.

#### (c) Determination of the 2022 annual incentive

The maximum AIP opportunity for the chief executive and the chief financial officer for the year ended 31 December 2022 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 2022 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 £37.0m for Group adjusted EBITA.

The achievement of the performance measures has been reviewed, with appropriate input from the Audit Committee, following the end of the 2022 financial year. As shown in the table below, Alex Vaughan and Helen Willis both earned an AIP award equal to 72% 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 89 to 94, in line with good practice these outcomes were reviewed in the context of the broader stakeholder experience. Taking into account the safety incident in July when the Group experienced a fatality on one of its rail contracts, management and the Remuneration Committee exercised discretion to reduce the pay-out under the Group safety, health and environment element of the 2022 AIP from 7.5% to 0%.

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 2022. 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.

Performance measures	AIP opportunity – maximum percentage of bonus	AIP award – as a percentage of bonus	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
Group adjusted EBITA (with 90% cash conversion) <sup>1</sup>	50%	43%	50%	43%	£31.5m	£37.0m	£36.3m	43%
ESG (including safety, health and environment) <sup>2</sup>	10%	0%	10%	0%	n/a	LTIR 0.15 AFR 0.04	LTIR 0.09 AFR 0.05	0% <sup>3</sup>
Profit secured for 2023	15%	4%	15%	4%	£71.9m	£87.9m	£75.9m	4%
Cash flow <sup>4</sup>	15%	15%	15%	15%	£105.5m	£128.9m	£142.6m	15%
Personal performance	10%	10%	10%	10%	see personal performance section below			10%
<b>Total</b>	<b>100%</b>	<b>72%</b>	<b>100%</b>	<b>72%</b>				<b>72%</b>

1 Earnings before interest, tax and amortisation; calculated on an adjusted basis

2 Includes Lost Time Injury Rate (LTIR) and Accident Frequency Rate (AFR) targets and the requirement for all contracts to have a carbon baseline with an associated reduction plan.

3 The percentage pay-out assessed against the targets set for this element of the bonus was 7.5% out of a maximum of 10%. Taking into account the safety incident in July when the Group experienced a fatality on one of its rail contracts, management and the Remuneration Committee exercised discretion to reduce the pay-out under this element to 0%.

4 Measured as average month end cash balances, pre-acquisition and investments. Actual performance was adjusted to exclude the impact of the £43.4m payment relating to the Peterborough & Huntingdon contract in February 2022 which was one-off in nature in accordance with the target set.

### 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 and Helen Willis' performance against their personal objectives are set out below.

#### Alex Vaughan

Objective	Achievement during the year	Maximum Award	
Performance	Strengthened the resilience of Costain by embedding risk management, broadened the customer mix in our growth markets and lower risk contract portfolio.  Improved contract margin resilience through enhanced contract delivery via our Operational Excellence Model, financial reviews and senior management ownership.  Continued to build our expertise for example we are now one of the leading Delivery Partner consultancies in the UK.	5%	5%
People	Successful appointments made to strengthen the executive team. Launch of accelerator programme to support Executive Board succession.  Launched our refreshed values and behaviours and embedded them throughout the employee lifecycle.  Completed Best Companies employee engagement survey achieving a 1 star rating, recognised as a 'Very Good Company' to work for.	2.5%	2.5%
Planet	Submitted our climate change action plan to the Science-Based Target Initiative.  Reduction in combined Scope 1 and 2 emissions.  Introduced ESG metrics into our long term incentive plan for senior managers.	2.5%	2.5%
		10%	10%

## Directors' remuneration report continued

### Helen Willis

Objective	Achievement during the year	Maximum Award	
Performance	<p>Strengthened the resilience of Costain by embedding risk management, broadened the customer mix in our growth markets and lower risk contract portfolio.</p> <p>Improved contract margin resilience through enhanced contract delivery via our Operational Excellence Model, financial reviews and senior management ownership.</p> <p>Continued to build our expertise for example we are now one of the leading Delivery Partner consultancies in the UK.</p>	5%	5%
People	<p>Worked with the people and finance teams to implemented programmatic cost-of-living support measures.</p> <p>Launched our refreshed values and behaviours and embedded them throughout the employee lifecycle.</p> <p>Completed Best Companies employee engagement survey achieving a 1 star rating, recognised as a 'Very Good Company' to work for.</p>	2.5%	2.5%
Planet	<p>Significant progress towards converting revolving credit facility to a sustainability-linked revolving credit facility with three ESG key performance indicators (converted in 2023 – see page 38).</p> <p>Reduction in combined Scope 1 and 2 emissions.</p> <p>Introduced ESG metrics into our long term incentive plan for senior managers.</p>	2.5%	2.5%
		10%	10%

#### (d) Vesting of the October/November 2020 LTIP award

The LTIP awards granted on 7 October 2020 and 30 November 2020 to Alex Vaughan and Helen Willis respectively were based on adjusted EPS (two thirds) and cash conversion (one third) performance for the three years ended 31 December 2022.

At the time of grant of the awards, the Committee took into account market conditions and reduced the quantum of awards from 100% of salary to 55% of salary.

Performance against the measures and the resulting vesting outcome is shown below. Aggregate adjusted EPS for the three financial years, calculated on an adjusted basis approved by the Committee, was 25.3 pence as a result of which this element of the LTIP awards is due to vest at 71.7%. Cash conversion performance targets were achieved to the full extent and so 100% of this element of the award is due to vest. Therefore, the 2020 LTIP is due to vest over a total of 81.1%, with the remaining 18.9% of the award lapsed.

The award vests in April 2023 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 measures (relating to two thirds of the award)

Aggregate adjusted EPS for the financial years ended 31 December 2020, 2021 and 2022	Vesting level for awards
Below 22.6 pence	0%
22.6 pence	15%
Between 22.6 pence and 26.7 pence	15–100% pro-rata
26.7 pence or more	100%
Actual performance: 25.3 pence	Vesting outcome: 71.7%

For the purposes of the LTIP, EPS is adjusted by the Committee to take account of relevant events (such as acquisitions or disposals and excludes pension interest) and to ensure that the performance measures are assessed on a consistent basis year-to-year.

**(B) Cash conversion performance measures (relating to one third of the award)**

Average cash conversion for the financial years ended 31 December 2020, 2021 and 2022	Vesting level for awards
Below 80%	0%
80%	15%
Between 80% and 100%	15–100% pro-rata
100%	100%
Actual performance: 178%	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 annual premiums payable in respect of life assurance for Alex Vaughan were £2,743 (2021: £2,411) and for Helen Willis £2,054 (2021: £2,021).

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 these schemes until 31 May 2022.

**(f) Chair**

With effect from her appointment as chair on 1 December 2022, the basic annual fee for Kate Rock was £195,000. Kate received the basic annual non-executive fee of £49,400 (pro-rated) from her appointment as a director on 1 November 2022 until her appointment as chair. Remuneration for the former chair, Paul Golby, comprised a basic annual fee of £175,700 from 1 April 2022.

**(g) Non-executive directors**

Remuneration for non-executive directors, other than the Group's 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 Remuneration Committees. The annual fees set with effect from 1 April 2022 were as follows:

2022 Fees	Basic Fee	Senior independent director	Audit Committee chair	Remuneration Committee chair
Fees	£49,400	£6,900	£9,900	£7,400

**Grants made during the year**

These tables and the associated footnotes have been audited by PwC LLP.

**2022 LTIP Grant**

Grants were made under the LTIP on 6 April 2022 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 2022 LTIP are as follows:

**(A) Adjusted EPS performance measure (relating to two thirds of the award)**

Aggregate adjusted EPS over the financial years ended 31 December 2022, 2023 and 2024	Vesting level
Below 27.5 pence	0%
27.5 pence	15%
Between 27.5 pence and 33.7 pence	15–100% pro-rata
33.7 pence or more	100%

## Directors' remuneration report continued

### (B) Cash conversion performance measure (relating to one third of the award)

Average cash conversion for the financial years ended 31 December 2022, 2023 and 2024	Vesting level
Below 80%	0%
80%	15%
Between 80% and 100%	15–100% pro-rata
100%	100%

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 2022 LTIP, structured as options with a nil exercise price, are as follows:

	Number of shares	Face value <sup>1</sup>	End of performance period	Threshold vesting
Alex Vaughan	1,124,685	£446,500	31 December 2024	15%
Helen Willis	934,005	£370,800	31 December 2024	15%

<sup>1</sup> Valued using the mid-market closing share price on the business day prior to the date of grant (5 April 2022), being 39.7 pence.

### 2022 SDP Grant

The Company granted awards under the SDP to the executive directors on 6 April 2022, details of which are shown on page 118.

### All-employee share plan

As in 2020 and 2021, the Company did not invite employees to participate in the SAYE scheme in 2022 and therefore no SAYE awards were granted to the executive directors during 2022.

### Exit payments made during the year and payments made to past directors

No executive directors departed in 2022 and no payments have been made to past directors.

### Implementation of policy in the year to 31 December 2023

#### Salary

As set out in the chair's statement, the chief executive officer and chief financial officer will receive a salary increase in 2023 of 5.0%. These increases will take effect from 1 April 2023.

	Salary 2023	Salary 2022	% change
Alex Vaughan	468,800	£446,500	5%
Helen Willis	389,300	£370,800	5%

### Chair's fee

The chair's basic annual fee will not be subject to an increase in 2023, Kate Rock having assumed the position on 1 December 2022.



### Non-executive director fees

Non-executive directors' basic fees will be increased by 4.5% with an increase of 23.2%, 1% and 35.1% respectively for senior independent director, Audit Committee chair and Remuneration Committee chair, with effect from 1 April 2023, as shown in the table below. The fees for the senior independent director and Remuneration Committee chair have been increased by a higher amount than the wider workforce to ensure they are closer to market median for these roles when assessed against appropriate benchmarks, and having taken into account the time commitment required and complexity of the roles. With a lower increase of 1% for Audit Committee chair, this fee continues to reflect market median for the role.

2023 Fees	Basic Fee	Senior independent director	Audit Committee chair	Remuneration Committee chair
Fees	£51,600	£8,500	£10,000	£10,000

### 2023 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 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 2023 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 2023 AIP are as detailed below and on page 92 in the Committee chair's statement:

Performance measures	2023 AIP opportunity – maximum percentage of bonus	
	Chief executive officer	Chief financial officer
Group adjusted EBITA (with 90% cash conversion)	40%	40%
Safety, health and environment	10%	10%
Profit secured for 2024	15%	15%
Cash flow (average month end cash balance)	15%	15%
Personal performance	20%	20%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Committee has chosen not to disclose in advance the performance targets for the year ending 31 December 2023, 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.

### 2023 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 2023. The LTIP will be subject to the achievement of performance measures as set out in the chair's statement on page 93.

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 overleaf.

## Directors' remuneration report continued

### 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, EPS shall be calculated on an adjusted basis as determined by the Committee to take account of relevant events (such as acquisitions or disposals) and ensure that the performance measures are assessed on a consistent basis year-to-year.

### 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 leadership (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%

Improvement in leadership (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).

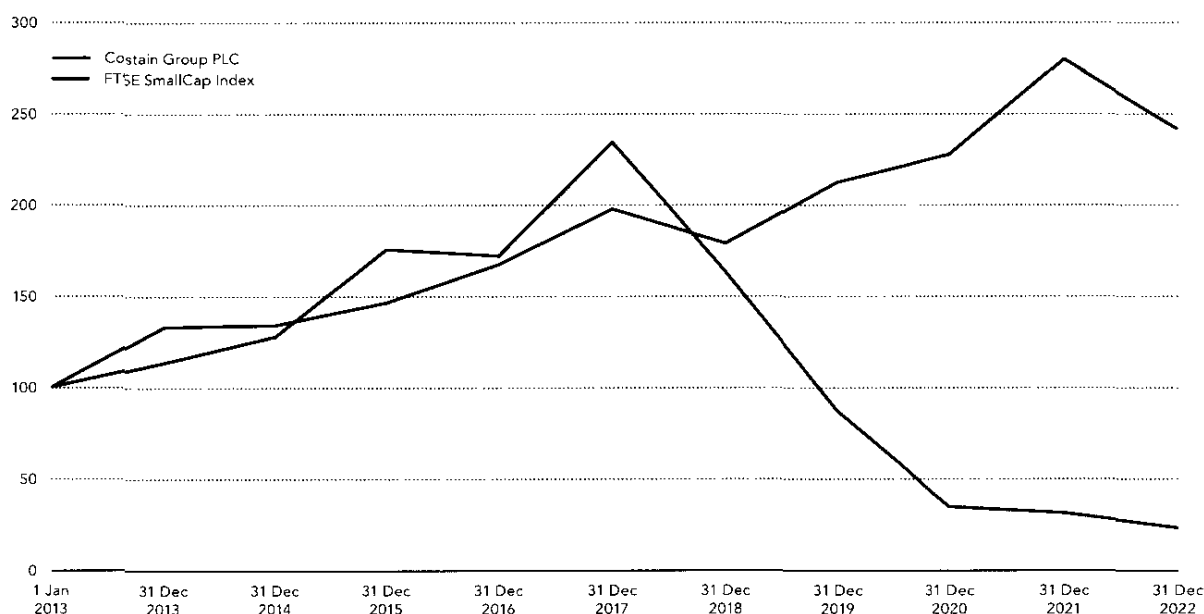
A clawback and malus provision is incorporated in the AIP and the LTIP with regard to any material misstatement to audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant, reputational damage or serious corporate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

The Committee also has the ability to exercise discretion to make adjustments to the formulaic 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.

## Other information

### Performance graph

The graph below shows the value, to 31 December 2022, of £100 invested in Costain Group PLC on 1 January 2013 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									
	2013	2014	2015	2016	2017	2018	2019 <sup>1</sup>	2020	2021	2022
Chief executive officer	AW	AW	AW	AW	AW	AW	AW	AV	AV	AV
Total remuneration	£1,251,239	£1,329,007	£1,414,381	£1,089,943	£1,707,094	£1,560,601	£211,927	£312,242	£447,710	£980,793
AIP (%)	75%	71.6%	79.8%	75.4%	81%	62.6%	Nil	Nil	Nil	73%
LTIP vesting (%)	50%	50%	50%	Nil%	79.1%	100%	Nil	Nil	Nil	25%
										81.1%

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.

## Directors' remuneration report continued

### CEO pay ratio

The table below shows, for 2019 to 2022, 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
<b>2022</b>	<b>Option B</b>	<b>23:1</b>	<b>19:1</b>	<b>14:1</b>
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.

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
<b>2022</b>				
Total pay and benefits	<b>£1,146,715</b>	<b>£50,792</b>	<b>£61,412</b>	<b>£82,181</b>
Salary component	<b>£443,250</b>	<b>£39,282</b>	<b>£56,237</b>	<b>£68,483</b>
<b>2021</b>				
Total pay and benefits	£980,793	£45,166	£56,596	£77,235
Salary component	£431,375	£39,470	£46,476	£57,330
<b>2020</b>				
Total pay and benefits	£447,710	£34,016	£57,580	£73,844
Salary component	£393,125	£32,948	£45,934	£61,669
<b>2019</b>				
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 ratios have increased in 2022 compared to 2021 due to a higher bonus being paid to the CEO in respect of 2022. 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 of the director's remuneration compared to the average employee remuneration.

		Executive directors				Non-executive chair						
		Average employee <sup>1</sup>	Alex Vaughan <sup>2</sup>	Helen Willis <sup>3</sup>	Paul Golby <sup>4</sup>	Kate Rock <sup>5</sup>	Bishoy Azmy <sup>6</sup>	Neil Crockett <sup>7</sup>	Jacqueline de Rojas	Fiona MacAulay <sup>8</sup>	Tony Quinlan <sup>9</sup>	Alison Wood <sup>10</sup>
Salary/fees	<b>2021 – 2022</b>	<b>3.6<sup>11</sup></b>	<b>3</b>	<b>2</b>	<b>n/a</b>	<b>n/a</b>	<b>0.5</b>	<b>n/a</b>	<b>8</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
	2020 – 2021 <sup>12</sup>	5 <sup>11</sup>	10	n/a	10	n/a	n/a	n/a	3	n/a	n/a	14
	2019 – 2020 <sup>12</sup>	(0.8) <sup>13</sup>	n/a	n/a	(7)	n/a	n/a	n/a	(1)	n/a	n/a	(4)
Taxable benefits	<b>2021 – 2022</b>	<b>0.2<sup>14</sup></b>	<b>(80)<sup>15</sup></b>	<b>1</b>	<b>n/a</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
	2020 – 2021	(6) <sup>14</sup>	(16)	n/a	–	n/a	n/a	n/a	–	n/a	n/a	–
	2019 – 2020	6.2 <sup>14</sup>	n/a	n/a	–	n/a	n/a	n/a	–	n/a	n/a	–
Annual bonus	<b>2021 – 2022</b>	<b>(7)</b>	<b>2</b>	<b>2</b>	<b>n/a</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>	<b>–</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
	2020 – 2021	236 <sup>16</sup>	n/a <sup>17</sup>	n/a	–	n/a	n/a	n/a	–	n/a	n/a	–
	2019 – 2020	(18)	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 Paul Golby stepped down from the Board on 1 December 2022 and therefore annual change in remuneration is not applicable between 2021 and 2022.

5 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.

6 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.

7 Neil Crockett was appointed to the Board on 6 October 2021 and therefore annual change in remuneration is not applicable for the financial years shown.

8 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.

9 Tony Quinlan was appointed to the Board on 1 February 2021 and therefore annual change in remuneration is not applicable for the financial years shown.

10 Alison Wood became senior independent director with effect from 6 May 2021 and received a corresponding fee increase. She stepped down from the Board on 28 January 2022 and therefore annual change in remuneration between 2021 and 2022 is not applicable.

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

12 The Board agreed to a 30% reduction in 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.

13 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.

14 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.

15 Alex Vaughan changed to a fully electric car in 2022.

16 Bonus figures are calculated on the total bonus payments made to monthly employees divided by the average number of monthly paid employees.

17 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 2021 to the financial year ended 31 December 2022.

	2022 £m	2021 £m	% change
Overall expenditure on pay	230.4	200.3	15%
Dividends and share buybacks	nil	nil	0%

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 of the 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 <sup>1,2</sup>
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 <sup>3</sup>
Neil Crockett	6 October 2021	6 October 2021	6 October 2024
Jacqueline de Rojas	20 November 2017	12 January 2022 <sup>4</sup>	20 November 2023
Fiona MacAulay	6 April 2022	6 April 2022	6 April 2025
Tony Quinlan	1 February 2021	12 January 2022 <sup>5</sup>	1 February 2024

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, which has a 15.15% shareholding in the Company following the 2020 capital raising.

4 Jacqueline de Rojas was appointed chair of the Remuneration Committee, on an interim basis, with effect from 12 January 2022

5 Tony Quinlan was appointed senior independent director with effect from 12 January 2022.

### 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 2022 <sup>a</sup>	Granted during year	Share price at date of grant	Vested during year	Lapsed during year	Market price at date of exercise	Average market price <sup>b</sup>	Value of shares at date of sale/retention of balance <sup>c</sup>	Balance at 31 December 2022	Actual/expected vesting/release date
Alex Vaughan	07.05.19 <sup>1</sup>	138,942	–	325p	34,735	104,207	–	–	–	34,735	May 2024
	07.10.20 <sup>2</sup>	553,909	–	42.2p	–	–	–	–	–	553,909	April 2025
	08.04.21 <sup>3</sup>	710,655	–	61.0p	–	–	–	–	–	710,655	April 2026
	06.04.22 <sup>4</sup>	–	1,124,685	39.7p	–	–	–	–	–	1,124,685	April 2027
Helen Willis	30.11.20 <sup>2</sup>	258,705	–	53.7p	–	–	–	–	–	258,705	April 2025
	08.04.21 <sup>3</sup>	590,163	–	61.0p	–	–	–	–	–	590,163	April 2026
	06.04.22 <sup>4</sup>	–	934,005	39.7p	–	–	–	–	–	934,005	April 2027

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 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 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 is due to vest at 81.1% based on performance during the year.

3 Performance targets are as follows:

(a) an 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.

4 Performance targets are as follows:

(a) an 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.

The LTIP awards, which are expressed as options, have a nil exercise price. At 31 December 2022, the derived mid-market price of the ordinary shares in the Company, as advised by the Company's brokers, was 39.38 pence. The range of the closing share price of the ordinary shares during 2022 was 32.7 pence to 56.0 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 2022	Granted during year <sup>1</sup>	Share price at date of grant	Vested during year	Lapsed during year	Market price at date of exercise	Average market price <sup>2</sup>	Value of shares at date of sale/retention of balance <sup>3</sup>	Balance at 31 December 2022 <sup>1</sup>	Actual/expected vesting date
Alex Vaughan	06.04.22	–	597,836	39.7p	–	–	–	–	–	597,836	April 2024
Helen Willis	06.04.22	–	496,473	39.7p	–	–	–	–	–	496,473	April 2024

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 (SAYE)

Details of the executive directors' SAYE options are as follows:

Director	Date granted	Balance at 1 January 2022 <sup>1</sup>	Granted during year	Exercise price <sup>2</sup>	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 2022	Exercised/exercisable from/to
Alex Vaughan	24.09.18	1,396	–	316.90p	–	1,396	–	–	–	–	Nov 2021
											May 2022
	23.09.19	1,485	–	111.40p	–	–	–	–	–	1,485 <sup>3</sup>	Nov 2022
											May 2023
Helen Willis	–	–	–	–	–	–	–	–	–	–	–

1 Adjusted number of shares under option following the capital raising in May 2020 (adjustment factor of 1.0625).

2 Exercise price adjusted for the capital raising in May 2020 (adjustment factor of 0.9412).

3 Option still outstanding as at 31 December 2022, the market price of a share being lower than the option price and therefore not exercised.

No executive director exercised a SAYE 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 2022, and at the date of this report, are as follows:

Director	Beneficially owned	Outstanding SDP awards	Outstanding LTIP awards	Outstanding SAYE awards	Shareholding guidelines (% of salary/ Fee) <sup>1</sup>	Actual shareholding as at 31.12.22 (% of salary/fee) <sup>2</sup>	Actual shareholding as at 13.03.23 (% of salary/fee) <sup>2</sup>
Alex Vaughan	252,239 <sup>3</sup>	597,836	2,423,984	1,485	200%	122.95%	122.95%
Helen Willis	–	496,473	1,782,873	–	200%	27.02%	27.02%
Kate Rock	50,000 <sup>4</sup>	–	–	–	100%	9.87%	9.87%
Bishoy Azmy	– <sup>5</sup>	–	–	–	100%	100%+ <sup>5</sup>	100%+ <sup>5</sup>
Neil Crockett	20,000	–	–	–	100%	22.59%	22.59%
Jacqueline de Rojas	12,828 <sup>6</sup>	–	–	–	100%	48.92%	48.92%
Fiona MacAulay	–	–	–	–	100%	0%	0%
Tony Quinlan	25,000	–	–	–	100%	24.30%	24.30%

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. Subject to approval of the new remuneration policy at the 2023 AGM, the non-executive directors will not be expected to build and maintain a shareholding. At present the non-executive directors are expected to build and maintain a shareholding of 100% of their annual fee.

2 Based on the calculation methodology set out in the Company's Share Ownership Guidelines.

3 Part held by persons closely associated.

4 Kate Rock was appointed to the Board on 1 November 2022 at which time she had no share interests. Kate purchased 50,000 shares on 21 December 2022 at a price of 38.5p per share.

5 As the director representative of the shareholder ASGC, the shareholding of ASGC counts towards the shareholding for Bishoy Azmy in accordance with the Company's Share Ownership Guidelines. Bishoy Azmy held no shares in his own name.

6 Held by persons closely associated.

Signed by order of the Board

**Fiona MacAulay**

Committee Chair

13 March 2023

## Directors' report

The directors submit to the members their report and audited accounts of the Company for the year ended 31 December 2022.

The Governance Report on pages 46 to 119 and the Strategic Report on pages 7 to 45 (and in particular pages 10 to 33, 64 and 65 and 68 to 71 with regard to information about employee involvement, diversity and greenhouse gas emissions) are also incorporated into this report by reference.

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

Climate-related disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and TCFD Recommended Disclosures can be found on page 34 and in our separate ESG Report at [www.costain.com](http://www.costain.com).

### 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 2023 AGM will be held on Thursday 11 May 2023 at No. 11 Cavendish Square, London W1G 0AN. A circular incorporating the Notice of AGM accompanies this annual report.

### Profit/(loss), dividend payments and dividend policy

The profit after tax for the financial year ended 31 December 2022 was £25.9m (2021: loss £5.8m).

No interim dividend was paid during the year ended 31 December 2022 (2021: no interim dividend).

The Company will pay no final dividend in respect of the year ended 31 December 2022 (2021: no final dividend). The total dividend paid for the year will therefore be nil (2021: nil).

During the last two years, the Group has made very significant progress in its operating cash generation, demonstrated by our strong year end cash position and operating cash flow in FY22.

A strong balance sheet is fundamental to our ability to win business and manage risk. At the same time, the Board recognises the importance of dividends to shareholders and remains committed to returning to dividend payments when appropriate.

The Board regularly reviews the Company's capital and its potential uses, including whether there is surplus capital available to distribute to our shareholders.

Looking forward over the next financial year, the Board has concluded that the priorities, and best returns, for the Company's capital are to invest in our organic opportunities and to build further its capital base.

### 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 2022 was £137,542,370.50, consisting of 275,084,741 ordinary shares of 50 pence each. Further details of the share capital of the Company can be found in note 22 on page 187.

The awards granted in May 2019 under the 2014 Long-Term Incentive Plan (LTIP) matured as at 31 December 2021, resulting in 25% vesting. Further details regarding the vesting of the 2019 LTIP awards can be found in the Directors' Remuneration Report on pages 105 and 117. Details regarding the 2020 LTIP awards that are due to vest in April 2023 can also be found in the Directors' Remuneration Report on page 108.

Share options granted under the Company's Save As You Earn Scheme (SAYE) in September 2019 (at a post capital raising adjusted option price of 111.4p) matured as at 1 November 2022. As the market price was less than the option price, the maturity resulted in the exercise of nil options over ordinary shares as at 31 December 2022. Further details of the SAYE Scheme can be found on pages 96 and 110 of the Directors' Remuneration Report.

At the 2022 AGM, shareholders approved the renewal of the scrip dividend scheme which authorises the directors to offer and allot ordinary shares in lieu of cash dividends to those shareholders who elect to participate in the scrip dividend. This authority was granted for a period of three years (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.

In 2022, as there were no dividends paid, nil ordinary shares of 50 pence each were allotted to shareholders in respect of dividends. Further information on the scrip dividend scheme is set out on page 195. Details about joining the scrip dividend scheme can also be found on the Company's website at [www.costain.com](http://www.costain.com).

### Restrictions on transfer of securities

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

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws) and
- pursuant to the 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 2022 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	16.06.2022	22,022,829	8.01	n/a	n/a	8.01
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 2022 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 5 May 2022, shareholders granted an authority to the directors to allot ordinary shares up to an aggregate nominal amount of £45.8m, 135,000 shares, having a nominal value of £67,500, were allotted in 2022 to the Employee Share Trust to satisfy awards under the Company's Long-Term Incentive Plan.

As this authority is due to expire on 11 May 2023, 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 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 2022 or during the period from 1 January 2023 to the date of this report.

At the forthcoming AGM authority will 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 him/her if any call or other sum then payable by him/her in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the articles of association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

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

### Employee Share Trust

As at 31 December 2022, Buck Trustees (Guernsey) Limited, as trustee of the Costain Group Employee Trust, held 0.16% (2021: 0.13%) of the issued share capital of the Company on trust for the benefit of those employees who exercise their share awards/options under the Company's Long-Term Incentive Plan, Deferred Share Bonus Plan, Share Deferral Plan and Save As You Earn Scheme (the latter in respect of 'good leavers' who leave the employment of the Company before their contract matures). The trustee does not exercise any right to vote or to receive a dividend in respect of this shareholding.

### 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](http://www.costain.com).

### Political donations

No political donations were made during the year ended 31 December 2022 (2021: 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 2022 AGM. The Board is proposing the reappointment of PwC as auditor from the conclusion of the AGM in May 2023 until the conclusion of the next general meeting at which the accounts are laid before the Company. See page 80 of the Audit Committee Report and the Notice of this year's AGM, available on the Company's website at [www.costain.com](http://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 173 to 179. 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 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 all the sectors in which it operates. The Group's engineers and technical staff in these named sectors seek to develop and deliver technical advances. In undertaking certain elements of this research and development work, the Group is supported by arrangements with certain British universities and various technology specialists.

### Greenhouse gas emissions

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 188 to 191. The Company has two overseas branches, one in Abu Dhabi and one in Saudi Arabia.

### Directors

Biographies of the Board are given on pages 46 and 47 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. With Alison Wood stepping down from the Board on 28 January 2022, Tony Quinlan assumed the additional responsibilities of senior independent director on 12 January 2022. Jacqueline de Rojas became Remuneration Committee chair on an interim basis from 12 January 2022 to 5 May 2022 when Fiona MacAulay assumed the chairship of the Committee having joined the Board on 6 April 2022. On 9 March 2022, Costain announced that Paul Golby had decided to step down as chair and non-executive director and as announced on 27 September 2022, Kate Rock joined the Board as an independent non-executive director on 1 November 2022. Kate subsequently succeeded Paul as chair of the Board and chair of the Nomination Committee on 1 December 2022 when Paul stepped down from the Board.

Paul Golby was not involved in, nor did he attend meetings in connection with, the search for and appointment of his replacement as chair.

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

## Directors' report continued

### 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 his/her period of office. The office of a director shall also be vacated under a number of situations which are set out in the articles of 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. 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. Bishop 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. All contracts and letters of appointment are available for inspection at the Company's registered office, by appointment, during normal business hours.

### 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 conflict of interest of Tony Quinlan, a director of Hill & Smith Holdings PLC, and of Kate Rock, a director of Keller Group plc, both non-material suppliers to the Company in terms of value of goods and services.

### 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 undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

### 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 2022, are contained in the Directors' Remuneration Report, which appears on pages 86 to 119.

### Directors' indemnity

Costain Group PLC maintains liability insurance for its directors and officers. There are no subsisting indemnities in favour of its directors during 2022.

### 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 64 and 65 and the Nomination Committee Report on page 83. 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 161.

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 staff engagement surveys are run by the Company, the results of which are communicated to employees (see page 69).

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 the staff roadshow, as well as via the employee forum 'Your Voice' (see pages 68 to 71 for engagement with workforce).

The Company operates, when considered appropriate an all-employee share plan (SAYE) enabling employees to become shareholders and build a stake in the future success of the Company. No grants were made under the SAYE in 2022.

### 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 58 to 61 and the Workforce engagement section on pages 68 to 71 of the Governance Report.

Additionally, the Company engages with subcontractors via the twice-yearly safety, health and environment impact days, an annual supply chain conference and monthly leadership engagement visits to projects and sites.

### 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, 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 pages 192 and 193. There have been no other related party transactions during the year.

### Disclosure of information to auditor

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

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

By Order of the Board



**Nicole Geoghegan**  
Company Secretary

13 March 2023

## Directors' responsibility statement

### Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report 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 and the Parent Company financial statements in accordance with UK-adopted international accounting standards.

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 Parent 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, 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 Parent Company will continue in business.

The directors are responsible for safeguarding the assets of the Group and Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent 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 Parent 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

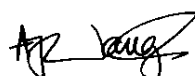
The directors consider that the Annual Report and Accounts and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Parent Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Governance section confirm that, to the best of their knowledge:

- the Group and Parent Company's financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company, and of the loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

**Kate Rock**  
Chair



**Alex Vaughan**

Chief Executive Officer  
13 March 2023



# 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 2022 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- 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 2022; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Company 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 Audit 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 the Audit Committee Report and note 5 to the financial statements, 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)
- Valuation of defined benefit pension scheme obligations and pension assets (Group)
- Carrying value of investments in Group companies and recoverability of amounts owed by subsidiaries (Parent Company)

#### Materiality

- Overall Group materiality: £5,600,000 (2021: £4,500,000) based on 0.4% of the Group's revenue.
- Overall Company materiality: £2,200,000 (2021: £3,000,000) based on 1% of total assets.
- Performance materiality: £4,200,000 (2021: £3,375,000) (Group) and £1,650,000 (2021: £2,250,000) (Parent Company).

## 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 key audit matters below are consistent with last year with the exception of a new KAM being included in relation to a water contract rectification provision and the related insurance recovery. In addition, the carrying value of investments in Group companies and recoverability of amounts owed by subsidiaries has been included as a separate KAM. In the prior year, this was included within the impairment of goodwill KAM.

Key audit matter	How our audit addressed the key audit matter
<p><b>Contract Accounting (Group)</b></p> <p>Refer to page 78 (Audit Committee Report), pages 153 to 155, note 2 (Summary of significant accounting policies and significant areas of judgement and estimation).</p> <p>The Group has significant long-term contracts in its Transportation and Natural Resources businesses. The recognition of revenue in relation to construction contracts is in accordance with IFRS 15 and is based on either the stage of completion of contract activity or as costs are incurred for cost plus contracts.</p> <p>Profit or losses on 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>The Group operates in an industry in which contracts allow a route to recovery that may be disputed or become subject to contract resolution procedures. The settlement process can be time consuming and can result in an outcome that varies from the amount claimed. These contract issues may exist in the supply chain, or with customers.</p> <p>Estimates include the expected recovery of costs arising from the following: 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>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 contracts for our testing, based on both quantitative and qualitative criteria, including:</p> <ul style="list-style-type: none"> <li>• contracts with high levels of revenue recognised in the year;</li> <li>• low margin or loss making contracts;</li> <li>• contracts with significant balance sheet exposure; and</li> <li>• contracts identified through our discussions with management, review of Board minutes, review of legal reports and review of publicly available information.</li> </ul> <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"> <li>• 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;</li> <li>• 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, to determine the basis on which the associated revenue was considered to be 'highly probable' of not reversing;</li> <li>• 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;</li> <li>• Substantively testing a sample of actual costs incurred to date to check that these had been recorded accurately;</li> <li>• Performing a margin analysis on the end-of-life forecasts to assess the performance of the contract portfolios year on year;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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 industry knowledge and experience to challenge the completeness and accuracy of the forecast costs to complete, including any cost contingencies held;</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p>On the basis of the significant estimates, judgements and inherent uncertainty involved in determining the appropriate revenue recognition and associated profit, we have identified Contract Accounting as a Key Audit Matter and are particularly focussed on the existence / occurrence and accuracy of revenue recognition.</p>	<ul style="list-style-type: none"> <li>Assessing the recoverability of balance sheet items by comparing these to external certification of the value of work performed and subsequent cash receipts;</li> <li>For the residual contract population ("the tail"), performing targeted risk based procedures including, for example testing cost to come, material unagreed change, reviewing the contract forecast report for unusual items and recalculating the percentage of completion;</li> <li>Assessing the potential impact of other identified risks including the impact of current economic, inflation and climate change related costs on the costs incurred and cost to complete; and</li> <li>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.</li> </ul> <p>Based on all of the evidence obtained in the above procedures, we concluded on the appropriateness of the recognition of contract revenues and profits / losses and of the amounts held as contract assets and liabilities. Given the degree of estimation, we also reviewed the disclosures around significant ongoing contracts included in note 2 to the financial statements.</p>
<p><b>Water contract rectification provision and insurance recovery (Group)</b></p> <p>Refer to page 78 (Audit Committee Report), pages 153 to 155, note 2 (Significant areas of judgement and estimation), and page 180 note 20 – Provisions.</p> <p>At 31 December 2022 the Group held a provision of £12.2m (2021: £6.2m) in respect of the estimated future costs 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 most likely rectification solution which has a total estimated cost of £17.0m. Costs of £4.8m have been incurred to the balance sheet date. In addition, an insurance receivable of £13.4m has been recognised at the balance sheet date.</p> <p>Forecasting the cost of the rectification works required to remediate the water treatment plant requires estimation uncertainty in relation to the quantum of provision to be recognised.</p> <p>In addition, in accordance with accounting standards, an insurance recovery should only be recognised to the extent it is virtually certain.</p> <p>As at 31 December 2022, Costain's insurers have confirmed that insurance cover is available for the costs which Costain is legally liable to pay in undertaking rectification works to bring the facility to the required standard. As a result, an insurance recovery asset of £13.4m has been recognised. In the prior year the expected insurance recovery did not meet the virtually certain threshold, and accordingly no reimbursement asset was recognised.</p> <p>Whilst the provision represents management's best estimate of the cost of rectifying the plant, agreement as to the final solution has yet to be concluded, such that cost estimates can not yet be finalised. It is, therefore, reasonably foreseeable that adjustments to the amounts recognised as a provision may be required.</p> <p>However, given the close 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 net impact to the Group's financial position.</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><b>Rectification provision</b></p> <ul style="list-style-type: none"> <li>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;</li> <li>Challenging management to ensure an appropriate provision has been recognised for the required rectification works, including understanding the basis for the quantum recognised;</li> <li>Understanding the range of potential solutions available and the rationale for the most likely solution identified which has been used by management as the basis for quantifying the provision;</li> <li>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;</li> <li>Reviewing correspondence between the customer, designer, management and other relevant parties; and</li> <li>Reviewing the disclosures included in the financial statements, including those related to estimation uncertainty required by IAS 1 and those required by IAS 37. These disclosures were considered particularly important given the inherent estimation uncertainty involved in arriving at the quantum of provision recorded.</li> </ul> <p><b>Insurance recovery</b></p> <p>Accounting standards require that an insurance recovery be recognised only to the extent that it can be considered virtually certain.</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"> <li>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 claim by insurers;</li> <li>Obtaining evidence that the levels of insurance cover available were sufficient to cover the expected costs of rectification;</li> <li>Obtaining evidence of an interim payment made by insurers pre year-end and agreeing the receipt of cash to Costain's bank account;</li> <li>Obtaining evidence of the insurers' loss adjuster's recommendation as to the level of insurance reserve to be held by insurers;</li> <li>Verifying the computation of the insurance excess deductible and understanding the insurance agreement's terms and conditions;</li> <li>Meeting with a representative of the insurers' loss adjuster to confirm he was not aware of any facts or foreseeable circumstances that might result in insurers not settling the value of the claim as anticipated;</li> <li>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</li> <li>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.</li> </ul> <p>Based on our work we considered that management's accounting treatment and related disclosures 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><b>Impairment of goodwill (Group)</b></p> <p>Refer to page 79 (Audit Committee Report), pages 153 and 155, note 2 (Significant areas of judgement and estimation), and pages 165-166 note 12 – Intangible Assets.</p> <p>At 31 December 2022 the Group had £45.1m of goodwill (2021: £45.1m). Goodwill has been allocated to the applicable cash generating units of the Transportation segment £15.5m (2021: £15.5m) and the Natural Resources segment £29.6m (2021: £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. Changes in these 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 business may not be supportable when compared to its recoverable amount, given an impairment of £9.0m was booked in the 2020 financial statements and the current headroom, whilst increased from the prior year, had been calculated as £31.3m in the Directors impairment assessment. Accordingly, we determined this to be a Key Audit Matter.</p> <p>There was sufficient headroom to support the carrying value of goodwill in the Transportation business.</p>	<p>We obtained the directors' future cash flow forecasts, which were prepared to a sufficiently detailed level. We evaluated management's basis for determining the relevant CGUs as Transportation and Natural Resources. In evaluating the Directors' impairment assessment for goodwill in respect of the Natural Resources CGU our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Comparing the short term cash flow forecasts to the latest Board approved budgets and forecasts from FY23–FY26, testing the integrity of the underlying calculations and assessing how both internal and external drivers of performance were incorporated into the projections;</li> <li>• Comparing the 2022 financial performance to budget and understanding the drivers of the projected improvements in profitability and of working capital movements;</li> <li>• Assessing and where appropriate, challenging, the discount rate and long term growth rates, with the support of our valuations experts;</li> <li>• Testing certain contracts in the Group's pipeline to provide evidence of the associated secured and to be obtained revenue forecast in the cash flow model and challenging the short term growth forecasts assumed by management;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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; and</li> <li>• Ensuring that reasonably possible changes in assumptions were appropriately disclosed in accordance with IAS 36, 'Impairment of Assets'.</li> </ul> <p>We concluded that management's assessment that no impairment was required in respect of the Natural Resources Goodwill was supportable.</p>
<p><b>Valuation of defined benefit pension scheme obligations (Group)</b></p> <p>Refer to page 78 (Audit Committee Report), pages 153 and 155, note 2 (Significant areas of judgement and estimation), and pages 182-185 note 21 – Employee Benefits. The Group has significant retirement benefit obligations.</p> <p>At 31 December 2022 the present value of these obligations was £527.0m (2021: £837.5m) offset by plan assets at fair value of £587.2m (2021: £904.6m) in respect of funded schemes. Therefore, a net pension asset of £60.3m (2021: £67.1m) has been recognised on the Group's balance sheet. These retirement benefit obligations were determined based on a number of actuarial assumptions and calculations, which were subject to significant judgement and estimate. Changes in these assumptions can have a material impact on the quantum of obligations recorded in the Consolidated statement of financial position.</p> <p>In view of the materiality of both the defined benefit obligations and the related pension assets and the sensitivity to small changes in valuation assumptions, we focussed on these as a Key Audit Matter.</p>	<p>We obtained the actuarial valuation at 31 December 2022 and tested the valuation of the pension liabilities as follows:</p> <ul style="list-style-type: none"> <li>• challenged with the support of our pension experts the actuarial assumptions by comparing them against benchmark ranges based on the market conditions and expectations at 31 December 2022. Based on our review of the assumptions, in each case we found that the actuarial assumptions used were reasonable and within our acceptable range and, where appropriate, were applied on a basis consistent with previous years;</li> <li>• agreed the underlying census data to supporting documents to confirm completeness and accuracy;</li> <li>• confirmed the pension assets held by the schemes with the third-party custodians and fund managers. We also performed an independent assessment, of the asset valuations with the support of valuation experts; and</li> <li>• reviewed the scheme rules and legal advice previously obtained by the Group to confirm that no asset restrictions applied to the scheme.</li> </ul> <p>We did not identify any issues within our testing and were satisfied the assumptions applied are within an appropriate range. We are satisfied that the recognition of a pension asset is appropriate in accordance with IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.</p>
<p><b>Carrying value of investments in Group companies and recoverability of amounts owed by subsidiaries (Parent Company)</b></p> <p>The Company holds an investment in subsidiaries of £153.4m (2021: £152.3m) and amounts owed by subsidiary undertakings of £69.4m (2021: £71.9m) as disclosed in note 16.</p> <p>We have focussed on this area due to the magnitude of the investments balance in, and the amounts owed by, subsidiary undertakings, when for example compared to the Group's market capitalisation (which remains below the carrying value of the investments in subsidiaries).</p> <p>The Directors assessment of the carrying value of the investment in its subsidiaries was that no impairment was required. Similarly, all amounts owed by subsidiary undertakings were assessed as being recoverable.</p>	<p>In evaluating the Directors assessment of the carrying value of investments and amounts owed by subsidiary undertakings, our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Assessing the accounting policy for investments in, and amounts due from, subsidiaries to ensure they were compliant with IFRS;</li> <li>• Verifying that the aggregate current assets of subsidiary undertakings were sufficient to support amounts owed by subsidiary undertakings and / or whether, in accordance with IFRS 9, an expected credit loss was required; and</li> <li>• Obtaining management's impairment assessment for the recoverability of investments in subsidiary undertakings and assessing the conclusions reached by management.</li> </ul> <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 future cash flow forecasts. We were also satisfied that no provision was required in respect of amounts owed by subsidiary undertakings.</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 of such balances, either due to their size or their risk characteristics. In total, our scope accounted for 97% (2021: 97%) of Group revenues and 99% (2021: 88%) 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 of long-term contract accounting and impairment analyses. 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 – Parent Company
<b>Overall materiality</b>	£5,600,000 (2021: £4,500,000).	£2,200,000 (2021: £3,000,000).
<b>How we determined it</b>	0.4% of the Group's revenue	1% of total assets
<b>Rationale for benchmark applied</b>	We considered different benchmarks based on a number of profit measures and revenue, taking into account the fluctuating 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 £5.6m was appropriate, which represents approximately 0.4% of the Group's revenue.	The Parent Company primarily holds intercompany receivables, investments in subsidiaries and debt. 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 £2.5 million and £5.0 million. 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% (2021: 75%) of overall materiality, amounting to £4,200,000 (2021: £3,375,000) for the Group financial statements and £1,650,000 (2021: £2,250,000) 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 Audit Committee that we would report to them misstatements identified during our audit above £280,000 (Group audit) (2021: £250,000) and £110,000 (Company audit) (2021: £200,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Independent auditors' report to the members of Costain Group PLC continued

### 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 2022 financial position and its banking and related facilities which were amended and extended in November 2022;
- 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 (e.g. by comparing forecast sales 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.

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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 2022 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 Audit 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.

## Independent auditors' report to the members of Costain Group PLC continued

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities 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 and construction laws, 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 Companies Act 2006, tax legislation and the Listing Rules. 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;
- Review of the financial statement disclosures to underlying supporting documentation;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- 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, descriptions or posted 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](http://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; or
- a corporate governance statement has not been prepared by the Company.

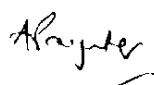
We have no exceptions to report arising from this responsibility.

#### **Appointment**

Following the recommendation of the Audit 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 six years, covering the years ended 31 December 2017 to 31 December 2022.

#### **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

13 March 2023

## Consolidated Income Statement

Year ended 31 December 2022

	Note(s)	2022 £m	2021 £m
<b>Continuing operations</b>			
<b>Revenue</b>		<b>1,421.4</b>	1,135.2
Cost of sales		(1,328.7)	(1,095.0)
Gross profit		<b>92.7</b>	40.2
Administrative expenses		(57.8)	(49.7)
<b>Operating profit/(loss)</b>		<b>34.9</b>	(9.5)
Share of results of joint ventures and associates	14	–	–
<b>Profit/(loss) from operations</b>	4/5	<b>34.9</b>	(9.5)
Finance income	8	<b>1.8</b>	0.1
Finance expense	8	(3.9)	(3.9)
Net finance expense		(2.1)	(3.8)
<b>Profit/(loss) before tax</b>	4/5	<b>32.8</b>	(13.3)
Taxation	9	(6.9)	7.5
<b>Profit/(loss) for the year attributable to equity holders of the Parent</b>		<b>25.9</b>	(5.8)
<b>Earnings/(loss) per share</b>			
Basic	10	<b>9.4p</b>	(2.1)p
Diluted	10	<b>9.4p</b>	(2.1)p

The Consolidated Income Statement shows the income and expenses from continuing operations.

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

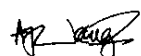
	2022 £m	2021 £m
<b>Profit/(loss) for the year</b>	<b>25.9</b>	<b>(5.8)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Cash flow hedges:		
Effective portion of changes in fair value during year	–	0.3
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>–</b>	<b>0.3</b>
<b>Items that will not be reclassified to profit or loss:</b>		
Remeasurement of retirement benefit asset	(18.7)	62.7
Tax recognised on remeasurement of retirement benefit asset	3.9	(15.6)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(14.8)</b>	<b>47.1</b>
<b>Other comprehensive (expense)/income for the year</b>	<b>(14.8)</b>	<b>47.4</b>
<b>Total comprehensive income for the year attributable to equity holders of the Parent</b>	<b>11.1</b>	<b>41.6</b>

## Consolidated Statement of Financial Position

As at 31 December 2022

	Note	2022 £m	2021 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	52.2	52.5
Property, plant and equipment	13	26.6	32.0
Equity accounted investments	14	0.4	0.4
Retirement benefit asset	21	60.2	67.1
Trade and other receivables	16	3.5	5.5
Insurance recovery asset	20	4.0	–
Deferred tax	9	14.5	15.4
<b>Total non-current assets</b>		<b>161.4</b>	<b>172.9</b>
<b>Current assets</b>			
Inventories		0.2	0.3
Trade and other receivables	16	187.4	199.6
Insurance recovery asset	20	9.4	–
Taxation	9	–	0.2
Cash and cash equivalents	17	123.8	159.4
<b>Total current assets</b>		<b>320.8</b>	<b>359.5</b>
<b>Total assets</b>		<b>482.2</b>	<b>532.4</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other payables	19	1.1	1.8
Interest-bearing loans and borrowings	17	–	32.0
Lease liabilities	13	15.0	18.2
Provisions for other liabilities and charges	20	3.7	–
<b>Total non-current liabilities</b>		<b>19.8</b>	<b>52.0</b>
<b>Current liabilities</b>			
Trade and other payables	19	232.5	215.1
Taxation	9	0.2	–
Interest-bearing loans and borrowings	17	–	7.4
Lease liabilities	13	9.1	8.6
Provisions for other liabilities and charges	20	9.4	50.3
<b>Total current liabilities</b>		<b>251.2</b>	<b>281.4</b>
<b>Total liabilities</b>		<b>271.0</b>	<b>333.4</b>
<b>Net assets</b>		<b>211.2</b>	<b>199.0</b>
<b>Equity</b>			
Share capital	22	137.5	137.5
Share premium		16.4	16.4
Translation reserve		0.6	0.6
Hedging reserve		–	–
Retained earnings		56.7	44.5
<b>Total equity</b>		<b>211.2</b>	<b>199.0</b>

The financial statements on pages 136 to 193 were approved by the Board of directors on 13 March 2023 and were signed on its behalf by:



**A Vaughan**  
Director



**H Willis**  
Director

Registered number: 1393773

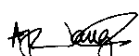
## Company Statement of Financial Position

As at 31 December 2022

	Note	2022 £m	2021 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	14	153.4	152.3
Deferred tax	9	–	1.0
<b>Total non-current assets</b>		<b>153.4</b>	<b>153.3</b>
<b>Current assets</b>			
Trade and other receivables	16	70.3	71.9
Cash and cash equivalents	17	0.1	75.0
<b>Total current assets</b>		<b>70.4</b>	<b>146.9</b>
<b>Total assets</b>		<b>223.8</b>	<b>300.2</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	17	–	32.0
Provisions for other liabilities and charges	20	0.7	0.7
<b>Total non-current liabilities</b>		<b>0.7</b>	<b>32.7</b>
<b>Current liabilities</b>			
Trade and other payables	19	27.4	27.3
Taxation	9	1.2	1.6
Interest-bearing loans and borrowings	17	–	7.4
Provisions for other liabilities and charges	20	0.1	40.0
<b>Total current liabilities</b>		<b>28.7</b>	<b>76.3</b>
<b>Total liabilities</b>		<b>29.4</b>	<b>109.0</b>
<b>Net assets</b>		<b>194.4</b>	<b>191.2</b>
<b>Equity</b>			
Share capital	22	137.5	137.5
Share premium		16.4	16.4
Hedging reserve		–	–
Retained earnings		40.5	37.3
<b>Total equity</b>		<b>194.4</b>	<b>191.2</b>

The profit for the year was £2.1 million (2021: loss of £39.4 million).

The financial statements on pages 136 to 193 were approved by the Board of directors on 13 March 2023 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 2022

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2021	137.5	16.4	0.6	(0.3)	2.3	156.5
Loss for the year	—	—	—	—	(5.8)	(5.8)
Other comprehensive income	—	—	—	0.3	47.1	47.4
Shares purchased to satisfy employee share schemes	—	—	—	—	(0.2)	(0.2)
Equity-settled share-based payments	—	—	—	—	1.1	1.1
<b>At 31 December 2021</b>	<b>137.5</b>	<b>16.4</b>	<b>0.6</b>	<b>—</b>	<b>44.5</b>	<b>199.0</b>
At 1 January 2022	<b>137.5</b>	<b>16.4</b>	<b>0.6</b>	<b>—</b>	<b>44.5</b>	<b>199.0</b>
Profit for the year	—	—	—	—	<b>25.9</b>	<b>25.9</b>
Other comprehensive expense	—	—	—	—	<b>(14.8)</b>	<b>(14.8)</b>
Equity-settled share-based payments	—	—	—	—	<b>1.1</b>	<b>1.1</b>
<b>At 31 December 2022</b>	<b>137.5</b>	<b>16.4</b>	<b>0.6</b>	<b>—</b>	<b>56.7</b>	<b>211.2</b>

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.

### Hedging reserve

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

## Company Statement of Changes in Equity

Year ended 31 December 2022

	Share capital £m	Share premium £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2021	137.5	16.4	(0.3)	75.6	229.2
Total comprehensive income/(expense)	–	–	0.3	(39.4)	(39.1)
Equity-settled share-based payments granted to employees of subsidiaries	–	–	–	1.1	1.1
<b>At 31 December 2021</b>	<b>137.5</b>	<b>16.4</b>	<b>–</b>	<b>37.3</b>	<b>191.2</b>
At 1 January 2022	<b>137.5</b>	<b>16.4</b>	<b>–</b>	<b>37.3</b>	<b>191.2</b>
Total comprehensive income	–	–	–	<b>2.1</b>	<b>2.1</b>
Equity-settled share-based payments granted to employees of subsidiaries	–	–	–	<b>1.1</b>	<b>1.1</b>
<b>At 31 December 2022</b>	<b>137.5</b>	<b>16.4</b>	<b>–</b>	<b>40.5</b>	<b>194.4</b>

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

### 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.

### Hedging reserve

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

## Consolidated Cash Flow Statement

Year ended 31 December 2022

	Note(s)	2022 £m	2021 £m
<b>Cash flows from/(used by) operating activities</b>			
<b>Profit/(loss) for the year</b>		<b>25.9</b>	(5.8)
Adjustments for:			
Finance income	8	(1.8)	(0.1)
Finance expense	8	3.9	3.9
Taxation	9	6.9	(7.5)
Profit on disposals of property, plant and equipment		(1.8)	–
Impairment of investment in joint venture	14	6.5	–
Depreciation and impairment of property, plant and equipment	5/13	11.3	12.9
Amortisation of intangible assets	5/12	0.6	1.1
Shares purchased to satisfy employee share schemes		–	(0.2)
Share-based payments expense	6/21	1.1	1.1
<b>Cash from operations before changes in working capital and provisions</b>		<b>52.6</b>	5.4
Decrease in inventories		0.1	0.3
(Increase)/decrease in receivables		(2.9)	17.7
Increase/(decrease) in payables		15.9	(29.9)
Movement in provisions and employee benefits		(49.0)	39.7
<b>Cash from operations</b>		<b>16.7</b>	33.2
Interest received		1.8	0.1
Interest paid		(3.9)	(3.9)
Taxation (paid)/received		(0.5)	0.1
<b>Net cash from operating activities</b>		<b>14.1</b>	29.5
<b>Cash flows from/(used by) investing activities</b>			
Additions to property, plant and equipment	13	(0.2)	(0.7)
Additions to intangible assets	12	(0.3)	(1.5)
Proceeds on disposals of property, plant and equipment		2.6	–
Addition to cost of investment in joint venture	14	(3.4)	–
<b>Net cash used by investing activities</b>		<b>(1.3)</b>	(2.2)
<b>Cash flows from/(used by) financing activities</b>			
Repayments of lease liabilities - principal	18	(8.4)	(10.8)
Repayment of loans	17	(40.0)	(8.0)
<b>Net cash used by financing activities</b>		<b>(48.4)</b>	(18.8)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(35.6)</b>	8.5
Cash and cash equivalents at beginning of the year	17	159.4	150.9
<b>Cash and cash equivalents at end of the year</b>	17	<b>123.8</b>	159.4



## Company Cash Flow Statement

Year ended 31 December 2022

	Note	2022 £m	2021 £m
<b>Cash flows from/(used by) operating activities</b>			
<b>Profit/(loss) for the year</b>		<b>2.1</b>	<b>(39.4)</b>
Adjustments for:			
Finance income		<b>(3.6)</b>	<b>(2.7)</b>
Finance expense		<b>2.9</b>	<b>3.2</b>
Taxation		<b>0.6</b>	<b>(0.4)</b>
<b>Cash from/(used by) operations before changes in working capital and provisions</b>		<b>2.0</b>	<b>(39.3)</b>
Decrease in receivables		<b>2.2</b>	<b>63.9</b>
Increase/(decrease) in payables		<b>0.1</b>	<b>(0.6)</b>
Movement in provisions		<b>(39.9)</b>	<b>39.9</b>
<b>Cash (used by)/from operations</b>		<b>(35.6)</b>	<b>63.9</b>
Interest received		<b>2.6</b>	<b>1.7</b>
Interest paid		<b>(2.9)</b>	<b>(3.2)</b>
Taxation paid		<b>–</b>	<b>(0.5)</b>
<b>Net cash (used by)/cash from operating activities</b>		<b>(35.9)</b>	<b>61.9</b>
<b>Cash flows from/(used by) investing activities</b>			
Dividends received		<b>1.0</b>	<b>1.0</b>
<b>Net cash from investing activities</b>		<b>1.0</b>	<b>1.0</b>
<b>Cash flows from/(used by) financing activities</b>			
Issue of ordinary share capital	22	<b>–</b>	<b>–</b>
Repayment of loans	17	<b>(40.0)</b>	<b>(8.0)</b>
<b>Net cash used by financing activities</b>		<b>(40.0)</b>	<b>(8.0)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(74.9)</b>	<b>54.9</b>
Cash and cash equivalents at beginning of the year	17	<b>75.0</b>	<b>20.1</b>
<b>Cash and cash equivalents at end of the year</b>	17	<b>0.1</b>	<b>75.0</b>

## 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 195 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 2022 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 13 March 2023.

### 2 Summary of significant accounting policies

#### Basis of preparation

Both the Company financial statements and 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. 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 we performed an assessment of the impact of climate change, with reference to the disclosures made in the Strategic report. There has been no material impact on the financial statements 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 financial statements in conformity with UK-adopted international accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of 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 in the application of UK-adopted international accounting standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed later in this note.

#### Going concern

The Group's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position, borrowing and bonding facilities, use of financial instruments and hedging activities, exposure to credit risk and its objectives, policies and processes for managing its capital and financial risk are described in the 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 November 2022, the Group successfully concluded its negotiations with its bank and surety facility providers to secure a one year "amend and extend" of its borrowing facilities. These borrowing facilities give the Group access to an RCF cash drawdown component of £125.0m with a maturity date of 24 September 2024.

These facilities have a leverage covenant of net debt/EBITDA  $\leq 1.5$  times, an interest covenant of EBITA/net interest payable covenant of  $\geq 4.0$  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 £50.0m. These financial covenants are tested quarterly. As at 31 December 2022, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 16.1 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 £30.0m bank bonding and £250.0m surety company bonding facilities.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2022, the directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group and the Company have adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis in the preparation of the financial statements.

In assessing the going concern assumption, the Board reviewed the Group's base case plans for the period to 30 June 2024, being the first covenant deadline more than 12 months after the approval of the financial statements. 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 directors have assessed that the Group will either renew the facility thereafter or agree an alternative source of finance for the subsequent period. 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 will be able to operate within its available banking facilities and covenants throughout this period. Covenants are calculated on a rolling 12-month basis each quarter and therefore for all quarters until Q4 of FY23, and Q1 of FY24, a portion of the EBITDA/EBITA has already been earned, reducing the risk of a potential breach. Taking this into account along with the forecasts reviewed, it is considered that the EBITA/net interest covenant for the rolling 12 months to Q4 of FY23 and Q1 to Q2 of FY24 is the potential limiting factor, given the Group's strong net cash position. The Board concluded that there is sufficient liquidity headroom in the severe but plausible downside scenario, as well as headroom on the committed facilities and on the associated financial covenants.

#### **New and amended standards adopted by the Group**

The accounting policies set out below 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 2022:

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16;
- Reference to the Conceptual Framework – Amendments to IFRS 3; and
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37.

The Group also elected to adopt the following amendments early:

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.

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 2022 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.

## Notes to the Financial Statements continued

### 2 Summary of significant accounting policies continued

#### New and amended standards adopted by the Group continued

IFRS 17 'Insurance contracts' becomes 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 (e.g. 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, if any, will be immaterial to the financial statements.

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 is in the process of reviewing its accounting treatment for these contracts but, given the nature of the guarantees issued, does not expect a material impact to the financial statements.

#### 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, then the Group entity involved records the assets it controls, the liabilities and expenses it incurs and its share of income. Such joint operations are reported in the consolidated financial statements on the same basis. Transactions between Group companies and joint operations eliminate on consolidation.
- (f) Intra-Group balances and transactions together with any unrealised gains arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates, joint ventures and joint operations are eliminated to the extent of the interest in the entity or operation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### Currency translation

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

The assets and liabilities of 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 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. Where the consideration is variable, the amount recognised is highly probable not to suffer a significant reversal in future.

The principal source of revenue relates to work on the UK's infrastructure across transportation, water and energy. Over 90% arises under long-term contracts, which require delivery of a specified output to the customer, increasingly involving a technology element, with a large element of the works undertaken on the customer's land and perhaps taking a number of years to complete. The majority are structured in a cost reimbursement or target cost form, typically with incentive and penalty arrangements. Generally, the works specified within the contract are integrated and the customer procures the one complete package, which may incorporate design, engineering and advisory work into the scope. Where a contract comprises distinct performance obligations, each is accounted for separately. The scope of the works will often be subject to change and in the majority of contracts, the terms specify that changes are handled through compensation events. These are considered on a case by case basis to determine whether they are a new, separate performance obligation and accounted for as such, or part of the original works and dealt with on a cumulative catch-up basis. On the majority of contracts, the compensation events relate to clarifications or revisions of the original works. Other design, advisory and consulting contracts requiring production of a specified scope or provision of other services, some of which may lead to the construction of the designed product, can be structured as inter-dependant or stand-alone contracts and the resulting performance obligations depend on how the customer procures the contract.

Revenue includes the Group's share of revenue of joint operations.

#### **(a) Long-term contracts**

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

Compensation events, variations and claims, gain from pain/gain arrangements and 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 is included where incurred or expected to be incurred. Revenue in respect of these items is determined on the most likely outcome method. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred, where it is 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 work in progress is stated at cost plus profit recognised to date, including compensation events not yet agreed but considered highly probable, less a provision for foreseeable losses and less amounts billed and is included in contract assets. 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.

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.

#### **(b) Revenue from other services contracts**

Revenue from other services contracts is recognised when the service is provided. The revenue recognised is the amount that can be measured reliably and is highly probable to flow to the Group and not reverse.

## Notes to the Financial Statements continued

### 2 Summary of significant accounting policies continued

#### Revenue from contracts with customers continued

##### (c) Other income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Insurance claims are recognised when they are considered virtually certain.

#### Income statement presentation – Adjusting items

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

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

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

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

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

#### Pre-contract costs

Costs associated with bidding for contracts are written off as incurred.

#### 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. 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 and is amortised 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 as separate items. Cost comprises purchase price and directly attributable costs. Freehold land is not depreciated. For all other property, plant and equipment, depreciation is calculated on a straight-line basis to allocate cost less residual values of the assets over their estimated useful lives as follows:

Freehold buildings	– 50 years
Leasehold buildings	– shorter of 50 years or lease term
Plant and equipment	– 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.

## Notes to the Financial Statements continued

### 2 Summary of significant accounting policies continued

#### 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.

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 lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. 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 considers these to be insurance arrangements under IFRS 4 and accounts for them as such. In this respect, the guarantee contract is treated as a contingent liability until such time as it becomes probable that a payment under the guarantee will be required.

**Share capital**

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

**Dividends**

Dividends are recognised as distributions in the period in which they are declared. Dividends proposed but not declared are not recognised but are disclosed in note 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.

**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 asset 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 it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

## Notes to the Financial Statements continued

### 2 Summary of significant accounting policies continued

#### Financial assets and liabilities continued

##### (a) Financial assets continued

###### 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 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 interest rates and are measured at their fair value as explained in the cash flow hedges section of note 18.

Certain derivative financial instruments are designated as cash flow hedges in line with established risk management policies. These hedge exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any ineffective portion in the income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flow affects the income statement.

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

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

### Fair value measurement

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

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

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

### Significant areas of judgement and estimation

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

The most critical accounting policies and significant areas of estimation and judgement arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers', 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 other items and contract adjustments.

### Long-term contracts

The majority of the Group's activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted 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 period. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims and assessments, for example, of the impact of pain/gain arrangements 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 four material contracts where management has been required to make significant accounting estimates and, which result in estimation uncertainty, as at 31 December 2022. In relation to these contracts, the Group has included estimated recoveries with a combined value of £12.2m, 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 four contracts ranges from a potential upside of £22.6m to a downside of £12.2m.

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.

## Notes to the Financial Statements continued

### 2 Summary of significant accounting policies continued

#### Significant areas of judgement and estimation continued

##### Long-term contracts continued

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, Costain recognised a provision of £6.2m 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. During 2022, working with designers, insurers and the customer, there is now greater clarity as to the scope and cost of rectification work required, albeit a final solution has yet to be formally agreed with all relevant parties.

As at 31 December 2022, the Group's best estimate of the cost of the single most likely rectification solution is £17.0m, of which costs of £4.8m have been incurred. Accordingly a provision of £12.2m has been included in the statement of financial position and disclosed in note 20. The work is expected to be concluded in 2024.

Whilst the cost of rectification work is capable of being estimated, a number of assumptions have had to be made in arriving at the cost estimate. This, combined with the fact that the final design solution has not been finalised, results in there being inherent estimation uncertainty in determining the ultimate cost and associated provision. Management considers that the ultimate cost will fall within a range of  $\pm 30\%$  of the estimated total cost of £17m.

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 made an interim payment on account during 2022. 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 £13.4m has been 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 2021, discussions with insurers were at an early stage and the expected recovery from insurers was not recognised as a receivable on the basis that it could not be considered virtually certain.

##### Peterborough & Huntingdon

On 24 February 2022, Costain announced that it had reached a final settlement with National Grid regarding the Peterborough & Huntingdon contract. The settlement agreement brought an end to the dispute after the contract was mutually terminated in June 2020 and prevents any further claims under the contract. In 2022, Costain made a full and final payment of £43.4m to National Grid (which was fully provided for in 2021) and recognised a £5.2m insurance recovery. Also see note 3.

##### 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 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 five 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 and set out in note 3.

**3 Reconciliation of reported revenue and operating profit/(loss) to adjusted revenue and operating profit**

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

**Peterborough & Huntingdon**

During the year, a £5.2m insurance receipt was recognised in relation to the Peterborough & Huntingdon contract outcome.

In 2021, a £43.4m provision was recognised in relation to the full and final settlement agreed with National Grid. Costain made a full and final payment of £43.4m to National Grid in the first quarter of 2022. Related legal and other costs of £4.2m were also incurred and expensed during the period ended 31 December 2021. These costs were recognised as adjusting items and therefore the related credit has also been treated as such.

**Other items**

During the year, Costain has embarked on a Transformation programme to deliver operational efficiencies. In 2022, the Group incurred £5.0m (2021: £nil) of restructuring costs and £0.7m (2021: £nil) of reorganisation costs.

During the year, 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 this year is also £0.5m. This cost was recognised as an adjusting item and therefore the related profit has also been treated as such.

During the year, the Group fully impaired tunnel boring machines held at net book value of £1.4m which were outmoded and no longer core to operations.

In 2022, the Group incurred £nil (2021: £0.4m) amortisation on acquired intangibles as these are now carried at net book value £nil.

In 2021, the Group also recognised a profit of £8.4m on the A465 Heads of the Valley Road contract as a result of lower costs to complete than forecast at the end of 2020 when a write down to the contract asset was recognised.

## Notes to the Financial Statements continued

## 3 Reconciliation of reported revenue and operating (loss)/profit to adjusted revenue and operating profit continued

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 other items	(56.4)	–	–	(56.4)
Other 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
Share of results of joint ventures and associates	–	–	–	–
Profit/(loss) from operations	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

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

#### 4 Operating segments

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

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

Intersegment sales and transfers are not material.

## Notes to the Financial Statements continued

## 4 Operating segments continued

2022	Natural Resources £m	Transportation £m	Central costs £m	Total £m
<b>Segment revenue</b>				
Adjusted revenue	375.1	1,046.3	–	1,421.4
Contract adjustments	–	–	–	–
Total revenue	375.1	1,046.3	–	1,421.4
<b>Segment profit/(loss)</b>				
Adjusted operating profit/(loss)	15.0	31.5	(10.2)	36.3
Contract adjustments	–	–	–	–
Operating profit/(loss) before other items	15.0	31.5	(10.2)	36.3
Share of results of joint ventures and associates	–	–	–	–
<b>Profit/(loss) from operations before other items</b>	<b>15.0</b>	<b>31.5</b>	<b>(10.2)</b>	<b>36.3</b>
Other 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
<b>Profit/(loss) from operations</b>	<b>19.5</b>	<b>30.1</b>	<b>(14.7)</b>	<b>34.9</b>
Net finance expense				(2.1)
<b>Profit before tax</b>				<b>32.8</b>
Segment profit/(loss) is stated after charging the following:				
Depreciation and impairment	2.4	8.9	–	11.3
Amortisation and impairment	0.1	0.5	–	0.6
<b>Segment assets</b>				
Reportable segment assets	118.7	164.0	1.0	283.7
Unallocated assets:				
Retirement benefit asset				60.2
Deferred tax				14.5
Cash and cash equivalents				123.8
<b>Total assets</b>				<b>482.2</b>
<b>Expenditure on non-current assets</b>				
Property, plant and equipment	3.4	13.6	–	17.0
Intangible assets	–	0.3	–	0.3
<b>Segment liabilities</b>				
Reportable segment liabilities	69.7	157.3	43.8	270.8
Unallocated liabilities:				
Taxation				0.2
<b>Total liabilities</b>				<b>271.0</b>



2021	Natural Resources £m	Transportation £m	Central costs £m	Total £m
<b>Segment revenue</b>				
Adjusted revenue	314.4	864.2	–	1,178.6
Contract adjustments	(43.4)	–	–	(43.4)
Total revenue	271.0	864.2	–	1,135.2
<b>Segment profit/(loss)</b>				
Adjusted operating profit/(loss)	(2.6)	41.4	(8.7)	30.1
Contract adjustments	(47.6)	8.4	–	(39.2)
Operating (loss)/profit before other items	(50.2)	49.8	(8.7)	(9.1)
Share of results of joint ventures and associates	–	–	–	–
<b>(Loss)/profit from operations before other items</b>	<b>(50.2)</b>	<b>49.8</b>	<b>(8.7)</b>	<b>(9.1)</b>
Amortisation of acquired intangible assets	(0.4)	–	–	(0.4)
<b>(Loss)/profit from operations</b>	<b>(50.6)</b>	<b>49.8</b>	<b>(8.7)</b>	<b>(9.5)</b>
Net finance expense				(3.8)
<b>Loss before tax</b>				<b>(13.3)</b>
Segment profit/(loss) is stated after charging the following:				
Depreciation and impairment	3.4	9.5	–	12.9
Amortisation and impairment (including acquired intangible assets)	0.6	0.5	–	1.1
<b>Segment assets</b>				
Reportable segment assets	111.8	178.4	0.1	290.3
Unallocated assets:				
Retirement benefit asset				67.1
Deferred tax				15.4
Taxation				0.2
Cash and cash equivalents				159.4
<b>Total assets</b>				<b>532.4</b>
<b>Expenditure on non-current assets</b>				
Property, plant and equipment	4.3	14.4	–	18.7
Intangible assets	0.7	0.8	–	1.5
<b>Segment liabilities</b>				
Reportable segment liabilities	100.7	183.0	10.3	294.0
Unallocated liabilities:				
Borrowings				39.4
<b>Total liabilities</b>				<b>333.4</b>

## Notes to the Financial Statements continued

### 4 Operating segments continued

#### 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 (2021: all) and all non-current assets are located in the UK (2021: all).

#### Customers accounting for more than 10% of revenue

Two customers (2021: two) in the transportation sector accounted for revenue of £853.0m (2021: £629.0m).

### 5 Other operating expenses and income

	2022 £m	2021 £m
Profit/(loss) before tax is stated after charging:		
Amortisation and impairment of intangible assets (note 12)	0.6	1.1
Depreciation and impairment of property, plant and equipment (note 13)	11.3	12.9
Transformation costs (note 3)	5.7	–
Expenses relating to short-term leases and leases of low value assets	62.4	41.3
and after crediting:		
RDEC grant income	5.5	3.0
P&H insurance recovery (note 3)	5.2	–
Profit on disposal of other investment (notes 3 and 26)	0.5	–

Short-term leases mostly relate to the hiring of plant for operations on construction sites.

#### Auditors' remuneration

	2022 £m	2021 £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 (2021: £0.1m) was paid to the Group's auditors in 2022 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

Group	2022 £m	2021 £m
Wages and salaries	230.4	200.3
Social security costs	26.4	21.4
Other pension costs – defined contribution schemes (note 21)	11.7	10.4
Share-based payments expense (note 21)	1.1	1.1
	<b>269.6</b>	<b>233.2</b>

	2022 Number	2021 Number
<b>Average number of persons employed</b>		
Natural Resources	1,718	1,549
Transportation	1,787	1,741
Central	20	21
	<b>3,525</b>	<b>3,311</b>

Of the above employees one was employed overseas (2021: one).

### Company

The Company does not employ any personnel, except for the directors considered in note 7.

## 7 Remuneration of directors

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

For the purpose of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2022 and 2021 are detailed below.

	2022 £m	2021 £m
Remuneration	1.9	1.2
Post-employment benefits	0.1	–
	<b>2.0</b>	<b>1.2</b>

## 8 Net finance expense

	2022 £m	2021 £m
Interest income from bank deposits	0.5	0.1
Interest income on the net assets of the defined benefit pension scheme (note 21)	1.3	–
Finance income	<b>1.8</b>	<b>0.1</b>
Interest payable on interest bearing bank loans, borrowings and other similar charges	(2.7)	(3.0)
Interest expense on lease liabilities	(1.2)	(0.9)
Finance expense	<b>(3.9)</b>	<b>(3.9)</b>
<b>Net finance expense</b>	<b>(2.1)</b>	<b>(3.8)</b>

Other similar charges includes arrangement and commitment fees payable.

Notes to the Financial Statements *continued*

## 9 Taxation

	2022 £m	2021 £m
<b>On profit/(loss) for the year</b>		
UK corporation tax at 19% (2021: 19%)	(4.6)	–
Adjustment in respect of prior years	0.3	0.1
Current tax (charge)/credit for the year	(4.3)	0.1
Deferred tax (charge)/credit for the current year	(2.5)	8.4
Adjustment in respect of prior years	(0.1)	(1.0)
Deferred tax (charge)/credit for the year	(2.6)	7.4
<b>Tax (charge)/credit in the consolidated income statement</b>	<b>(6.9)</b>	<b>7.5</b>
	2022 £m	2021 £m
<b>Tax reconciliation</b>		
Profit/(loss) before tax	32.8	(13.3)
Taxation at 19% (2021: 19%)	(6.2)	2.5
Amounts qualifying for tax relief and disallowed expenses	(1.0)	(0.3)
Rate adjustment relating to UK deferred taxation	0.1	6.2
Adjustments in respect of prior years	0.2	(0.9)
<b>Tax (charge)/credit in the consolidated income statement</b>	<b>(6.9)</b>	<b>7.5</b>
<b>Effective rate of tax</b>	<b>21.0%</b>	<b>56.4%</b>

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 £0.2m (2021: asset of £0.2m) for the Group and liability of £1.2m (2021: £1.6m) 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.

	2022 £m	2021 £m
<b>Tax in other comprehensive income</b>		
Current tax – Retirement benefit assets	2.2	–
Deferred tax – Retirement benefit assets	1.7	(15.6)
<b>Tax credit/(charge) in other comprehensive income</b>	<b>3.9</b>	<b>(15.6)</b>

	2022 £m	2021 £m
<b>Deferred tax asset recognised</b>		
Accelerated capital allowances	2.1	0.8
Short-term temporary differences	3.2	2.7
Retirement benefit assets	(15.0)	(16.7)
Tax losses	24.2	28.6
<b>Deferred tax asset</b>	<b>14.5</b>	<b>15.4</b>

Deferred tax assets have been calculated at the rate of 25% (2021: 25%) or at 19% where the asset will unwind prior to April 2023.

Deferred tax assets have been recognised in respect of accumulated tax trading losses in the UK of £98.3m (2021: £119.5m). The deferred tax assets include an amount of £24.2m (2021: £28.6m) which relates to these carried forward tax losses. These have been recognised to the extent it is expected that they will be recoverable within five years (2021: six 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 Company has no deferred tax asset (2021: £1.0m) relating to short-term temporary differences.

	2022 £m	2021 £m
<b>Analysis of deferred tax movements</b>		
At 1 January	15.4	23.6
<b>Deferred tax in consolidated income statement</b>		
Accelerated capital allowances	1.3	(0.3)
Short-term temporary differences	0.5	1.2
Retirement benefit assets	–	(2.2)
Tax losses	(4.4)	8.7
	(2.6)	7.4
<b>Deferred tax in other comprehensive income</b>		
Retirement benefit assets	1.7	(15.6)
<b>At 31 December</b>	<b>14.5</b>	<b>15.4</b>

#### Factors that may affect future tax charges

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This rate was substantively enacted on 24th May 2021. Deferred tax balances in these financial statements have been calculated at the rate of 25% or at 19% where the asset will unwind prior to April 2023.

## Notes to the Financial Statements continued

### 9 Taxation continued

#### 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	
	2022 £m	2021 £m	2022 £m	2021 £m
Management expenses and charges incurred by Parent Company	<b>54.7</b>	54.7	<b>54.7</b>	54.7
Capital losses	<b>270.6</b>	270.6	<b>241.0</b>	241.0

The current year tax effect, at 19% or 25% after April 2023, of claiming short-term temporary differences and trading tax losses was £nil (2021: £nil) as shown in the tax reconciliation above.

There are no expiry dates associated with the deferred tax assets not recognised.

### 10 Earnings/(loss) per share

The calculation of earnings/(loss) per share is based on profit of £25.9m (2021: loss of £5.8m) and the number of shares set out below.

	2022 Number (millions)	2021 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	<b>275.0</b>	274.9
Dilutive potential ordinary shares arising from employee share schemes	<b>1.7</b>	5.1
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	<b>276.7</b>	280.0

At 31 December 2022, nil options were excluded from the weighted average number of ordinary shares calculation because they were anti-dilutive (2021: nil options were excluded).

### 11 Dividends

No dividends were paid or recommended in respect of the year ended 31 December 2022. The Board of directors' 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
<b>Cost</b>					
At 1 January 2021	54.1	15.4	9.7	14.4	93.6
Additions	–	–	–	1.5	1.5
At 31 December 2021	54.1	15.4	9.7	15.9	95.1
At 1 January 2022	<b>54.1</b>	<b>15.4</b>	<b>9.7</b>	<b>15.9</b>	<b>95.1</b>
Additions	–	–	–	<b>0.3</b>	<b>0.3</b>
<b>At 31 December 2022</b>	<b>54.1</b>	<b>15.4</b>	<b>9.7</b>	<b>16.2</b>	<b>95.4</b>
<b>Accumulated amortisation and impairment</b>					
At 1 January 2021	9.0	15.0	9.7	7.8	41.5
Charge in year	–	0.4	–	0.7	1.1
At 31 December 2021	9.0	15.4	9.7	8.5	42.6
At 1 January 2022	<b>9.0</b>	<b>15.4</b>	<b>9.7</b>	<b>8.5</b>	<b>42.6</b>
Charge in year	–	–	–	<b>0.6</b>	<b>0.6</b>
<b>At 31 December 2022</b>	<b>9.0</b>	<b>15.4</b>	<b>9.7</b>	<b>9.1</b>	<b>43.2</b>
<b>Net book value</b>					
<b>At 31 December 2022</b>	<b>45.1</b>	<b>–</b>	<b>–</b>	<b>7.1</b>	<b>52.2</b>
At 31 December 2021	45.1	–	–	7.4	52.5
At 1 January 2021	45.1	0.4	–	6.6	52.1

The amortisation charges for the year are included in administration expenses.

Other intangibles includes development expenditure of £6.1m (2021: £6.1m) primarily relating to a project in the rail sector.

Goodwill has been allocated to the applicable cash generating units of the Transportation segment (£15.5m (2021: £15.5m)) and the Natural Resources segment (£29.6m (2021: £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 rate used to discount the forecast cash flows for both the Transportation and Natural Resources CGUs was 15.5%. In 2021, the discount rates used for the two CGUs were Transportation 13.2% and Natural Resources 14.3%.

Notes to the Financial Statements *continued*12 Intangible assets *continued*

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 applicable to each CGU, as follows:

Growth rates	2022 Transportation %	2022 Natural Resources %	2021 Transportation %	2021 Natural Resources %
Year 5	1.5	1.5	1.9	1.9
Long-term average	1.5	1.5	1.9	1.9

At 31 December 2022, based on the internal value in use calculations, management concluded that the recoverable value of the Transportation cash generating unit exceeded its carrying amount with substantial headroom.

At 31 December 2022, based on the internal value in use calculations, which included a sensitivity aligned to a 30% reduction in absolute business unit operating profit, management concluded that the recoverable amount of the Natural Resources cash generating unit exceeded its carrying amount, with headroom of £32.1m. The recoverable amount of the Natural Resources goodwill therefore continues to be subject to further sensitivities and changes in the value in use assessment assumptions would have resulted in the following changes:

- An increase in the discount rate of 1.0% (from 15.5% to 16.5% pre-tax), reduces headroom by £7.9m;
- A decrease in the long-term growth rate of 1.0% (from 1.5% to 0.5%), reduces headroom by £5.8m; and
- A further reduction in CGU operating profit by an additional 20%, on top of the 30% reduction already modelled, reduces headroom by £19.3m.

Based on the above sensitivities the directors consider that there is no reasonable possible change in any key assumption that, in isolation, would result in an impairment of goodwill. However, if the sensitivities modelled above were to occur in combination, this would give rise to an impairment.



## 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	
<b>Cost</b>					
At 1 January 2021	0.6	27.0	20.5	30.3	78.4
Additions	–	0.7	1.0	17.0	18.7
Disposals	–	(0.7)	(1.4)	(17.9)	(26.0)
At 31 December 2021	0.6	27.0	14.1	29.4	71.1
At 1 January 2022	<b>0.6</b>	<b>27.0</b>	<b>14.1</b>	<b>29.4</b>	<b>71.1</b>
Additions	–	<b>0.2</b>	<b>0.7</b>	<b>16.1</b>	<b>17.0</b>
Disposals	<b>(0.6)</b>	<b>(2.6)</b>	<b>(1.4)</b>	<b>(14.2)</b>	<b>(18.8)</b>
<b>At 31 December 2022</b>	<b>–</b>	<b>24.6</b>	<b>13.4</b>	<b>31.3</b>	<b>69.3</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2021	0.6	19.8	8.4	9.7	38.5
Charge in year	–	2.5	3.3	7.1	12.9
Disposals	–	(0.7)	(5.6)	(6.0)	(12.3)
At 31 December 2021	0.6	21.6	6.1	10.8	39.1
At 1 January 2022	<b>0.6</b>	<b>21.6</b>	<b>6.1</b>	<b>10.8</b>	<b>39.1</b>
Charge in year	–	<b>2.9</b>	<b>2.1</b>	<b>4.9</b>	<b>9.9</b>
Impairment in year	–	<b>1.4</b>	–	–	<b>1.4</b>
Disposals	<b>(0.6)</b>	<b>(2.6)</b>	<b>(0.6)</b>	<b>(3.9)</b>	<b>(7.7)</b>
<b>At 31 December 2022</b>	<b>–</b>	<b>23.3</b>	<b>7.6</b>	<b>11.8</b>	<b>42.7</b>
<b>Net book value</b>					
<b>At 31 December 2022</b>	<b>–</b>	<b>1.3</b>	<b>5.8</b>	<b>19.5</b>	<b>26.6</b>
At 31 December 2021	–	5.4	8.0	18.6	32.0
At 1 January 2021	–	7.2	12.1	20.6	39.9

The depreciation charges for the year are included in administration expenses.

**Leased assets**

Other amounts recognised in the income statement:

	2022 £m	2021 £m
Interest expense (included in finance expense)	<b>1.2</b>	0.9
Expense relating to short-term leases (included in cost of sales and administrative expenses)	<b>62.4</b>	41.3

The lease liabilities relating to these right-of-use assets are as follows:

	2022 £m	2021 £m
Current	<b>9.1</b>	8.6
Non-current	<b>15.0</b>	18.2
	<b>24.1</b>	26.8

## Notes to the Financial Statements continued

## 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 2022. 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
<b>Cost</b>	
At 1 January 2021	14.4
At 31 December 2021	14.4
At 1 January 2022	14.4
Additions	6.5
<b>At 31 December 2022</b>	<b>20.9</b>
<b>Share of post-acquisition reserves</b>	
At 1 January 2021	(14.0)
At 31 December 2021	(14.0)
At 1 January 2022	(14.0)
<b>At 31 December 2022</b>	<b>(14.0)</b>
<b>Impairment</b>	
At 1 January 2021	–
At 31 December 2021	–
At 1 January 2022	–
Impairment in year	(6.5)
<b>At 31 December 2022</b>	<b>(6.5)</b>
<b>Net book value</b>	
<b>At 31 December 2022</b>	<b>0.4</b>
At 31 December 2021	0.4
At 1 January 2021	0.4

During the year, 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 does not expect to recover this equity investment and accordingly has booked an impairment charge of £6.5m. This charge has been offset against a corresponding payable previously held in respect of these joint venture losses, in accordance with IAS 28 paragraph 39. Therefore, there has been no net impact on the consolidated income statement in the year.

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

	2022	2021
	Joint ventures £m	Joint ventures £m
Revenue	(0.8)	(4.1)
Profit before tax	–	–
Taxation	–	–
Profit for the year	–	–
Non-current assets	–	–
Trade and other receivables	6.1	6.0
Cash and cash equivalents	(0.1)	(0.1)
Trade and other payables – current	(5.6)	(5.5)
Non-current liabilities	–	–
Investments in joint ventures and associates	0.4	0.4
Dividends received by Group	–	–

Net interest payable by joint ventures in 2022 was £nil (2021: £nil). There was no (2021: 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 (2021: none).

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

	2022	2021
	Joint ventures £m	Joint ventures £m
Revenue	(1.9)	(12.1)
Profit before tax	–	–
Taxation	–	–
Profit for the year	–	–
Non-current assets	–	–
Trade and other receivables	17.4	17.3
Cash and cash equivalents	(0.3)	(0.3)
Trade and other payables – current	(16.1)	(16.1)
Non-current liabilities	–	–
Equity	1.0	0.9

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

## Notes to the Financial Statements continued

14 Investments in subsidiaries, equity accounted joint ventures and associates continued  
Company

Investments in subsidiaries	£m
<b>Cost</b>	
At 1 January 2021	424.9
Additions	1.1
At 31 December 2021	426.0
At 1 January 2022	<b>426.0</b>
Additions	<b>1.1</b>
<b>At 31 December 2022</b>	<b>427.1</b>
<b>Amounts written off</b>	
At 1 January 2021	(273.7)
<b>At 31 December 2021</b>	(273.7)
At 1 January 2022	<b>(273.7)</b>
<b>At 31 December 2022</b>	<b>(273.7)</b>
<b>Net book value</b>	
<b>At 31 December 2022</b>	<b>153.4</b>
At 31 December 2021	152.3
At 1 January 2021	151.2

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 (£1.1m (2021: £1.1m)).

Details of the subsidiaries in which the Company has an interest 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:

	2022 £m	2021 £m
Contract assets	<b>50.8</b>	39.9
Non-current assets recognised relating to customer retentions	<b>3.4</b>	5.5
Contract liabilities	<b>(1.4)</b>	(10.7)

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. In the prior year, the reversal of revenue (as included in note 3) resulted in a decrease in contract assets of £43.4m. There are no other significant one-off factors outside of normal trading contributing to the increase 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 decrease in contract liabilities.

Revenue recognised in 2022 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 £3,501.3m (2021: £4,041.3m). Progress billings and advances received from customers under open construction contracts amounted to £3,485.3m (2021: £4,057.8m). 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.

#### Unsatisfied long-term contracts

The following table shows unsatisfied performance obligations resulting from long-term contracts:

	2022 £m	2021 £m
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 31 December	1,812.6	2,633.5

Management expects that approximately 48% of the transaction price allocated to the unsatisfied contracts as of 31 December 2022 will be recognised as revenue during the next reporting period (£875.8m). Of the remaining 52%, 38% will be recognised during 2024 to 2026.

#### 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	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Amounts included in current assets</b>				
Trade receivables	98.3	120.0	–	–
Other receivables	6.8	4.5	–	–
Contract assets	50.8	39.9	–	–
Prepayments and accrued income	31.3	34.5	0.9	–
Amounts owed by joint ventures and associates	0.2	0.7	–	–
Amounts owed by subsidiary undertakings	–	–	69.4	71.9
	187.4	199.6	70.3	71.9
<b>Amounts included in non-current assets</b>				
Other receivables	3.5	5.5	–	–

At 31 December 2022, contract assets falling due within one year include retentions of £3.1m (2021: £1.8m) relating to long-term contracts in progress. Other receivables falling due after more than one year include retentions of £3.4m (2021: £5.5m) 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 (2021: 31 days). The analysis of the due dates of the trade receivables was £91.3m (2021: £115.8m) due within 30 days, £3.3m (2021: £1.7m) due between 30 and 60 days and £3.7m (2021: £2.5m) 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.

Notes to the Financial Statements *continued*

## 17 Cash, 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 £56.5m (2021: £58.1m).

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and cash equivalents	<b>123.8</b>	159.4	<b>0.1</b>	75.0
<b>Cash and cash equivalents in the cash flow statement</b>	<b>123.8</b>	159.4	<b>0.1</b>	75.0

**Interest-bearing loans and borrowings**

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Current</b>				
Term Loan	–	7.4	–	7.4
	–	7.4	–	7.4
<b>Non-current</b>				
Term Loan	–	32.0	–	32.0
	–	32.0	–	32.0

The Group repaid the Term Loan during the year (2021: the Term Loan was stated after associated arrangement fees of £0.6m, classified within one year, which were being amortised over the period of the facility). The Group's borrowings facilities are described in note 18.

**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	
	2022 £m	2021 £m	2022 £m	2021 £m
Cash and cash equivalents	<b>123.8</b>	159.4	<b>0.1</b>	75.0
Borrowings – current	–	(7.4)	–	(7.4)
Borrowings – non-current	–	(32.0)	–	(32.0)
Net cash before lease liabilities	<b>123.8</b>	120.0	<b>0.1</b>	35.6
Lease liabilities (note 13)	<b>(24.1)</b>	(26.8)	–	–
Net cash	<b>99.7</b>	93.2	<b>0.1</b>	35.6

Group	Cash and cash equivalents £m	Borrowings – current £m	Borrowings – non-current £m	Lease liabilities £m	Total £m
Net cash/(debt) at 1 January 2021	150.9	(7.2)	(39.6)	(33.3)	70.8
Cash flows	8.5	(0.2)	7.6	10.8	26.7
New leases	–	–	–	(18.0)	(18.0)
Disposal of leases	–	–	–	13.7	13.7
Interest expense	–	–	–	(0.9)	(0.9)
Interest payments (presented as operating cash flows)	–	–	–	0.9	0.9
Net cash/(debt) at 31 December 2021	159.4	(7.4)	(32.0)	(26.8)	93.2
Net cash/(debt) at 1 January 2022	<b>159.4</b>	<b>(7.4)</b>	<b>(32.0)</b>	<b>(26.8)</b>	<b>93.2</b>
Cash flows	<b>(35.6)</b>	<b>7.4</b>	<b>32.0</b>	<b>8.4</b>	<b>12.2</b>
New leases	–	–	–	<b>(16.8)</b>	<b>(16.8)</b>
Disposal of leases	–	–	–	<b>11.1</b>	<b>11.1</b>
Interest expense	–	–	–	<b>(1.2)</b>	<b>(1.2)</b>
Interest payments (presented as operating cash flows)	–	–	–	<b>1.2</b>	<b>1.2</b>
Net cash/(debt) at 31 December 2022	<b>123.8</b>	–	–	<b>(24.1)</b>	<b>99.7</b>

Company	Cash and cash equivalents £m	Borrowings – current £m	Borrowings – non-current £m	Total £m
Net cash/(debt) at 1 January 2021	20.1	(7.2)	(39.6)	(26.7)
Cash flows	54.9	(0.8)	7.6	61.7
Arrangement fees	–	0.6	–	0.6
Net cash/(debt) at 31 December 2021	75.0	(7.4)	(32.0)	35.6
Net cash/(debt) at 1 January 2022	<b>75.0</b>	<b>(7.4)</b>	<b>(32.0)</b>	<b>35.6</b>
Cash flows	<b>(74.9)</b>	<b>7.4</b>	<b>32.0</b>	<b>(35.5)</b>
Net cash at 31 December 2022	<b>0.1</b>	–	–	<b>0.1</b>

## 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 for growth, maintaining a strong balance sheet and returns to shareholders. Costain is targeting a dividend cover of around three times adjusted earnings, taking into account the free cash flow generated in the period.

The Group recognises the importance of dividends to shareholders and remains committed to returning to dividend payments when appropriate. The Board has concluded that the priorities, and best returns, for the Company's capital, over the next financial year, are to invest in organic opportunities and to build further the Company's capital base and therefore does not recommend a final dividend this year.

## Notes to the Financial Statements continued

### 18 Financial instruments – Fair values and risk management continued

#### Risk management continued

##### 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 causes the cash balances to vary over the month with the balance usually highest at month-end.

The average month-end net cash balance during the year was £101.9m (2021: £106.7m).

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 2022, the Group had banking and bonding facilities, including a £125.0m Revolving Credit Facility, extending to 24 September 2024 (2021: £131.0m, extending to September 2023). At 31 December 2021, the Group also had a £40.0m Term Loan, which was repaid during 2022. The unsecured facilities have financial covenants based on interest cover, leverage and liquidity measured quarterly. 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 2022. The unsecured bonding facilities are set out below:

	Group and Company	
	2022 £m	2021 £m
Expiring between one and five years	280.0	310.0
Element of above facilities available for borrowings	–	2.5

At 31 December 2022, the utilisation of these bonding facilities amounted to £88.8m (2021: £100.7m).

##### c) Credit risk

The Group focuses on major blue-chip private sector and large public sector customers. In respect of contracts with other 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 blue-chip 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 £1,412.1m (2021: £1,123.0m) was attributable to Group 1 customers and £9.3m (2021: £12.2m) 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 2022 and 31 December 2021 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
<b>31 December 2022</b>					
<b>Group 1</b>					
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
<b>Loss allowance</b>	–	–	–	–	–
<b>Group 2</b>					
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	–	–	–	–	–
<b>Loss allowance</b>	–	–	–	–	–
<b>31 December 2021</b>					
<b>Group 1</b>					
Expected loss rate	0.00%	0.10%	0.25%	0.50%	
	£m	£m	£m	£m	£m
Trade receivables	114.6	2.8	1.0	1.1	119.5
Contract assets	19.2	8.2	4.2	8.3	39.9
<b>Loss allowance</b>	–	–	–	–	–
<b>Group 2</b>					
Expected loss rate	1.0%	2.0%	15.0%	30.0%	
	£m	£m	£m	£m	£m
Trade receivables	0.4	0.1	–	–	0.5
Contract assets	–	–	–	–	–
<b>Loss allowance</b>	–	–	–	–	–

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 (2021: £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 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.

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.

## Notes to the Financial Statements continued

### 18 Financial instruments – Fair values and risk management continued

#### Risk management continued

##### d) Interest rate risk

The Group has cash balances and bank facilities in the UK, mostly denominated in pounds sterling.

The Group previously had interest rate swap arrangements that fixed the effective LIBOR interest rate on £50.0m of pounds sterling borrowings up to June 2021.

The Group repaid the Term Loan during the year and therefore, at the 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.

#### Cash flow hedges

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

Interest rate swaps are classified as cash flow hedges and stated at fair value based on a Level 2 valuation method using yield curves derived from prevailing market interest rates.

At 31 December 2022, the Group had less than £0.1m of cash flow hedges (2021: as summarised below). The carrying value represents the fair value of the contract; the contractual cash flows represent the pounds sterling commitments.

	2022				2021			
	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and five years £m	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and five years £m
Foreign exchange contracts:								
Purchases	–	–	–	–	–	(0.2)	(0.2)	–
Sales	–	–	–	–	–	1.0	1.0	–
	–	–	–	–	–	0.8	0.8	–
Interest rate swaps	–	–	–	–	–	–	–	–
	–	–	–	–	–	0.8	0.8	–

The carrying amount of hedge instruments is included in trade and other receivables or trade and other payables. The expected impact on the income statement of the foreign exchange contracts is £nil in 2023.

The movements on the hedging reserve by classification are set out below.

	Interest rate swaps £m	Total hedge reserves £m
At 1 January 2021	(0.3)	(0.3)
Change in fair value of hedging instrument recognised in OCI for the year	–	–
Reclassified from OCI to profit or loss	0.3	0.3
At 31 December 2021	–	–
At 1 January 2022	–	–
<b>At 31 December 2022</b>	<b>–</b>	<b>–</b>

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

#### 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

	2022				2021			
	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	123.2	123.2	–	–	158.8	158.8	–	–
other	0.6	0.6	–	–	0.6	0.6	–	–
	123.8	123.8	–	–	159.4	159.4	–	–
Trade, other receivables and amounts owed by joint ventures and associates:								
pounds sterling	108.8	105.3	3.5	–	130.7	125.2	5.5	–
Insurance recovery asset:								
pounds sterling	13.4	9.4	4.0	–	–	–	–	–
	122.2	114.7	7.5	–	130.7	125.2	5.5	–
<b>Total financial assets not measured at fair value</b>	<b>246.0</b>	<b>238.5</b>	<b>7.5</b>	<b>–</b>	<b>290.1</b>	<b>284.6</b>	<b>5.5</b>	<b>–</b>

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 and interest rate swaps at fair value (see above) but does not have any other financial assets measured at fair value.

## Notes to the Financial Statements continued

## 18 Financial instruments – Fair values and risk management continued

## Financial assets and liabilities continued

## b) Currency and maturity of financial liabilities

## Financial liabilities not measured at fair value

	2022			2021		
	Total £m	Within one year £m	Between one and five years £m	Total £m	Within one year £m	Between one and five years £m
Term Loan – pounds sterling	–	–	–	39.4	7.4	32.0
Lease liabilities – pounds sterling	24.1	9.1	15.0	26.8	8.6	18.2
Trade and other payables – pounds sterling	140.6	139.5	1.1	116.0	114.2	1.8
<b>Total financial liabilities not measured at fair value</b>	<b>164.7</b>	<b>148.6</b>	<b>16.1</b>	<b>182.2</b>	<b>130.2</b>	<b>52.0</b>

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 £12.4m (2021: £9.2m), two to five years £24.6m (2021: £16.3m) and over five years £3.2m (2021: £3.8m).

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. The 2021 Annual Report and Accounts incorrectly reported that a guarantee in relation to the Peterborough & Huntingdon contract had been utilised.

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

	2022		2021	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other receivables (as above)	114.7	7.5	125.2	5.5
Contract assets	50.8	–	39.9	–
Prepayments and accrued income	31.3	–	34.5	–
	<b>196.8</b>	<b>7.5</b>	<b>199.6</b>	<b>5.5</b>

	2022		2021	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other payables (as above)	139.5	1.1	114.2	1.8
Contract liabilities	1.4	–	10.7	–
Accruals and deferred income	91.6	–	90.2	–
	<b>232.5</b>	<b>1.1</b>	<b>215.1</b>	<b>1.8</b>

## d) Effective interest rates of financial assets and liabilities

	2022	2021
<b>Financial assets</b>		
Cash and cash equivalents	0.0% to 3.4%	0.0% to 0.3%
<b>Financial liabilities</b>		
The Group repaid the Term Loan during the year (2021: £39.4m (net of fees) was outstanding at the year-end). The Group also has a £125.0m (2021: £131.0) Revolving Credit Facility (RCF) of which £nil (2021: £nil) was drawn at the year-end. These loans are unsecured and carry interest at floating rates at a margin over SONIA (2021: over LIBOR).		

The Company's financial assets comprised cash at bank of £0.1m (2021: £75.0m) denominated in pounds sterling, either on demand or with a maturity of up to three months, and trade and other receivables of £69.4m (2021: £71.9m) denominated in pounds sterling and maturing within one year.

The Company's financial liabilities comprise trade and other payables of £26.5m denominated in pounds sterling (2021: £26.4m and the £39.4m (net of fees) Term Loan denominated in pounds sterling). All liabilities mature within one year (2021: the Term Loan matured between one and five years).

#### 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 measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter relationship between significant unobservable inputs and fair value measurement
Cash flow hedges	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and quotes reflect the actual transactions in similar instruments. Interest rate swaps are measured by discounting the related cash flows using yield curves derived from prevailing market interest rates.	Not applicable.	Not applicable.

##### Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities (as above)	Discounted cash flow.	Not applicable.
Term Loan	Discounted cash flow.	Not applicable.

## 19 Trade and other payables

	Group		Company	
	2022 £m	2021 £m	2022 £m	2021 £m
<b>Current liabilities</b>				
Trade payables	97.5	83.0	–	–
Other payables	33.4	23.2	0.1	0.1
Social security	7.9	7.6	–	–
Contract liabilities	1.4	10.7	–	–
Accruals and deferred income	91.6	90.2	0.9	0.9
Amounts owed to joint ventures and associates	0.7	0.4	–	–
Amounts owed to subsidiary undertakings	–	–	26.4	26.3
	232.5	215.1	27.4	27.3
<b>Non-current liabilities</b>				
Other payables	1.1	1.8	–	–
	1.1	1.8	–	–

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 2021 have all been recognised in the income statement in the year.

## Notes to the Financial Statements continued

## 19 Trade and other payables continued

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
<b>Current</b>				
At 1 January 2021	–	–	0.6	0.6
Provided	6.2	43.4	0.5	50.1
Utilised	–	–	(0.4)	(0.4)
At 31 December 2021	6.2	43.4	0.7	50.3
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)
<b>At 31 December 2022</b>	<b>8.5</b>	<b>–</b>	<b>0.9</b>	<b>9.4</b>
<b>Non-current</b>				
At 1 January 2021	–	–	–	–
At 31 December 2021	–	–	–	–
At 1 January 2022	–	–	–	–
Provided	3.7	–	–	3.7
<b>At 31 December 2022</b>	<b>3.7</b>	<b>–</b>	<b>–</b>	<b>3.7</b>

Company	Expected credit loss provision £m	Funding obligations £m	Total £m
<b>Current</b>			
At 1 January 2021	–	0.1	0.1
Provided	40.0	–	40.0
Utilised	–	(0.1)	(0.1)
At 31 December 2021	40.0	–	40.0
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)
<b>At 31 December 2022</b>	<b>–</b>	<b>0.1</b>	<b>0.1</b>
<b>Non-current</b>			
At 1 January 2021	–	0.7	0.7
At 31 December 2021	–	0.7	0.7
At 1 January 2022	–	0.7	0.7
Provided	–	0.1	0.1
Reclassified to current	–	(0.1)	(0.1)
<b>At 31 December 2022</b>	<b>–</b>	<b>0.7</b>	<b>0.7</b>

**Group****Rectification provision: Contract in the water sector**

In 2021, Costain recognised a provision of £6.2m 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. During 2022, working with designers, insurers and the customer, there is now greater clarity as to the scope and cost of rectification work required, albeit a final solution has yet to be formally agreed with all relevant parties.

As at 31 December 2022, the Group's best estimate of the cost of the single most likely rectification solution is £17.0m, of which costs of £4.8m have been incurred. Accordingly a provision of £12.2m has been included in the statement of financial position and disclosed in the table above. The work is expected to be concluded in 2024.

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 made an interim payment on account during 2022. Accordingly, an insurance receivable of £13.4m has been 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 2021, discussions with insurers were at an early stage and the expected recovery from insurers was not recognised as a receivable on the basis that it could not be considered virtually certain.

Whilst the cost provision is management's best estimate, the final solution is yet to be agreed and cost estimates finalised. 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 insurance provisions and provisions for remedial costs, most of which are expected to be used over the next year.

**Company**

Provisions in the Company relate to funding obligations to a non-trading overseas subsidiary, which eliminate on consolidation.

During the prior year, the Company recognised a £40.0m provision in respect of making funds available to the subsidiary delivering the Peterborough & Huntington contract and settlement. In 2022, funds were loaned to the subsidiary to make the settlement payment and the provision has been reclassified as an intercompany loan provision, which eliminates on consolidation.

Notes to the Financial Statements *continued*

## 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 £11.9m, comprising £13.2m included in operating costs less £1.3m interest income included in net finance expense (2021: £11.7m, comprising £11.7m in operating costs and £nil 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 2022 by a qualified independent actuary. At 31 December 2022, there were 2,867 retirees and 2,529 deferred members (2021: 2,875 retirees and 2,629 deferred members). The weighted average duration of the obligations is 11.9 years (2021: 16.3 years).

	2022 £m	2021 £m	2020 £m
Present value of defined benefit obligations	(527.1)	(837.5)	(886.5)
Fair value of scheme assets	587.3	904.6	880.9
Recognised asset/(liability) for defined benefit obligations	60.2	67.1	(5.6)

## Movements in present value of defined benefit obligations

	2022 £m	2021 £m
At 1 January	837.5	886.5
Interest cost	14.8	11.7
Remeasurements – demographic assumptions	(0.3)	(5.4)
Remeasurements – financial assumptions	(321.4)	(16.1)
Remeasurements – experience adjustments	29.7	(6.5)
Benefits paid	(33.2)	(32.7)
<b>At 31 December</b>	<b>527.1</b>	<b>837.5</b>

## Movements in fair value of scheme assets

	2022 £m	2021 £m
At 1 January	904.6	880.9
Interest income	16.1	11.7
Remeasurements – return on assets	(310.7)	34.6
Contributions by employer	10.8	10.4
Administrative expenses	(0.3)	(0.3)
Benefits paid	(33.2)	(32.7)
<b>At 31 December</b>	<b>587.3</b>	<b>904.6</b>



**Expense recognised in the income statement**

	2022 £m	2021 £m
Administrative expenses paid by the pension scheme	(0.3)	(0.3)
Administrative expenses paid directly by the Group	(1.2)	(1.0)
Interest income on the net assets of the defined benefit pension scheme	1.3	–
	(0.2)	(1.3)
Fair value of scheme assets	2022 £m	2021 £m
Global equities	109.8	137.2
Multi-asset growth funds	56.1	133.7
Multi-credit fund	110.9	118.1
LDI plus collateral	307.2	494.6
Property	–	4.4
Cash	3.3	16.6
	587.3	904.6

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, repos 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 property investment was held within a limited partnership and was valued by the general partner in accordance with RICS valuation standards.

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)

	2022 %	2021 %	2020 %
Discount rate	5.00	1.80	1.35
Future pension increases	2.90	3.25	2.85
Inflation assumption	3.10	3.40	2.95

Weighted average life expectancies from age 65, as per mortality tables, used to determine benefits at 31 December 2022 and 31 December 2021 are:

	2022		2021	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	21.9	23.9	22.1	24.0
Non-retirees currently aged 45	22.9	25.1	23.1	25.3

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

	Pension liability £m	Pension cost £m
Increasing the discount rate by 0.25%, decreases pension liability and increases pension income/reduces pension cost by	15.4	0.8
Decreasing inflation by 0.25% (which decreases pension increases), decreases pension liability and increases pension income/reduces pension cost by	13.5	0.7
Increasing life expectancy by one year, increases pension liability and reduces pension income/increases pension cost by	17.9	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 as at 31 March 2022 was started in 2022. Discussions around the results of the review are currently in progress and the Trustee/Company have until 30 June 2023 to complete the review. The last triennial actuarial review was completed in March 2020 and the valuation and updated deficit recovery plan were agreed with the Scheme Trustee resulting in cash contributions of £10.2m for each year commencing 1 April 2020 (increasing annually with inflation) until the deficit is cleared, which would be in 2029 on the basis of the assumptions made in the 2019 valuation and agreed recovery plan.

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

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

**Defined contribution schemes**

Two defined contribution pensions schemes are operated. The total expense relating to these plans was £11.7m (2021: £10.4m).

**Share-based payments**

The Company operates a number of share-based payment plans as described below.

**Long-Term Incentive Plans (LTIP)**

Shareholders approved a Long-Term Incentive Plan at the 2014 AGM that allows for conditional awards with a maximum face value of up to 100% of base salary to be awarded. Performance conditions, such as those based on earnings per share, are determined by the Remuneration Committee of the Board at the time of grant.

**Annual Incentive Plan (AIP)**

Executive directors and other senior management are eligible to participate in the Company's Annual Incentive Plan, under which one third of the award is payable in shares. The total AIP award of up to 150% of base salary has performance conditions based on adjusted EBIT (earnings before interest, tax and other items) (at least 50% of the award) and other measures. The share award element vests on the second anniversary of the date of grant and will be satisfied by shares purchased by a trust on behalf of the Group. It will not lead to any dilution of shareholder interest. Participants must be in employment with the Company and not under notice of termination (either given or received) on the date of vesting.

**Deferred Share Bonus Plan (DSBP)**

Prior to 2014, executive directors and other senior management were eligible to participate in the Company's Deferred Share Bonus Plan which allowed for conditional awards with a face value of up to 50% of base salary with a performance condition based on adjusted EBIT (earnings before interest, tax and other items). The deferred bonus award was satisfied by shares purchased by a trust on behalf of the Group, so did not dilute shareholder interests. The last grant under the DSBP was made in 2014 and vested on 31 March 2016 and the last transactions completed in 2020.

**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 (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 amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £1.1m (2021: £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), AIP (nil-cost option) and DSBPs (nil-cost option), which arrange for the grant of shares to executive directors and senior management, and the outstanding SAYE schemes are shown below.

	LTIP	DSBP	AIP	SAYE	
	Number (m)	Number (m)	Number (m)	Number (m)	Weighted average exercise price (p)
Outstanding at 1 January 2021	3.8	–	0.4	2.1	229.5
Forfeited during the year	(1.0)	–	–	(0.8)	286.3
Exercised during the year	(0.2)	–	(0.2)	–	–
Granted during the year	2.9	–	–	–	–
Outstanding at 31 December 2021	5.5	–	0.2	1.3	191.9
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	–	–
<b>Outstanding at 31 December 2022</b>	<b>12.5</b>	<b>–</b>	<b>2.3</b>	<b>0.8</b>	<b>118.4</b>
<b>Exercisable at the end of the period</b>	<b>0.1</b>	<b>–</b>	<b>0.1</b>	<b>0.7</b>	<b>118.4</b>

Share options outstanding at the end of the year had a weighted average remaining contractual life of 4.6 years (2021: 4.2 years).

The fair value of options granted is calculated using the Black-Scholes option pricing model. The aggregate fair value of options granted during the year was £3.6m (2021: £1.7m). The assumptions used in valuing the grants were:

	2022	2021
Expected volatility	20%	20%
Expected life (years)	3.0	3.0
Risk-free interest rate	1.2%	1.2%
Expected dividend yield	0.0%	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

	2022		2021	
	Number (millions)	Nominal value £m	Number (millions)	Nominal value £m
<b>Issued share capital</b>				
Shares in issue at beginning of year – ordinary shares of 50p each, fully paid	275.0	137.5	275.0	137.5
Issued in year (see below)	0.1	–	–	–
Shares in issue at end of year – ordinary shares of 50p each, fully paid	275.1	137.5	275.0	137.5

The Company's issued share capital comprised 275,084,741 ordinary shares of 50 pence each as at 31 December 2022.

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

In the year, no dividends were paid and, therefore, no shares were issued under the Scrip Dividend Scheme.

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 2019 LTIP vested in the year and 135,000 shares were issued in May 2022 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 2022, the asset was £60.2m (2021: asset of £67.1m) 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
<b>Principal subsidiary undertakings</b>		
Costain Limited	Engineering, Construction and Maintenance	100 (1)
Costain Engineering & Construction Limited	Holding and Service Company	100 (1)
Costain Integrated Services Limited	Professional Services	100 (1)
Costain Integrated Technology Solutions Limited	Technology Integration	100 (1)
Costain Oil, Gas & Process Limited	Process Engineering	100 (1)
Costain Upstream Limited	Engineering and Design Services	100 (2)
Richard Costain Limited	Service Company	100 (1)

Activity	Issued share capital £m	Percentage of equity held	Registered office/principal place of business	Reporting date
<b>Principal joint ventures</b>				
ABC Electrification Ltd	Rail Electrification	19.6	33.3 (7)	31 March
4Delivery Limited	Civil Engineering	–	40 (3)	31 March

The equity capital of the above are held by subsidiary undertakings with the exception of Richard Costain Ltd 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
<b>Major joint operations</b>		
A-one+ Joint Venture – ASC area 12 – Highways England	Engineering and Maintenance	33.3 UK
CH2M-Costain Joint Venture – Area 14 M&R contract	Engineering and Maintenance	50 UK
Costain-Atkins-Black & Veatch Joint Venture – Thames Water AMP6	Engineering	70 UK
Costain-CH2M UK – ESCC JV – East Sussex highway maintenance	Engineering and Maintenance	50 UK
Costain-Galliford Try Joint Venture – M1 smart motorways	Civil Engineering	70 UK
Costain-MWH Joint Venture – Southern Water AMP6	Civil Engineering	50 UK
Costain-Skanska – HS2 Enabling works	Civil Engineering	50 UK
Costain-Skanska Joint Venture – A14 Cambridge to Huntingdon Improvement Scheme	Civil Engineering	50 UK
Costain-Skanska Joint Venture – Balfour Beatty Joint Venture – A14	Civil Engineering	33.3 UK
CVB Joint Venture – Thames Tideway Tunnel East	Civil Engineering	40 UK
Skanska-Costain-Strabag S1 Joint Venture – HS2 Main Works	Rail Engineering	34 UK
Skanska-Costain-Strabag S2 Joint Venture – HS2 Main Works	Rail Engineering	34 UK
The ASP Batch Joint Venture – Severn Trent – Large capital schemes outside AMP6	Engineering	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
<b>Other subsidiaries owned directly by Costain Group PLC</b>			
Costain Civil Engineering Limited	Holding Company	100	(1)
Costain Investments Limited	Dormant	100	(8)
Costain USA Inc.	Holding Company	100	(5)
County & District Properties Limited	Trading	100	(1)
Renown Investments (Holdings) Limited*	Trading	100	(1)
Lysander Services Limited	Trading	100	(1)
<b>Other subsidiaries owned indirectly by Costain Group PLC</b>			
Brunswick Infrastructure Services Limited	Dormant	100	(1)
Calvert & Russell Limited*	Trading	100	(1)
CLM Engineering (Overseas) Limited	Dormant	100	(1)
COGAP (Middle East) Limited*	Holding Company	100	(1)
Construction Study Centre Limited*	Trading	100	(1)
Costain Abu Dhabi Co WLL	Dormant	49	(9)
Costain Alcaidesa Limited	Holding Company	100	(1)
Costain America Inc	Holding Company	100	(5)
Costain Building & Civil Engineering Limited	Holding Company	100	(1)
Costain Construction Limited	Dormant	100	(1)
Costain de Venezuela CA	Dormant	100	(15)
Costain Energy Solutions Limited	Dormant	100	(1)
Costain Engineering & Construction (Overseas) Limited*	Holding Company	100	(1)
Costain Engineering Services Inc	Dormant	100	(5)
Costain International Limited*	Dormant	100	(1)
Costain Management Design Limited	Dormant	100	(1)
Costain Minerals Inc.	Dormant	100	(5)
Costain Mining Services Inc.	Dormant	100	(5)
Costain Oil, Gas & Process (Nigeria) Limited	Dormant	95	(16)
Costain Oil, Gas & Process (Overseas) Limited	Dormant	100	(1)
Costain Process Construction Limited	Dormant	100	(1)
JBCC Rhead PTE Limited	Dormant	100	(12)
Promanex (Civils & Industrial Services) Limited	Dormant	100	(1)
Promanex (Construction & Maintenance Services) Limited	Dormant	100	(1)
Promanex (Total FM & Environmental Services) Limited*	Dormant	100	(1)
Sunland Mining Corporation (II)	Dormant	100	(5)
Westminster Plant Co. Limited	Dormant	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 2022

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
<b>Other joint ventures or associates owned indirectly by Costain Group PLC</b>			
ACM Health Solutions Limited	Dormant	33.3	(4)
Brighton & Hove 4Delivery Limited	Trading	49	(3)
Budimex & Costain SP ZO.O	Dormant	50	(14)
China Harbour-Costain Mexico S de RL de CV	Dormant	50	(13)
Gravitas Offshore Limited	Dormant	45	(6)
Jalal Costain WLL	Dormant	49	(10)
Nesma-Costain Process Co. Limited	Dormant	50	(11)

Costain Abu Dhabi Co WLL has been treated as a subsidiary undertaking due to Costain having power to influence and control the composition of the Board of directors and the beneficial right to all the net income. Dormant status means no or a very small number of transactions with activity winding down.

	Activity	Percentage interest	Country of business
<b>Other joint operations, including completed</b>			
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
<b>Other joint operations, including completed</b> continued			
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	Civil Engineering	50	UK
Northern works			
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
Galliford-Costain-Atkins Joint Venture – United Utilities	Engineering	42.5	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

	2022			2021		
	Joint ventures and associates £m	Joint operations £m	Total £m	Joint ventures and associates £m	Joint operations £m	Total £m
Services of Group employees	0.6	81.2	81.8	0.4	81.4	81.8
Construction services and materials	–	17.2	17.2	–	17.3	17.3
	0.6	98.4	99.0	0.4	98.7	99.1

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 in below. Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board of directors, as the controls operated by the Group ensure that all key decisions are reserved for the Board.

As at 13 March 2023, the date of signing of this report, the Directors of the Company and their immediate relatives control 360,067 ordinary shares in Costain Group PLC, which expressed as a percentage of the issued share capital is 0.13% (2021: 0.15%) 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, DSBP, AIP and SAYE plans, which are detailed in note 21.

The compensation of key management personnel, including the directors, is as follows:

	Group	
	2022 £m	2021 £m
Directors' emoluments	1.9	1.2
Executive officers' emoluments	2.1	1.5
Post-employment benefits	0.1	–
Termination benefits	0.6	–
Share-based payments	0.8	0.6
	5.5	3.3

The above amounts are included in employee benefit expense (note 6).

**Company**

The Company has no transactions with related parties other than the charge in relation to share-based payments (note 21) (2021: none), and intercompany transactions where the amounts owed by or to Group companies are disclosed in notes 16 and 19. All intercompany transactions are on commercial terms.

**26 Disposal of other investments**

During the year, 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 this year is also £0.5m. Both the previous impairment (in 2020) and the profit on sale were reported as adjusting items in note 3.

**27 Events after the reporting date**

There are no events after the reporting date.

## Five-Year Financial Summary

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
<b>Revenue and profit</b>					
<b>Revenue</b>	<b>1,421.4</b>	<b>1,135.2</b>	<b>978.4</b>	<b>1,155.6</b>	<b>1,463.7</b>
Contract adjustments	–	43.4	92.1	20.0	–
<b>Adjusted revenue</b>	<b>1,421.4</b>	<b>1,178.6</b>	<b>1,070.5</b>	<b>1,175.6</b>	<b>1,463.7</b>
<b>Adjusted operating profit/(loss)</b>	<b>36.3</b>	<b>30.1</b>	<b>18.0</b>	<b>37.9</b>	<b>52.5</b>
Adjusting items - contract adjustments	–	(39.2)	(99.7)	(20.0)	–
Adjusting items - other	(1.4)	(0.4)	(10.3)	(21.1)	(9.4)
<b>Operating profit/(loss)</b>	<b>34.9</b>	<b>(9.5)</b>	<b>(92.0)</b>	<b>(3.2)</b>	<b>43.1</b>
Share of results of joint ventures and associates	–	–	0.2	0.3	0.3
<b>Profit/(loss) from operations</b>	<b>34.9</b>	<b>(9.5)</b>	<b>(91.8)</b>	<b>(2.9)</b>	<b>43.4</b>
Finance income	1.8	0.1	0.8	1.0	0.4
Finance expense	(3.9)	(3.9)	(5.1)	(4.7)	(3.6)
<b>Net finance expense</b>	<b>(2.1)</b>	<b>(3.8)</b>	<b>(4.3)</b>	<b>(3.7)</b>	<b>(3.2)</b>
<b>Profit/(loss) before tax</b>	<b>32.8</b>	<b>(13.3)</b>	<b>(96.1)</b>	<b>(6.6)</b>	<b>40.2</b>
Taxation	(6.9)	7.5	18.1	3.7	(7.4)
<b>Profit/(loss) for the year attributable to equity holders of the Parent</b>	<b>25.9</b>	<b>(5.8)</b>	<b>(78.0)</b>	<b>(2.9)</b>	<b>32.8</b>
Earnings/(loss) per share – basic *	9.4p	(2.1)p	(36.7)p	(2.3)p	30.9p
Earnings/(loss) per share – diluted *	9.4p	(2.1)p	(36.7)p	(2.3)p	30.2p
<b>Dividends per ordinary share</b>					
Final	–	–	–	–	10.00p
Interim	–	–	–	3.80p	5.15p
<b>Summarised consolidated statement of financial position</b>					
Intangible assets	52.2	52.5	52.1	59.0	58.5
Property, plant and equipment	26.6	32.0	39.9	44.1	40.0
Investments in and loans to equity accounted joint ventures and associates	0.4	0.4	0.4	2.5	2.5
Retirement benefit asset	60.2	67.1	–	4.9	–
Other non-current assets	22.0	20.9	27.1	6.7	6.3
<b>Total non-current assets</b>	<b>161.4</b>	<b>172.9</b>	<b>119.5</b>	<b>117.2</b>	<b>107.3</b>
Current assets	320.8	359.5	370.4	435.3	467.3
<b>Total assets</b>	<b>482.2</b>	<b>532.4</b>	<b>489.9</b>	<b>552.5</b>	<b>574.6</b>
Current liabilities	251.2	281.4	266.3	328.9	326.7
Retirement benefit obligations	–	–	5.6	–	4.2
Other non-current liabilities	19.8	52.0	61.5	65.9	61.4
<b>Total liabilities</b>	<b>271.0</b>	<b>333.4</b>	<b>333.4</b>	<b>394.8</b>	<b>392.3</b>
<b>Equity attributable to equity holders of the Parent</b>	<b>211.2</b>	<b>199.0</b>	<b>156.5</b>	<b>157.7</b>	<b>182.3</b>

\* The Loss per share figures for 2019 have been restated for the capital raise in 2020.

## Financial calendar and other shareholder information

### Financial calendar<sup>1</sup>

Full-year results 2022	14 March 2023
Annual General Meeting	11 May 2023
Half-year end 2023	30 June 2023
Half-year results 2023	23 August 2023
Financial year-end 2023	31 December 2023

<sup>1</sup> 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](http://www.costain.com) for up-to-date details.

### Scrip dividend scheme

The Company will pay no final dividend in respect of the year ended 31 December 2022. Those shareholders who have already elected to join the scrip dividend scheme will automatically have their future dividends 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](http://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 the hassle of paying in a cheque and
- there is no risk of lost, stolen or out-of-date cheques.

A mandate form can be obtained from the Company's website, or by contacting 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](http://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.com/overseas](http://www.shareview.com/overseas).

### Analysis of shareholders

as at 7 March 2023

	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Shareholdings 100,000 and more	125	1.57	264,086,388	96.00
Shareholdings 50,000–99,999	44	0.55	3,270,035	1.19
Shareholdings 25,000–49,999	43	0.54	1,617,789	0.59
Shareholdings 5,000–24,999	313	3.92	3,219,077	1.17
Shareholdings 1–4,999	7,455	93.42	2,891,452	1.05
<b>Totals</b>	<b>7,980</b>	<b>100</b>	<b>275,084,741</b>	<b>100</b>

### Secretary

Nicole Geoghegan

### Registered Office

Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, United Kingdom

Telephone 01628 842444

[www.costain.com](http://www.costain.com)

Company Number 1393773

## 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](http://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' printed on your proxy form or dividend stationery. There is no charge to register.

When you register with the site, at [www.shareview.co.uk](http://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](http://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](http://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](http://www.mpsonline.org.uk) or on 0207 291 3310.

Further guidance can also be found on the Company's website at [www.costain.com](http://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](http://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](http://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](mailto:ir@costain.com)

For media enquiries, please contact: [mediaenquiries@costain.com](mailto:mediaenquiries@costain.com)

## Accreditations

ISO 9001	Quality Management System.
ISO 14001	Environmental Management.
ISO 45001	Occupational Health & Safety.
ISO 27001	Information Security Management.
ISO 22301	Business Continuity Management.
ISO 44001	Collaborative Business Relationships.
ISO 20000-1	IT Service Management.
PAS2080	Carbon Management In Infrastructure.
ISO 56002	Innovation Management.
TickITplus	Systems and Software Development and Support.



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