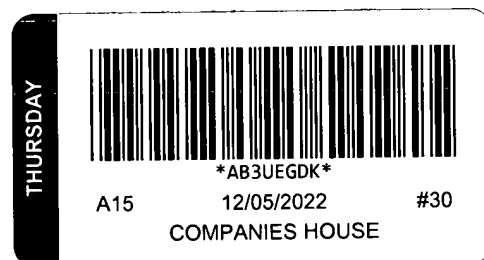




Creating a sustainable future

Costain Group PLC
Annual Report and Accounts
2021

Company No. 1393773

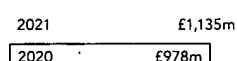


Our vision is to create connected, sustainable infrastructure that enables people and the planet to thrive.



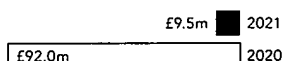
Read about our strategy / page 8

HIGHLIGHTS



Revenue

£1,135m



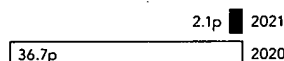
Operating loss

£9.5m



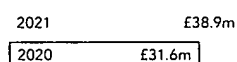
Operating loss margin

0.8%



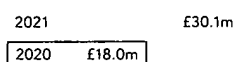
Basic loss per share

2.1p



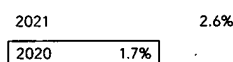
Free cash flow¹

£38.9m



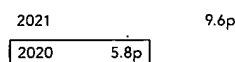
Adjusted² operating profit

£30.1m



Adjusted² operating profit margin

2.6%



Adjusted² basic earnings per share

9.6p

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Consolidated Statement of Changes in Equity
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Company Cash Flow Statement
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Contact Us



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

- Free cash flow is defined as cash flow from operating activities, excluding adjusting items, less capital expenditure.
- Excluding the impact of significant contract provision adjustments and other items (see note 3 on page 141).

"We are making good progress on our journey to transform the Group and I'm pleased with the clarity of focus and improvement in adjusted performance."



Read my statement / page 4

Dr Paul Golby
Non-Executive Chair

NON-FINANCIAL HIGHLIGHTS

2021 0.15 LTIR
2020 0.09 LTIR

Safety

0.15 LTIR

2021 £200k
2020 £211k

Social contribution

£200k

2021 49,000tCO₂e
2020 32,165tCO₂e

Environmental impact

49,000tCO₂e



See our KPIs / page 26

HOW WE ARE TRANSFORMING PERFORMANCE FOR ALL OUR STAKEHOLDERS

**DIGITAL BIODIVERSITY
MAPPING ENHANCED THE
NATURAL ENVIRONMENT
ON THE A19**



Read more / page 16

**DEVELOPING A DIGITAL
TWIN FOR CLEAN WATER
TO REDUCE COST AND
IMPROVE EFFICIENCY**



Read more / page 18

**70 YEARS OF GAS
PROCESSING EXPERIENCE
APPLIED TO DEVELOPING
FIRST-OF-A-KIND
HYDROGEN STORAGE**



Read more / page 20

**CARBON MODELLING
AND INNOVATION ARE
SIGNIFICANTLY REDUCING
OUR ENVIRONMENTAL
IMPACT ON HS2**



Read more / page 22

AT A GLANCE

By drawing on our 150-year heritage of pioneering problem solving, Costain brings together a unique mix of experts to transform the performance of infrastructure that connects, protects and powers people's lives.

OUR PURPOSE

Improving people's lives

OUR VISION

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

HOW WE DO THAT

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

WHERE WE OPERATE

We are focused on four strategic sectors across the UK: Transport, Energy, Water and Defence, and everything that we do is rooted in delivery and organised around our clients.



Read about our refreshed corporate positioning / page 62

AWARDS AND RECOGNITION

We are proud to be recognised for our contribution to clients, our people and wider society.

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.

OUR STRATEGY TO DELIVER

PEOPLE

Our team has a broad range of expertise and works collaboratively to meet our clients' needs. We are focused on unlocking the talent of our 3,500 people and further developing their capabilities to deliver for our clients.

PLANET

Infrastructure contributes 55% of the UK's carbon footprint and has a further impact on the wider environment. We are passionate about safeguarding our planet for future generations and taking action to do so.

PERFORMANCE

We are working to deliver solutions that will improve the performance of infrastructure in a more cost effective way. We are also driving efficiency across our business to deliver for our shareholders.



See our strategy / page 8

OUR AMBITION

We are targeting revenue growth with an operating profit margin of 5-6%.



See our strategy / page 8

HOW WE MEASURE SUCCESS

This year we have outlined financial and non-financial KPIs for the first time.



See our KPIs / page 26

OUR ASSOCIATED RISKS

We are focused on reducing contract risk through improved contract governance and management.



See strategy and risks / pages 8 and 44

OUR STAKEHOLDERS

We collaborate more closely than ever with clients, partners, communities, wider industry and shareholders. Together we are creating connected, sustainable infrastructure to help people and the planet thrive.



See our stakeholder engagement / page 32

OUR INVESTMENT CASE

ATTRACTIVE MARKET, WITH LONG TERM COMMITTED INVESTMENT IN STRATEGIC INFRASTRUCTURE



See our markets / page 12

CLIENT FOCUSED IN KEY SECTORS, WHERE OUR CAPABILITIES DIFFERENTIATE US



See our business model / page 10

WELL CAPITALISED WITH A NET CASH POSITION



See our financial review / page 42

ACTIONS IN PLACE TO DRIVE GROWTH IN PROFIT AND MARGIN



See our strategy / page 8

CHAIR'S STATEMENT

"I am pleased with the underlying performance; we have a strong team to deliver our ambition."

During the last year, the Group has made considerable progress on its journey. This is evident in the improvement in underlying business performance and the increased strategic clarity, as we develop our capabilities in sustainability, consulting and digital.

Importantly, we have been able to conclude legacy contract issues, including the Peterborough & Huntingdon (P&H) contract which was signed in 2016 (see page 141 for more detail). The outcome of the dispute was unexpected and it is disappointing that the Group has had to bear a financial cost of £43.4m, which was paid after the end of the financial year. However, the resolution of this contract will enable management to look forward and focus on the positive long-term prospects for the Group.

I am pleased the Group's adjusted operating profit increased strongly in the year and we saw good free cash generation, which is discussed in more detail in our Financial Review on page 42. The reported loss of £5.8m reflects the settlement of the P&H contract.

Given the pressures of a growing population, the need to meet the impact of climate change and the requirement for more economic and environmental resilience, there are huge possibilities to update, connect and integrate infrastructure ecosystems. Costain can build on its deep construction heritage to address the changing needs of our clients by bringing together a unique mix of experts to engineer solutions for increasingly complex problems.

In return, we expect that Costain can deliver profit growth with better margins. We are already seeing the benefits of these actions, with higher operating profit margins from projects that utilise this approach. This is discussed in more detail by our CEO, Alex Vaughan on page 6.

Engaging through change

The drive to create connected, sustainable infrastructure is increasingly understood by our stakeholders – our people, clients, governments, and our investors – and our Board and management team recognise the need for Costain to engage increasingly with these groups.

Change can be challenging and during 2021, Alex and the management team have been active in leading discussions with our employees on the benefits of our strategy, discussed on page 8, which we expect will enable us to attract and retain talent within the Group. Our clients have responded positively to our strategic direction, with a good pipeline of orders for the Group to manage across the infrastructure ecosystem, while still delivering complex programmes.

We are also conscious of the important role we play in the wider community and the Board has been increasingly focused on Environmental, Social and Governance (ESG) matters. The Board considers leadership culture in these areas to be an essential factor in the Group's ongoing strategic development. Diversity, equality and inclusion remain an area of focus, as they are critical to developing high performing teams. We are committed to ensuring a culture of respect and inclusivity to everyone we employ and

further details on our ESG policies and practices can be found on page 38. We outline the Board's engagement activities in more detail on page 66.

Our people

The past two years have been difficult for our people as we, and our clients, have navigated our way through the pandemic. I am pleased that despite the challenges we have maintained our excellent safety performance. The Board would like to thank our people, clients and partners for their effort and resilience in what has been a difficult time for all.

Capital allocation

The objective of our strategy is to deliver long-term value to shareholders while maintaining a strong balance sheet that underpins our financial position. Costain has targeted a dividend cover of around three times underlying earnings, taking into account the free cash flow generated in the period. It is important that we maintain a strong balance sheet that will support investment in the business to drive growth. Given the final settlement payment made after the close of the financial year in respect of the Peterborough & Huntingdon contract, the Board does not consider it appropriate to recommend a final dividend this year, despite the Group's improved operating and adjusted cash performance. We recognise the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Trading and outlook

As the nature of our business increasingly moves towards the supply of consultancy and digital solutions, we expect the mix of our order book to evolve with a greater number of shorter, higher margin contracts. This, as well as market cycles, is already being reflected, with our order book of £3.4bn at the end of 2021, compared to £4.3bn the year before.

I am pleased to note that a series of contract wins during 2021 set the Group up well for 2022 and we expect to see an increase in adjusted operating profit compared to 2021. We have seen a good start to 2022 in both our divisions, with secured revenue for the Group of more than £1bn.

While we are mindful of market conditions due to the pandemic, and wider economic and geopolitical challenges, there is a positive long-term outlook for infrastructure and we have a significant role to play in helping the UK Government achieve net zero. This, combined with the strategic progress made during 2021, gives the Board confidence in the Group's future prospects.

Finally, as announced alongside our 2021 full year results, I have decided to step down as chair and non-executive director within the next 12 months. The Nomination Committee, led by Tony Quinlan as senior independent director, will soon begin a search for my successor. After six years as chair and non-executive director, we have navigated through some challenging times, but now have a strong management team and a clear strategy to generate sustainable growth in the future.

Dr Paul Golby CBE

Chair

9 March 2022

Q&A WITH CEO ALEX VAUGHAN

"We are delivering a strong operational performance, drawing a line under legacy contract issues and pushing forward with our strategic ambition in strong markets."

What are your key reflections on 2021?

It's a good opportunity to step back and take a moment to talk about how we have changed our business since I became CEO, and to reflect on what we have achieved during 2021.

We had another strong year of performance last year, delivering contracts well, securing the right type of new work and increasing our position on consultancy and digital frameworks for our clients; cementing our position as a valuable strategic partner for our clients. We have importantly drawn a line under all our historic contract issues, the last of which had been contracted as far back as 2016. Having learned the key lessons from the two contract issues, and operating very differently, Costain is now a strong resilient business; as is evidenced from delivering adjusted earnings in line with expectations for the last two years.

Last year we completed an update of our strategy, that confirmed our hypothesis for significant growth of profits and margins. We have a clearer plan, built on the good progress made over the past two years, and a clear ambition to significantly increase the value of Costain. The business leadership is a diverse mix of experts, focused on delivering our ambitions and continuously strengthening the business.

Today we are partners on our client's strategic long-term investment programmes, with a broad team of experts. A leading modern contractor, a sizable value adding consultant and an emerging digital partner shaping a more productive and greener future. We are the new type of company who is best positioned to benefit from helping our clients meet their changing needs.

What were the key financial highlights?

In 2021 we delivered £30.1m adjusted operating profit with a margin of 2.6%, both significant improvements on last year.

Net cash was £119.4m and we continued to secure new work with an order book of £3.4bn at the end of the year. The overall reported operating loss was £9.5m reflecting the final settlement of the Peterborough & Huntingdon contract.

We have made significant changes to improve contract risk management, which gives me confidence we will not experience such significant contract write-offs in future. You can read more about this on page 9.

What is the current status of these legacy contracts?

In February 2021 we reached a settlement with the Welsh Government in relation to the A465 contract, giving us certainty over the final cost of the project. The work has largely been completed, and the road was opened in November 2021.

In December 2021 we received an adjudication decision on several claims in the Peterborough & Huntingdon dispute, most of which were found in our favour on principle. However, the adjudicator chose not to determine the financial amounts in respect of these compensation events. In February 2022 we reached a full and final settlement with National Grid, resulting in a payment of £43.4m. The settlement brings an end to the dispute and prevents any further claims under the contract. While this is a disappointing outcome, I am pleased to have finally resolved this matter and we are now able to move forward and focus on the future.

How do you see the infrastructure market evolving?

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

There is broad investment, underpinned by legislative and regulatory commitments, and there is a pipeline of more than £650bn of investment for the next 10 years across our markets.

To do this, our clients need partners that will support them through these challenges. We expect a move from 'build and then leave to the client', to the infrastructure provider being involved at different stages throughout the whole life of the asset, including strategic development, asset creation, operations and demobilisation.

In delivering net zero, more productive and lower cost infrastructure, we will continue to transform the way new infrastructure is delivered, and commit more resource and investment to extending the life and improving the performance of our existing assets.

What did the strategy update determine?

Our strategy update tested the size and scale of our market and confirmed the significant opportunity it provides. By focusing on four key markets in the UK, namely Transport, Energy, Water and Defence, we are able to develop a deep understanding of our clients' needs and tailor our solutions to them. These markets are also receiving long-term strategic and non-discretionary investment to meet the needs of the UK.

In my mind, addressing the changes in the market requires a new kind of company. We believe that we can be that company, which is why we are building additional capabilities, so we can be construction, consulting and digital partners across the full infrastructure ecosystem. This will allow us to shape, create and deliver solutions to the most complex infrastructure challenges. Whilst the transition is not easy, over time this will enable us to deliver our vision of connected, sustainable infrastructure that helps people and the planet to thrive.

Our broader offering positions us uniquely in the market as we do not see anyone else thinking about infrastructure in the same way. We are increasingly recognised as a sector leader and recently won a silver award in the FT UK's Leading Management Consultants awards. You can read more about our strategy and markets on pages 8 and 12.

Can you update us on the business leadership?

We have assembled a strong leadership team to lead the business in delivering its strategic objectives. Together with the team already in place, during the year Louise Bryant joined us from Aggreko as Group communications and investor relations director, Matthew Higham joined us as chief digital officer from Microsoft UK where he held the same role, and Sam White is managing director of the Natural Resources division, joining from Babcock where he had held a number of managing director roles. Today, the leadership of Costain is more diverse in its expertise and gender than ever before, with more progress yet to be made.

Now that you have completed the strategy update where do you see adjusted operating margins in the future?

The strategy review highlighted the huge potential that we see in our markets, both in traditional programme delivery and in helping our clients navigate the growing complexities of greater demand, less financial resource and the need to safeguard our planet. The volume of our complex programme delivery work is expected to grow our absolute profit in the 3-5% range; and we will continue to grow the proportion of our consultancy and digital business services at margins in excess of 5%. We are presenting our target in terms of operating profit as opposed to divisional margins, and our ambition is to deliver margins in the 5-6% range.

Much has been written about the climate change challenge facing our planet, where are you on your net zero journey?

Having read and heard a lot about the challenges our planet faces, I am committed for Costain to play a leading role in safeguarding its future.

We will do this in how we deliver our infrastructure solutions and what those solutions encompass. Additionally we will play a key role in transitioning to a green energy future, and are making good progress in this area.

Within Costain, our Climate Change Action Plan is to be net zero carbon by 2035, and we have continued to work in collaboration with our suppliers to reduce emissions. We are adopting the latest plant technology and continuing our focus on telematics to drive behavioural improvement to reduce plant idling, with a 20% reduction in 2021. In addition to becoming more efficient in how we deliver infrastructure projects, our materials engineers, designers and PhD researchers have been working hard with our supply chain partners to accelerate the development of low carbon construction materials, and we are growing our work supporting the energy transition, including carbon capture and hydrogen.

But this is not enough; we must do more to reduce the amount of carbon we use in our operations and crucially, the carbon embedded in what we construct, and I have asked the team to look at more ambitious targets for the business. We are well positioned to help shape a greener future in transport and energy.

We have introduced absolute greenhouse gas (GHG) emissions, including Scope 3, as one of our key performance indicators (see page 27), as it is fundamental that however much this business grows, we still reduce the carbon dioxide we are releasing into the atmosphere. I firmly believe that we can do more to play our part in safeguarding the planet and I look forward to updating you on our plans in due course.

What are your thoughts on the outlook for Costain in the year ahead?

Overall, I'm pleased with the progress that we have made and the momentum and ambition across the Company. We have a clear differentiated plan, an outstanding leadership team, and strong contract risk management. Delivering our strategic ambition is not easy, but I'm confident that we will benefit from these changes in 2022 and in the years ahead.

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. I am really excited by the prospect of not only improving the performance of this business for shareholders, but also of delivering better results for our clients, their customers and society as a whole.

Alex Vaughan
Chief Executive Officer

OUR STRATEGY

Our long-term vision is to create connected, sustainable infrastructure that helps people and the planet to thrive.

Our strategy will transform the business and underpins the development of our unique customer proposition, setting us up to deliver this vision.

We are growing our integrated proposition to support our clients' needs for innovation that unlocks better infrastructure performance. Leveraging our deep understanding of complex programme

delivery, we are investing in consulting and digital services to enable us to shape infrastructure spending across the asset life cycle; this is our unique client proposition. Bringing all this together will deliver infrastructure that is more efficient, lower cost and with a positive social and environmental impact.

DIFFERENTIATING COSTAIN

In meeting the changing needs of UK infrastructure we have a unique approach:

- We have chosen to only focus on the UK and in markets where long term strategic investment is being made. See page 12 for more detail on our markets.
- By leveraging our 150-year heritage in problem solving and programme delivery, our experts can meet our clients' broad needs across strategy, capex and opex as construction, consulting and digital partners. It's a new approach. See page 10 for more detail on our business model.
- We will deliver a step change in reducing the environmental impact of construction, by becoming carbon negative and nature positive. We discuss our ESG initiatives in more detail on page 38.

OUR AMBITION

Focus areas to deliver the Group operating margin ambition of 5-6%

1. Improving margins on complex programme delivery (CPD) contracts – our operational excellence model programme is delivering CPD contracts in line with our target margin range of 3-5% and we are trading out the proportion of revenue from historic lower margin contracts.
2. Growing our consulting services – this is developing well, with contract margins growing to more than 5% as we increasingly build our reputation and expertise together with continuing to secure consultancy frameworks with our clients.
3. Growing digital services – building on our digital expertise, we are helping our clients shape and develop their plans and we see a considerable opportunity as infrastructure markets move to greater digital infrastructure to enhance business performance. We expect contract margins in this area of more than 5%. We have new leadership in this area and are investing in a clear and focused plan.

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

OUR STRATEGIC PRIORITIES



PEOPLE

In order to deliver our vision, we must have high-performing teams. We have refreshed our executive leadership

team and have experts throughout the business. Our commitment is to upskill our people and create new and exciting opportunities so that they choose to grow their careers with us, while continuing to ensure that everyone returns home safely at the end of the day. We are also mindful of the impact that we have on our end users, and want to enable people to thrive. Infrastructure needs to deliver more for society and has a significant role to play in levelling up the UK.

Strategic initiatives

- Investment in skills for the future
- Social value measurement



Read about our KPIs /
page 26



PLANET

Protecting nature and the environment to safeguard our planet for future generations is fundamental. We have believed this for a long time, and while we have made changes, we acknowledge that there is considerably more that we can do. We have recently committed to achieved Science Based Target accreditation and have given our sustainability team new direction.

Strategic initiatives

- Commitment to Science Based Targets
- Sustainability strategy update



Read our sustainability section / page 38



PERFORMANCE

Infrastructure needs to deliver more and cost less for the whole of society. By developing a deep understanding of our client's needs, we are pioneering solutions that will deliver infrastructure faster and more efficiently, without compromising on safety or the environmental impact. We are investing in our digital and consulting capabilities to support our clients by helping them develop their strategy, optimise existing assets and deliver new ones. By doing this, we will drive growth in our business.

We are also improving the performance of our business. Costain has existed for more than 150 years, and inevitably over time complexity has crept in. We have identified areas where we can simplify processes and bring clarity and focus to how we work, which will drive efficiency improvements and better service for our clients, while improving returns for our shareholders.

Strategic initiatives

- Data and systems enhancement
- Production thinking



Read our performance review / page 24

CONFIDENCE IN DELIVERY

As a result of the commercial issues faced on legacy contracts, we have conducted a root cause review and upgrade of our contract risk management and delivery assurance processes. As a result, we have implemented a programme of improvements, including:

Work winning

- **Contract selection** – contracts are not pursued where the risk is considered inappropriate
- **Independent review** – expert risk review of contracts by specialist teams outside the bid team
- **Enhanced legal process** – restructured and strengthened legal team to ensure contracts are rigorously assessed, and terms documented to the highest standards.

Operational contract delivery

- **Operational Excellence Model (OEM)** – developed an OEM which is being implemented across the construction contract portfolio. The OEM ensures rigorous process management and consistent practices are applied across the Group. Compliance is assessed and reviewed monthly.

Financial performance

- **Financial oversight** – financial performance of every contract is reviewed monthly, including a holistic assessment of the risks and range of potential outcomes to ensure timely action is taken where performance might deviate from that in the bid process.

Senior management ownership

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

OUR BUSINESS MODEL

Infrastructure is adapting to meet dramatically changing needs driven by climate change, population growth and the need for economic and environmental resilience.

There are huge opportunities to update, connect and integrate our infrastructure ecosystem to create a better future. Doing this requires a new kind of company which brings together a unique mix of experts across construction, consulting and digital. Everything that we do is rooted in delivery and organised around our clients, anticipating and solving their challenges.

HOW WE HELP TRANSFORM INFRASTRUCTURE PERFORMANCE

Client focus

Being curious with clients to understand their challenges and deliver solutions that best meet the needs of their customers – the end users.

Expertise

We have in-depth understanding and expertise to solve challenges across the entire infrastructure asset life cycle.

Capabilities

Our complex programme delivery experience combined with our broader digital and consulting capabilities enable us to deliver better solutions.

People and culture

We have a mix of skills and diversity across our workforce, with more than 400 chartered professionals in our highly skilled teams.

Innovation

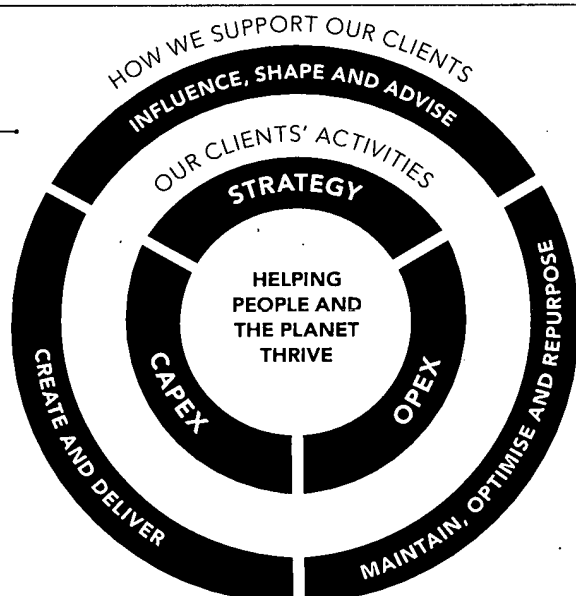
We work in partnership with universities and businesses to research and develop pioneering solutions, and to generate intellectual property rights.

Collaboration

We work closely with our supply chain partners, clients and regulators to ensure we are delivering the best outcomes for the end users.

UNDERSTANDING THE NEEDS OF OUR CLIENTS ACROSS THE INFRASTRUCTURE ECOSYSTEM

We work with clients to anticipate, identify and meet their challenges, helping us to deliver pioneering solutions right across the infrastructure ecosystem.



INFLUENCE, SHAPE AND ADVISE

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



CREATE & 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 COMMITMENT TO BE A RESPONSIBLE BUSINESS

We are committed to doing the right thing: our responsible business commitments are an integral part of our strategy.

OUR CAPABILITIES**Complex programme delivery**

Our people deliver complex infrastructure projects in a sustainable, efficient and practical way by constantly innovating and working collaboratively.

**Consulting**

Our value-adding consultancy and advisory services are rooted in project delivery experience and leverage our broad range of capabilities.

**Digital**

We engineer and integrate digital solutions into our projects to improve the performance of our infrastructure.



See our Responsible Business / page 38

HELPING PEOPLE AND THE PLANET THRIVE

The sustainable, efficient and practical solutions we provide support UK economic growth and contribute to meeting the challenge of economic and environmental resilience.

For all of us

Delivering effective, environmentally friendly infrastructure solutions that are user-friendly and good value for money.

For our clients

Providing leading services to meet our clients' individual needs while delivering safely, reliably and responsibly.

For our people

Keeping our people safe and supporting their personal development to help empower the next generation.

For our partners

We work in partnership with our suppliers and joint venture partners to share best practice across the industry.

For our shareholders

Transforming the business to deliver long-term profit growth and returns.

For the environment

Making efficient use of resources and taking action to help protect and revitalise the environment.

For our communities

Investing in the local areas in which we work and upskilling disadvantaged and under represented people.

MARKET OVERVIEW

We are living through a transformational shift in the environmental and societal expectations of infrastructure. These forces are being felt on a global basis and are driven by three mega trends which we expect to persist for years to come: climate change and resource scarcity; digitisation; and demographic and social change.

MEGA TRENDS

CLIMATE CHANGE AND RESOURCE SCARCITY

Our climate is changing and it is critical that infrastructure is built with this in mind. This means ensuring that it will be resilient to the prevailing conditions in 50 years' time, such as extremes of temperature, natural disasters and rising sea levels. Equally important is designing and building infrastructure in a way that does not have a further detrimental impact on our planet through inefficient resource use or the use of unsustainable materials; we should be aiming to create a nature positive circular economy. A more sustainable, circular-led approach requires the construction industry to consider the full environmental impact of materials across the entire asset life cycle, including decommissioning.

Contribution of infrastructure to the UK's carbon footprint¹

55%

DIGITISATION

There is an urgent need to transform infrastructure performance. The use of data and the impact of changing technology will play an increasing role in improving the efficiency of infrastructure, both existing and in the future. It also has a role to play in providing the tools to increase productivity, improve efficiency and safety, and reduce costs in the design and delivery of infrastructure projects. Cyber security needs to be carefully controlled in this environment to manage the associated risks; however the benefits that digitisation can bring, particularly to resource constrained customers, are large.

Global power infrastructure spend avoided by using smart charging for EVs²

\$100bn

DEMOGRAPHIC AND SOCIAL CHANGE

Inequality is a global challenge and recognised by the UN Sustainable Development Goals as intrinsically linked with infrastructure investment. There is increasing focus on how investment in infrastructure can reduce inequality, while also taking account of other demographic and social changes. Population growth and urbanisation will increase the demand on already stretched infrastructure; in the UK there is expected to be a 20% increase in the urban population by 2050. This will put further pressure on transport systems, water and waste management and will require innovative thinking in how to provide more infrastructure in already congested urban environments. What we want from, and the way that we use, infrastructure is also changing with increased focus on its impact on mental and physical health, working patterns, and diversity and inclusion.

UK urban population growth by 2050³

+20%

¹ Source: Institute for Civil Engineers.

² Source: International Energy Agency, Digitalization and Energy report.

³ Source: United Nations.

⁴ Source: UK Government.

⁵ Source: ONS.

MARKET OPPORTUNITY

In the UK, where we operate, the government is investing heavily in infrastructure.

This underpins the government's National Infrastructure Strategy and Pipeline, published in March 2021, which commits to spending over £650bn on infrastructure in the next five years, significantly higher than in recent years. There is recognition that infrastructure underpins the economy, and a desire

in government to improve the quality of infrastructure to deliver economic growth and simultaneously put the UK on the path to net zero emissions by 2050. We have chosen to focus on four key markets where there is a strategic commitment to invest in meeting national needs and where we are well

placed to support our clients to deliver high-quality, affordable and sustainable outcomes. The transport, water, energy and defence markets benefit from long-term investment plans, underwritten by UK Government policy, regulation and legislation designed to meet a critical national need.

Investment in UK infrastructure⁴

£650bn

Proportion of UK infrastructure spend funded by local government⁵

40%

Average proportion of infrastructure spend on transport⁵

85%

Procurement is evolving

The way in which government assesses, procures and delivers infrastructure investment is governed by the Construction Playbook, introduced in 2020, which provides policies and guidance that government departments are expected to follow. The aim is to improve public sector buying decisions, with greater emphasis on creating social, environmental and financial value. The industry is increasingly using framework agreements ahead of major spending programmes, whereby suppliers included in a framework agree to terms and conditions that will apply for each specific contract. It is not generally a guarantee of work, but is often a prerequisite for being awarded work. Furthermore, alliances that encourage industry collaboration are increasingly being used to drive better outcomes, particularly on the maintenance of existing infrastructure. These processes favour contracting arrangements that better integrate national needs with the supply chain.

MARKET OVERVIEW continued

TRANSPORTATION**We connect and keep the nation moving**

Within Transportation our market is twofold. Firstly supporting key clients such as National Highways, HS2 and Network Rail with strategic development, major infrastructure delivery, existing asset optimisation and operational improvement; and secondly helping local and devolved authorities leverage economic growth through investment in transport infrastructure to support the levelling up agenda. Major infrastructure projects include work for National Highways across the strategic road network (SRN), with investment allocated through the Road Investment Strategy 2 (RIS2) programme, which is committed to spending £27bn between 2020 and 2025. HS2 has committed spend of £72-98bn between 2020 and 2033, with multiple phases and types of contract, playing to both our construction and digital strengths. Network Rail is currently operating in Control Period 6 (CP6), a five-year £53bn investment programme that started in 2019, which is focused on delivering a safe, reliable, efficient and growing railway. In November 2021, the Integrated Rail Plan was announced, which at £96bn is the largest ever public investment in the UK's rail network, and aims to deliver faster and better journeys to people across the North and the Midlands.

RIS2 investment in the strategic road network

£27.4bn

HS2

>£72bn

Integrated Rail Plan

£96bn

Devolved and local authority investment

£20.2bn

(including the £4.8bn levelling up fund)

WATER**We protect water, keeping it clean and flowing**

Our clients in the water sector are privately-owned utility, water and sewerage companies that are regulated by Ofwat in England and Wales, with the regulators 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, while driving innovation to improve resilience. Similar levels of investment are expected in the next Asset Management Period.

AMP7 Ofwat approved investment

£51bn

ENERGY

We power communities sustainably

The energy sector is in transition and forms a key part of the UK's commitment to be net zero by 2050. This sector is diverse, but typically our clients are private entities and we are focused on supporting them through the energy transition and in the nuclear subsector, with a particular focus on the industrial clusters. The UK Government announced its Ten Point Plan for a Green Industrial Revolution at the end of 2020, committing to invest £1bn to establish carbon capture, usage and storage (CCUS) and an Advanced Nuclear Fund to develop the next generation of nuclear technology. The report also highlighted the potential for private investment of over £4bn by 2030 to develop low carbon hydrogen capability. Ofgem, the energy market regulator, has confirmed its major investment programmed into the UK's energy infrastructure from 2021-2026 (RIIO-2) with £30bn upfront funding to deliver a clean and reliable energy system and a further £12bn to support future green energy projects where needed.

RIIO-2 investment in clean energy

£30bn

10 point plan for a Green Industrial Revolution

£12bn

Stimulating private investment of up to

£42bn

by 2030

DEFENCE

We help protect the nation

The national defence budget for equipment and infrastructure is over £23bn annually. In November 2020 the UK Government announced its biggest investment in defence since the end of the Cold War with a £16.5bn increase in spending over a four-year period. This will allow the Ministry of Defence to invest in next-generation military capability. Currently we are only playing in a fraction of this market, mainly in work related to submarines and naval bases. We have identified further areas of opportunity in decommissioning, information systems and services, and infrastructure.

Defence budget

£41.5bn

Increase in defence spending

£16.5bn

MARKET OVERVIEW continued

A19 Testo's junction improvements delivered on budget and ahead of schedule, supporting economic growth

Delivered by Costain for National Highways, the scheme has provided a safer, more accessible and more fluid road network that will support regional economic growth in the Northeast while enhancing the natural environment.

The £130m upgrade included a 142-metre bridge which raised the A19 above the existing roundabout, used by up to 80,000 vehicles a day. It is estimated that 60% of this traffic will use the new flyover, without stopping at the roundabout. A large proportion of these journeys will be between the UK's largest car manufacturing plant, Nissan, and the Port of Tyne.

The nearby A19 Down Hill Lane scheme provides extra capacity at the junction, supporting plans for the development of the International Advanced Manufacturing Park (IAMP) and major international supply chain companies, adjacent to the A19. New link roads have boosted journey times and provided new facilities for pedestrians, cyclists, and horse riders.

Not only has the scheme delivered economic growth, it has also enhanced biodiversity. Digital biodiversity mapping, and geospatial applications helped to gather and visualise environmental and safety data in a secure, single cloud-based data platform that was easily accessed from offices and mobile devices. With live environmental data to hand, teams could plan and deliver works right first time, enhancing environmental and project performance.

SUPPORTING STATISTICS

1250tCO₂e

saved through re-use of material from the A1058 Coast Road

£1.5m+

saved by re-using earth in the landscape and avoiding off-site disposal

26,300

new plants native to the area planted

"Seeing how intuitive data visualisation can enhance the delivery and environmental performance of a project is one of the reasons I'm so passionate about GIS. The role that data will play in delivering infrastructure more efficiently and making it nature positive across the UK, is hugely exciting."

Sofia Stouki
Group Head of Geospatial Information Systems (GIS)



Read more on our website
[www.costain.com/news/news-releases/
new-environment-report-highlights-positive-
impact-of-the-a14-a-costain-skanska-and-
balfour-beatty-joint-venture-project/](https://www.costain.com/news/news-releases/new-environment-report-highlights-positive-impact-of-the-a14-a-costain-skanska-and-balfour-beatty-joint-venture-project/)



Complex programme delivery



Digital



Consulting

MARKET OVERVIEW continued

Securing water supply and optimising network performance for Anglian Water

Costain is collaborating with Anglian Water and three other partner organisations as part of the Strategic Pipeline Alliance (SPA) to deliver a clean water pipeline and develop one of the water industry's first digital twin network operations.

Our knowledge of complex infrastructure delivery and understanding of Anglian Water's operations means that the right physical asset and operational data is fed into the digital twin. This will improve efficiency and reduce cost as the pipeline can be assembled, installed, tested and commissioned in a virtual environment before the delivery phase begins.

Through the integration of systems and business functions, data insights have been significantly improved giving Anglian Water the ability to test scenarios and better plan for events such as drought or flooding. All this will aid planning, as well as reducing maintenance and renewal costs, as issues can be identified and proactively addressed before they affect operations. The end user will soon be able to see how their behaviour affects water demand and supply.

SUPPORTING STATISTICS

100s of km

of resilient clean water pipes are being delivered

6%

of operational electricity and 711 tonnes of CO₂e expected to be saved annually



Complex programme delivery



Consulting



Digital

"Working on industry firsts that are tackling the challenges of clean water supply and climate change is the sort of rewarding work I've always wanted to do. I get to use my digital expertise and deep domain knowledge to make a real difference for future generations."

Dr. Kum Wah Choy

Technology Director and SPA Digital Twin Product Owner

MARKET OVERVIEW continued

Developing first-of-a-kind hydrogen storage for the UK's green energy future

As part of our work to support the energy transition, we are collaborating with INOVYN on the development of a hydrogen storage facility for the HyNet North West project. This is developing solutions for storing hydrogen at scale, which is key to enabling the UK's hydrogen economy.

The HyNet system will take low carbon hydrogen from production to consumption, balancing supply and demand. The facility, the largest in the UK, will enable up to 1.3 TWh of excess hydrogen to be stored underground in salt cavities during periods of low demand and discharged into the gas network during peak winter periods.

We are using more than 70 years of gas processing experience to undertake the initial concept study and front end engineering design that will shape and create the infrastructure required for the import, storage and export of hydrogen at the facility. HyNet North West will unlock a low carbon future for the North West of England and North Wales and help to decarbonise multiple sectors of the economy from 2025 onwards.

SUPPORTING STATISTICS

1.3 TWh

of hydrogen is enough gas to heat over 750,000 UK homes for a year



Consulting

"We're slightly stepping into the unknown, as nobody really knows how the hydrogen economy will work or how the storage needs to perform. The team and I are answering the key questions such as how much, how fast, how often. It's exciting, it's important and we're making it happen."

Rob Beresford
Chief Process Engineer

MARKET OVERVIEW continued

Decarbonising delivery of HS2 for the UK's low carbon transport future

The Costain Skanska joint venture has substantially completed the enabling works for the southern section and with the addition of STRABAG to our joint venture, we are now delivering the construction phase of the main works programme for the new railway.

We are designing and delivering the most complex section of HS2 phase one, including 26 miles of running tunnel between London Euston and West Ruislip, with contract completion in 2027.

Holistic carbon modelling of the entire project, early engagement and leadership in this field made it easy to efficiently reduce carbon emissions. The enabling works team used a Carbon Opportunities process to re-use demolition materials at 20 sites, removing 35,000 lorry movements from local roads and saving 2,000 tCO₂e. On the main works, by working with our supply chain, we've developed innovations such as zero trim piling that eliminates the need to crop piles. This has minimised noise and dust and saved 840,000kg of CO₂ on just one of our sites.

SUPPORTING STATISTICS

25%

carbon reduction already achieved on the main works programme

100% renewable energy

The JV has secured 100% renewable energy tariffs for our works, so our tunnel boring machines (TBMs) and other operations will be run off zero carbon electricity. This is equivalent to about 70,000 tCO₂e saved when compared to a standard UK grid electricity tariff

99%

of waste diverted from landfill

"Working in a JV team with like-minded colleagues, determined to make a difference to our carbon impact, is driving some of the best collaboration I have seen in my career so far. We're setting new benchmarks in environmental performance that I'm really proud of."

Geri Badura
Environment and Sustainability Director for the JV



Complex programme delivery



Consulting



Digital

CHIEF EXECUTIVE OFFICER'S STATEMENT

"Our 2021 results demonstrate the progress we are making to improve the Group's performance."

Alex Vaughan
Chief Executive Officer

Adjusted revenue¹

£1,179m

(2020: £1,071m)

Adjusted operating profit¹

£30.1m

(2020: £18.0m)

Free cash flow²

£38.9m

(2020: £31.6m)

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

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

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

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

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

Our secured revenue for FY22 at year end is more than £1bn. Our order book³ stood at £3.4bn at the year-end (FY20: £4.3bn), reflecting our clients five year investment programmes, greater discipline in contract selection and the shorter lead time of consulting and digital work. The order book evolves as contracts wind down and new contracts are added, therefore it does not provide a complete picture of potential future revenue. In addition to the contracted order book, we have a further £0.9bn of contracts where we are preferred bidder and around 50 further secured frameworks for higher margin consulting and digital services that will yield meaningful revenue each year.

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 10

While the financial impact was disappointing, I am pleased that we have now settled our legacy contract issues.



Read more about Peterborough & Huntingdon contract / page 141

- 1 Before the impact of significant contract provisions and other items of £39.6m (FY20: £110.0m) (see financial statements note 3 on page 141).
- 2 Free cash flow is defined as net cash flow from operating activities, excluding adjusting items, less capital expenditure.
- 3 Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Adjustments to reported items

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

Cashflow and liquidity

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

Payment in respect of the settlement of the Peterborough & Huntingdon contract was made after the FY21 year end in January 2022 and amounted to £43.4m.

The Group continues to maintain sufficient facilities to meet its normal funding requirements over the medium term and, as at 31 December 2021, these facilities comprised a committed revolving credit facility of £131m, a term loan of £40m and £310m of committed and uncommitted surety and bank bonding facilities.

Capital structure and dividends

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

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

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

COVID-19

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

Outlook

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

The Thames Tideway Tunnel is a £3.8bn, 25km super sewer being built under the River Thames.

In 1865 London's first underground sewerage system was opened. Designed by Joseph Bazalgette it had capacity for waste for four million Londoners, double the population at that time. Since then, the population of London has increased to nearly nine million people, placing significant strain on the original system. The Thames Tideway project is upgrading London's sewerage system to cope with its growing population. The 25km tunnel under the river Thames will intercept, store and ultimately transfer sewage waste away from the river.

Costain, in conjunction with our JV partners, is building the east section of the tunnel. In addition to improving the quality of the river, the programme has invested in the local community with employment opportunities and STEM education for local children.



For more information visit our website / www.costain.com/solutions/case-studies/tideway-east/

OUR KEY PERFORMANCE INDICATORS

How we performed

We have introduced a set of KPIs aligned with how we measure our performance against our strategic priorities. These reflect our vision of creating infrastructure that helps people and the planet thrive, while also ensuring that we deliver financial returns for our investors and secure the future of the business.

FINANCIAL METRICS

Adjusted operating profit¹

£30.1m

2021	£30.1m
2020	£18.0m

Measure

Adjusted¹ operating profit.

Relevance

Our business is going through a transformation as we build on being purely a Tier 1 contractor to providing a unique offering across the asset life cycle, and over time, we expect this to be reflected in an improved margin. The £650bn infrastructure investment programme being undertaken by the UK Government is for the more traditional type of construction work, for which margins are lower, and therefore our business mix is likely to mean margins do not improve as quickly as we had previously anticipated. 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 more complete picture of performance.

Target

Double digit compound growth in the medium term.

Performance

Adjusted operating profit was up 67%, reflecting strong growth in work for National Highways and HS2.

Link to strategic priorities



Adjusted operating profit margin¹

2.6%

2021	2.6%
2020	1.7%

Measure

Adjusted¹ operating profit margin.

Relevance

As our business mix shifts to include more higher margin consultancy and digital work, we expect this to be reflected in the operating profit margin. Furthermore, 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.

Target

Our medium-term ambition is for a Group adjusted operating profit margin of 5-6%.

Performance

Improvement was driven by Transportation performance and the conclusion of historic lower margin work.

Link to strategic priorities



Adjusted diluted earnings per share¹ (EPS)

9.6p

2021	9.6p
2020	5.8p

Measure

Adjusted¹ diluted earnings per share.

Relevance

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.

Target

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

Performance

Improvement in EPS is driven by overall improvement in profitability.

Link to strategic priorities



Free cash flow

£38.9m

2021	£38.9m
2020	£31.6m

Measure

Free cash flow is defined as net cash flow from operating activities, excluding adjusting items, less capital expenditure.

Relevance

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.

Target

Cash conversion rate of 90%.

Performance

Good free cash flow in the year, driven by improved operating profit and efficient working capital management.

Link to strategic priorities



¹ Excluding the impact of significant contract provision adjustments and other items (see Note 3 on page 141).

OTHER METRICS

Safety

0.15 LTIR

2021	0.15 LTIR
2020	0.09 LTIR

Measure

Lost Time Injury Rate (LTIR).

Relevance

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

The main outcome metric we use to measure safety performance is Lost Time 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.

Target

Target is to keep LTIR less than 0.15.

Performance

Performance has returned to pre-COVID levels in 2021 as activity on sites increased and control measures were eased. Since 2016 lost time injury rates have halved and we expect our SHE policies to continue to deliver a downward trend.

Link to strategic priorities



Social contribution

£200k

2021	£200k
2020	£211k

Measure

Community investment.

Relevance

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. This is not a perfect measurement and it may evolve over time.

Target

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

Performance

While our absolute community investment went down in 2021, the social outcomes achieved increased, including over 150 employment opportunities.

Link to strategic priorities



Environmental impact

49,000t/CO₂e

2021	49,000t/CO ₂ e
2020	32,165t/CO ₂ e

Measure

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

Relevance

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 clients' operations, but also what becomes embedded in what we build. Further detail on the calculation of our GHG emissions can be found on page 39.

Target

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

Performance

Our total absolute footprint increased by 52% against our 2020 baseline due to the significant increase in construction activity on our Highways contracts. This increase in activity also saw a significant increase in consumption of gas oil (+43%).

Link to strategic priorities



See our full GHG disclosure / page 39

OPERATIONAL REVIEW

Transportation had a good year with a 106% improvement in underlying profitability and the conclusion of the legacy A465 contract.

Adjusted operating profit¹

£41.4m

(2020: £20.1m)

Adjusted¹ revenue was up 19.3% driven by work for National Highways, High Speed 2 (HS2) Main Works and Network Rail, which represent the majority of our divisional revenue. This also drove a significant improvement in operating margin, together with better contract management, outperformance and a change in mix as lower margin contracts come to an end. Reported operating profit of £49.8m includes a provision release following settlement of the A465 contract.

"I am really pleased with the progress that we've made this year by focusing on our clients' needs and delivering what we promise. I am excited by the huge opportunity for us as we look ahead."

Sue Kershaw
Managing Director – Transportation

Transportation highlights

- Adjusted¹ revenue up 19.3% driven by National Highways and HS2
- Operating margin was 4.8%, up 2.0 percentage points due to more effective contract management and outperformance
- Contract wins of £248m in the year, with 2022 secured revenue of £764m
- Conclusion reached on A465 contract

Road

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

the upgrade to the M6 Junctions 21a/26 continues, and we have been supporting National Highways to upgrade stopped vehicle detection and deliver more emergency areas.

Rail

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

¹ Excluding the impact of significant contract provision adjustments and other items (see Note 3 on page 141).

² Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Divisional results

Transportation	2021	2020
Road	408.9	315.2
Rail	356.4	306.3
Integrated Transport	99.0	102.6
Adjusted ¹ revenue	864.2	724.2
Statutory reported revenue	864.2	674.1
Adjusted ¹ operating profit	41.4	20.1
Statutory reported operating profit/(loss)	49.8	(30.6)

the Brighton mainline, improving travel times. During the year we also completed the handover of the Paddington Elizabeth line station.

Integrated Transport

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

Outlook

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

During the year we secured £248m of new work. Revenue secured for FY22² for Transportation is £764m (prior year: £762m).

Digital biodiversity mapping enhanced the natural environment on the A19



[Read more / page 16](#)

OPERATIONAL REVIEW continued

Natural Resources underperformed in the year; Sam White joined in January 2022 to deliver the considerable potential of the division.

Adjusted operating loss¹

£2.6m

(2020: £5.7m profit)

Adjusted¹ revenue for the year was down 8.9% driven by lower activity levels across AMP7 water programmes and slower than anticipated investment in the energy market. The operating margin for Natural Resources on an adjusted basis was down 2.5 percentage points, reflecting the lower revenue and increased costs, particularly in the water sector. Included within the adjusted results, and in line with IFRS 15 requirements, we have recognised a £6.2m provision in respect of a defect in a subcontractor's works for a contract in the water sector. We expect the majority of the rectification costs will be recoverable.

"I'm excited to have joined a company with the heritage and pedigree of Costain and I'm looking forward to working with the Natural Resources team to build stronger market positions and accelerate growth across water, energy and defence."

Sam White
Managing Director – Natural Resources

Natural Resources highlights

- Adjusted¹ revenue down 8.9% and operating profit was down 146% driven by lower activity levels in water and energy
- Operating margin was -0.8%, down 2.5 percentage points on an adjusted basis
- Contract wins of £185m in the year, with 2022 secured revenue of £271m
- Full and final settlement achieved on legacy Peterborough & Huntingdon contract

Water

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

Energy

Adjusted revenue for Energy declined by 17.7% on the prior year. In H1, we saw a number of contract awards deferred into H2 which had a high demand for our engineering and consultancy services. We are one year into a 10-year consultancy project for Cadent, managing the mains replacement programme across the East of England. We have also been successful in gaining a further two-year extension to our EDF Project Controls framework contract where we are supporting them in the safe, efficient operation and decommissioning of their eight UK nuclear power stations.

We continue to build a portfolio of project and consultancy assignments in key areas of the energy transition agenda. We have established positions in a number of projects to enable the wide scale deployment of hydrogen and carbon capture, utilisation and storage (CCUS) technologies, including as deployment lead on the £38m South Wales Industrial Cluster deployment project; the Front End

¹ Excluding the impact of significant contract provision adjustments and other items (see Note 3 on page 141).

² Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Divisional results

Natural Resources	2021	2020
Water	200.0	223.0
Energy	72.0	87.5
Defence	42.4	34.6
Adjusted¹ revenue	314.4	345.1
Statutory reported revenue	271.0	303.1
Adjusted ¹ operating profit/(loss)	(2.6)	5.7
Statutory reported operating profit/(loss)	(50.6)	(51.7)

Engineering Design (FEED) for the Acorn carbon capture and storage scheme in St Fergus, Scotland; and a first-of-a-kind hydrogen storage facility in Cheshire.

Defence

Adjusted revenue for Defence increased by 22.3% on the prior year. We saw good growth in the year, albeit from a small base, as we grow our footprint in this area. We are well positioned in the Ministry of Defence Continuous and Sea Defence programme, and our ambition is to be the delivery partner of choice across the Ministry of Defence's (MoD) strategic infrastructure needs. Revenue in the year was driven by our contract with AWE on a major infrastructure project, where we are providing expertise in design and construction management, and coordinating the work of several subcontractors. We have been awarded a place on a number of Crown Commercial Service

Frameworks and through these we secured two contracts with the Defence Nuclear Organisation, one of which is the provision of a Programme Management Office to support the infrastructure division. In addition, we are pleased to have won a significant consultancy contract for the rebuilding of facilities at Devonport Dockyard, which will mobilise in 2022.

Outlook

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

During the year we secured £185m of new work. Revenue secured for FY22² for Natural Resources is £271m (prior year: £278m).

70 years of gas processing experience applied to develop first-of-a-kind hydrogen storage



Read more / page 20

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 clients and partners, our people, our communities, and our supply chain to minimise our environmental impact and to generate positive, social value. We actively listen to our stakeholders and take action to help address their needs. We look beyond our local impact and engage with stakeholders to consider our wider societal 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 responsible business-related activities, for developing and implementing

policies and strategies that align with our wider business objectives and ensuring that we operate 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

On a biennial basis we conduct a materiality assessment to seek feedback from our stakeholders (clients, suppliers and our employees) on their ESG priorities and pressures. In 2021 we received feedback from over 160 stakeholders via

a digital survey. Participants were from a broad range of job roles, levels and business sectors ensuring a rounded data sample could be obtained. The data and verbatim comments received have been used to ensure that we focus on the big issues that matter and select responsible business KPIs that align with our stakeholders' priorities.

Material issues for our stakeholders

Workforce safety once again features as the highest priority issue for all stakeholder groups, closely followed by public safety and employee health and wellbeing. While all ESG issues on average increased in priority, our stakeholders clearly told us that employee health and wellbeing, availability of skilled resources and ethical conduct have increased most.



Further information regarding our 2021 materiality assessment and analysis of the findings can be found in our ESG report.

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.



Clients

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



Shareholders

Our shareholders' views inform our decision-making and it is important that they understand our strategic ambitions and priorities.



Suppliers

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



Communities and environment

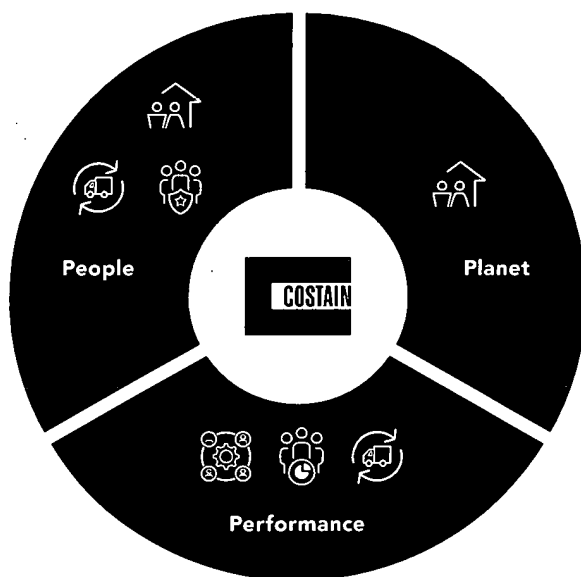
We value the opportunity to engage with our local communities across all of our projects. We generate social value as a result of our work in our local communities.

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



For how we engage with our stakeholders / page 34

Aligning our strategic priorities and key stakeholder groups



People

Offering rewarding careers to our people, while delivering pioneering solutions for our clients 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 clients.

Performance

Improving our operating performance to better anticipate and solve challenges for our clients across the infrastructure ecosystem, while improving our financial performance.

S172 STATEMENT

Engaging with our stakeholders



Workforce

Our commitment to stakeholders

We set out on page 33 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 36 and 37 (Principal decisions), shows how the directors have performed their duty under Section 172 Companies Act 2006, having regard to a range of stakeholder feedback.

During the year, management, overseen by the Board, conducted a top-down, bottom-up review of our strategy and the future direction of the Group. We consulted with each of our key stakeholder groups, as well as government and the media, on their perception of Costain. This exercise confirmed our belief that there is huge opportunity for the Group, but that to deliver this we needed to reposition Costain in the market. A refreshed vision is being rolled-out across the Group to ensure that our people understand how it relates to them in their everyday roles. Feedback so far has been very positive; there is a greater understanding of what makes Costain different and our people are inspired by what we are aiming to do (see page 62 for full details).

Signed by the Board
9 March 2022



Clients



Shareholders



Suppliers



Communities and environment

HOW WE ENGAGED

- To stay connected with our colleagues during the pandemic, we have used face-to-face, virtual and hybrid methods. Board members took part in several site visits.
- We held two safety, health and environment leadership impact days where our people stopped their usual activities and took part in discussions related to the day's themes.
- We held our annual employee roadshow virtually in 2021.
- We conducted a Group-wide wellbeing survey.
- We convened our new, quarterly employee forum, Your Voice.
- We launched a series of live Transportation division quarterly briefings for all employees.
- We refreshed our new joiner induction programme and annual code of conduct compliance training for all employees.
- We conducted client satisfaction surveys to help monitor our performance.
- The Board received presentations from the divisional managing directors on major clients.
- We took our clients on site visits, helping to showcase our capabilities and the quality of work across our portfolio.
- We attended strategic client events such as the opening of the HS2 logistics hub and the A19.
- We organised a series of client roundtables exploring key aspects of programme management.
- Visits to clients were undertaken by members of the leadership team with strong CEO and CFO client engagement.
- We held our annual leadership day and safety, health and environment (SHE) behavioural management conferences.
- We hosted an online conference, our 'Race to Zero: The Power of Collaboration', attended by clients from across our business.
- For the first time, our Annual General Meeting (AGM) was 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 2020 annual report and the basis of the 2021 LTIP grants to executive directors.
- We had a refreshed focus on shareholder engagement, with the assistance of our brokers. The chair, CEO and CFO met with shareholders on a number of occasions.
- Our supply chain managers provide a crucial link with our 3,000+ suppliers, conducting supplier performance reviews with our strategic partners.
- We held our biennial supply chain conference virtually in 2021.
- We held another virtual intake to our supply chain academy, training 84 SME businesses on a variety of topics such as safety, commercial, carbon and social value.
- We facilitated a series of virtual supplier roundtables focused on our wellbeing, innovation, inclusion, safety and environmental (WiiSE) strategy and responsible business commitments.
- As COVID-19 restrictions eased, our community engagement teams, where appropriate, began to meet with local communities in person.
- We continued to use the digital tools we have developed over the past few years to inform, and engage with, our communities.
- Through our position as a Business in the Community (BITC) member, we have worked with the charity to discuss matters such as climate change, wellbeing and skills and employment.

DISCUSSIONS & ACTIONS

- In the year of COP26, we focused engagement on climate action and the responsibility that each member of the workforce has in meeting our net zero carbon objective.
- Our employee roadshow focused on implementation essentials for our strategy, career development opportunities and our dynamic working approach.
- We welcomed the feedback from our engagement survey to ensure we provided the necessary support for our people and to keep them safe during the pandemic.
- We talked about colleague community safety as a response to the Sarah Everard case.
- The Your Voice forum focused on key themes: dynamic working, recognition, communication, blue-collar engagement and COVID-19 safety measures.
- Maintaining client relationships is fundamental to us understanding our clients' needs and those of their customers. In 2021 we changed how client satisfaction is measured.
- We discussed a range of topics with our clients throughout the year, with workforce safety (including COVID-19), employee wellbeing, diversity and inclusion, and decarbonisation the most featured.
- Our flagship 'Race To Zero: The Power of Collaboration' event provided a platform for generating conversations about accelerating the race to net zero.
- Our cross-sector client roundtable sessions 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 talked to shareholders about our share price, results announcements, trading, legacy contract issues and executive remuneration.
- We discussed our contract governance improvements.
- We appointed a new Group director of communications and investor relations.
- 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 WISE strategy and our responsible business commitments.
- We discussed market trends, such as the materials and labour shortages.
- Our local communities have been keen to discuss COVID-19 recovery, archaeological finds, opportunities for local businesses, job opportunities, climate change and biodiversity.
- We stay connected with our local communities to inform them of any operational impact they may experience from our works.
- Some of our high-profile projects have attracted protestor interest and in those cases we have taken efforts to de-escalate tensions and engage in productive conversations.



























OUTCOMES

- The leadership impact days were an effective way to identify and encourage the sharing of the progress already made on our journey to net zero carbon. Many best practice case studies were produced and shared.
- We listened to employee feedback and further developed our COVID-19 safety measures to ensure our colleagues were confident in the effectiveness of the control measures. We reconfigured and refurbished some of our offices to allow employees to collaborate safely in person.
- We embedded our compliance culture.
- We evidenced high levels of staff engagement.
- We encouraged team leaders to create bespoke 'thrive plans' to ensure local measures were in place to support employee wellbeing.
- We implemented a play-list of wellbeing-related training modules available to our colleagues.
- We developed a four-year business plan to take into account our clients' changing requirements and created plans to enhance ways of working.
- The various engagement channels resulted in closer client relationships.
- We transferred learning from one sector to another.
- We placed increased emphasis on the importance of deliverability.
- We were recognised for our activities by winning awards and accreditations (see page 2).
- In 2021 we commenced implementation of a customer relationship management tool which records and tracks all meetings and interactions with analysts and shareholders and invites them to give feedback, which can then be communicated to the Board.
- 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.
- We briefed the Board on the complex shareholding arrangements of some of our larger shareholders, including their reporting obligations.
- We mandated the use of HVO fuel on all plant from January 2022, formalising a supplier agreement for this low-carbon fuel source.
- Costain supported the Supply Chain Sustainability School in creating a new learning platform dedicated to building the skills of managers in the construction industry to accelerate digital adoption.
- We took proactive measures to procure materials ahead of time and, where practicable, stockpiled certain critical materials to ensure productivity.
- Costain senior leaders took part in various BITC events, sharing our best practice on community engagement, skills and employment, climate change, inclusion and wellbeing.
- We worked in partnership with the Prince's Trust to deliver Kickstart placements and virtual workplace visits. Our Group HR director attended a green skills roundtable with HRH The Prince of Wales in St James's Palace.
- Costain colleagues volunteered as mentors for people struggling to get back into the job market as part of the BITC Boost scheme.

S172 STATEMENT continued

Principal decisions

In making the following principal decisions in 2021, the Board, in accordance with Section 172(1), considered the outcome of stakeholder engagement (as set out on pages 34 and 35), 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	In the year, the Board approved a net zero 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 25 of our ESG report at www.costain.com .	    
	COVID-19	The Board continually reviewed its safety procedures in relation to the pandemic in order to protect its workforce and the communities in which it operates, while still meeting its clients' needs and delivering the strategy.	    
Strategy	Financing	During 2021 the Board approved amendments to the Group's bank and surety facilities that mature in September 2023, together with financial covenants for 2021. The Group has remained compliant with those financial covenants throughout 2021, with a comfortable level of headroom, and anticipates maintaining compliance with its financial covenants looking forward. Preparatory work has now commenced to look at amending and extending the current maturity date of the Group's bank and surety facilities.	   
	Delivery of strategy	<p>The strategy, four-year business plan and 2022 budget were approved by the Board, following a comprehensive review of our strategic priorities and risks to the business, by way of items at the May, July, October, November and December Board meetings. The business plan takes into account our clients' changing requirements and includes plans for a number of enhanced ways of working.</p> <p>The Board oversaw a comprehensive review of the strategy and future direction of the Group (see page 62). It also had oversight of the recruitment strategy and attracting, unlocking and developing talent.</p>	    
	Communications strategy	The Board appointed an external adviser to assist with the strategic update and improvements to the communications plan and approach. A refreshed vision is being rolled out across the Group to ensure a greater understanding of what makes Costain different.	    
	Capital markets	The Board received two updates on market activity during the year from its financial advisers, which included mergers and acquisitions and sentiment regards debt and equity, in order to help the directors assess the opportunities and risks which could impact stakeholders.	 



WORKFORCE



SHAREHOLDERS



CLIENTS



SUPPLIERS

COMMUNITIES AND
ENVIRONMENT

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 December 2021 Peterborough & Huntingdon contract adjudication decision. The CEO, CFO and Group director of communications and investor relations held various conversations with analysts and shareholders to ensure they fully understood the current position and impact.	
	Contract review and risk management	The Board had oversight over improved contract review and work winning processes, including a new onerous terms policy, together with improvements to the governance of the contract lifecycle. The Board contemplated at multiple times during the year the process in relation to the Peterborough & Huntingdon contract dispute with National Grid, including the adjudication decisions and potential financial scenarios. It also considered the settlement agreement with the Welsh Government in respect of the A465.	
	Cash flow	In support of our suppliers, the Board oversaw improvements in payment practices against the requirements of the Prompt Payment Code to which Costain Limited, the Group's major trading subsidiary, is a signatory.	
	Pension	In 2021, with the assistance of a specialist adviser, the Board reviewed the pension scheme's investment strategy and noted the requirements of and changes required by the Pension Schemes Act 2021. In addition, it was agreed with the pension scheme trustee to seek to appoint a professional independent trustee in 2022.	
	Dividends	Having regard to what it considered, in good faith, to be for the benefit of its shareholders, the Company recommended no dividends in respect of 2021 (see page 4).	
Culture and governance	Board appointments	To further align with the strategy and enhance its skillset, the Board approved the appointment of Tony Quinlan as non-executive director and later chair of the Audit Committee, and Neil Crockett as non-executive director (see Nomination Committee report on pages 80 to 83).	
	Board governance	Following in-depth reviews, the Board approved changes to the delegated authority matrix and the matters reserved for the Board, to increase visibility of high risk/value matters. It also adopted a refreshed non-audit services policy and received more qualitative and insightful reporting in relation to its largest shareholders.	
	Employee share plan	Approval of a new sharesave plan for submission to shareholders at the 2022 AGM.	

RESPONSIBLE BUSINESS

Leading with our responsible business commitments

Our commitment to responsible business

Leading as a responsible business is integral to our strategic priorities of people, planet and performance, (see page 27) underpinning how we operate and our expectations of our people, suppliers and partners. We have made 10 commitments that act as guiding principles for our strategic and operational decision making. These 10 commitments align with the ESG priorities shared by our stakeholders and, if delivered upon, will support us to meet our UN Sustainable Development Goal aligned 2030 goals. Our responsible business commitments are supported by Costain policies, procedures and enabling plans and strategies (wellbeing, safety and environment (WiiSE), Climate Change Action Plan and inclusion strategy).

Aligned with the UN Sustainable Development Goals

In 2015, The United Nations Sustainable Development Goals (SDGs) were adopted by United Nations (UN) member states, as a global call to action for governments, business, and society to end poverty, protect the planet and ensure prosperity for all by 2030. We recognise that we have an important role to play in this process, both in what we do as a business and how we do it responsibly.

We have mapped our business against the SDGs and believe through the delivery of our 'leading edge strategy' we can directly impact SDGs: 6, 7, 9, 11 and 13 and significantly contribute to the targets that underpin each goal.

In addition, we recognise that by operating responsibly and sustainably that we can also play a part in contributing to SDGs: 3, 4, 5, 8, 10, 12, 14, 15 and 16. To find out more about our SDG alignment please see our ESG report.



Environment

OUR COMMITMENTS

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

2030 GOALS

- Eliminate waste through an active role in the circular economy
- Net positive biodiversity impact and increased natural capital



Social

- 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

- 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



Governance

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

- 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

2021 OBJECTIVES

- Reduce plant idling by 20%
- 20% carbon reduction from our car fleet
- Environmental Incident Frequency Rate of <0.12
- 100% of relevant contracts measuring natural capital and biodiversity impact
- Issue a compliant Task Force for Climate Related Financial Disclosures (TCFD) disclosure.

- Lost Time Injury Rate of 0.15
- Continue to support the Mental Health at Work Commitment
- 100% year-on-year increase in inclusion network membership
- 50 trained and visible inclusion allies
- Our employee population to be 29% female and 11% BAME
- Support 100 disadvantaged young people
- Volunteer 500 hours to support COVID-19 recovery initiatives.

- Spend >£100m with small business and VCSEs
- Have an average Considerate Constructors Scheme score of >42.

OUR 2021 PROGRESS AND PERFORMANCE

CO2 equivalent emissions (across all legal entities)

	2021	2020	% change
Total emissions tCO ₂ e	49,000	32,165*	52%
Scope 1 tCO ₂ e (in '000s)	16,736	12,405*	35%
Scope 2 tCO ₂ e (in '000s)	1,319	1,123*	17%
Scope 3 tCO ₂ e (in '000s)	30,945	18,637	66%
Emissions intensity (tCO ₂ e/£m)	42.97	32.77*	31%

* Restated figures

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.

- See page 11 of our ESG report for a detailed breakdown of our emissions including totals of energy consumption
- Zero major environmental incidents

Environmental Incident Frequency Rate

0.15

2020: 0.14

Lost Time Injury Rate (LTIR)

0.15

2020: 0.09

- 16 reportable accidents in over 30 million working hours
- 85% employee confidence in Costain's COVID-19 safety measures

Community giving

£200k

2020: £211k

- 2,200 hours volunteered in our local communities
- 44% increase in graduates and apprentices joining our early careers programme

Spend with SMEs

- £322m spent with small businesses and VCSEs
- 84 SMEs took part in our supply chain academy, taking the total number of businesses to 290 since 2012
- Average Considerate Constructors Scheme score for Costain contracts 44.6/50.

Diversity of our workforce

Employees

2021	2,561	942
2020	2,302	815

Board members

2021	5	3
2020	3	4

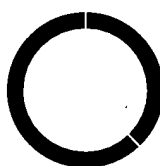
Senior management

2021	18	11
2020	23	10

Male Female

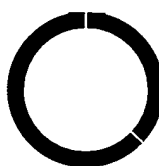
38%

2021



37%

2020



IN 2022 WE WILL...

- 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
- Undertake a company-wide debate to discuss inclusion
- Supporting 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 the Volunteer Hub

- > 35% of our spend to be with SMEs
- Conduct further scenario analysis to progress our ICFD disclosure
- Incorporate Sustainability Accounting Standards Board (SASB) framework into our annual reporting

RESPONSIBLE BUSINESS continued

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

We are reporting against the TCFD recommendations for the first time.

We are pleased to be reporting against all 11 of the TCFD recommendations and will continue to make progress on this highly complex topic and as such our disclosures in future years will reflect our progress to refine the quality of our reporting. Our full TCFD disclosure is included in our ESG report to provide all of the required information in a readily identifiable and accessible format. The table below provides a high level summary of our disclosure, including what we consider to be strategically important. For further detail, we have linked the relevant sections of our disclosure to the relevant sections of this annual report and our ESG report.



Find our 2021 ESG report on our website / www.costain.com/our-culture/performance-and-reports

GOVERNANCE

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 seven Board meetings in 2021. (ESG report page 8).

Describe management's role in assessing and managing climate-related risks and opportunities.

The TCFD working group is chaired by the CFO and reports into the Executive Board. During the year climate change was discussed at nine Executive Board meetings and scenario analysis was undertaken. (ESG report page 8).

STRATEGY

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 and physical damage to assets. Opportunities include the possibility of leading the decarbonisation of our industry. (See pages 12 and 13 for Market Overview and ESG report page 9).

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

To leverage opportunities relating to decarbonisation, Costain may have to invest in additional capabilities. The revenue opportunities are growing and our strategy update and business planning highlights areas for us to grow into. (ESG report page 9).

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We assessed our exposure to changes in chronic heat (physical risk) and our exposure to changes in carbon pricing (transition risk). There is a growing uncertainty of the impact of climate change and we need to improve our data to fully understand the risks. (ESG report page 9).

RISK MANAGEMENT

Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how these processes are integrated into the organisation's overall risk management.

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 44 to 48 for risk management and ESG report page 10).

METRICS AND TARGETS

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 11 of our ESG report for information on how we monitor our climate-related risks. Costain is working to improve the data available and this will be reflected in future disclosures.

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Please see page 39 for our GHG emissions data.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Please see page 39 for our GHG emissions data and our ESG report (pages 11 and 12) for information on our progress towards our net zero objective.



Read more on our website / www.costain.com/what-we-do/climate-change-solutions/

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 Global Reporting Initiative.

ESG and risk management reporting requirements and additional information

Environmental ●●●

- Our responsible business commitments / page 38

Employees ●●●●●●●●

- Our responsible business commitments / page 38
- Board composition and diversity / pages 60 and 61
- Gender pay gap report and Inclusion strategy (www.costain.com/our-culture)
- Inclusion strategy

Human rights ●●●●●●

- Supplier code of conduct (www.costain.com/suppliers)
- Modern slavery statement (www.costain.com/our-culture)

Social matters ●●●●●

- Our responsible business commitments / page 38
- Gender pay gap report and Inclusion strategy (www.costain.com/our-culture)

Anti-corruption and anti-bribery ●●●

- Supplier code of conduct (www.costain.com/suppliers)

Policy embedding, due diligence and outcomes

- Principal risks and uncertainties / pages 44 to 48

Description of principal risk and impact on the business

- Principal risks and uncertainties / pages 44 to 48

Description of business model

- Business model / pages 10 to 11

Non-financial KPIs

- See pages 27, 38 and 39

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 Chief information officer.

Collaborative working ●

This policy sets out the approach that Costain management shall take to ensure a collaborative working environment is maintained and relationships reflect the requirements of 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 clients, 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 clients, 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 Group human resources director.

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 Group human resources director.

Responsible business ●

This policy sets out the Board's expectation for how the Company, its employees, partners and suppliers must conduct themselves, including 10 commitments to responsible business. This policy encompasses Costain's approach to social value and transparency in our reporting. The Executive Board sponsor for this policy is the Group human resources director.

Sustainable procurement and supply chain ●

The Costain sustainable procurement and supply chain policy stipulates the conditions of all procurement activity, aligning outcomes to our responsible business commitment and business strategy. The Executive Board sponsor for this policy is the Group commercial director.



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

FINANCIAL REVIEW

"We have delivered strong adjusted profit growth and increased cash generation, with year end net cash of £119m."

Helen Willis
Chief Financial Officer

Adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	2021	2020	Change	2021	2020	Change	2021	2020	Change
Revenue £m									
Adjusted	864.2	724.2	19.3%	314.4	345.1	-8.9%	1,178.6	1,070.5	10.9%
Adjusting items	-	(50.1)	-	(43.4)	(42.0)	-	(43.4)	(92.1)	-
Reported	864.2	674.1	28.2%	271.0	303.1	-10.6%	1,135.2	978.4	16.0%
Operating profit £m									
Adjusted	41.4	20.1	106.0%	(2.6)	5.7	n/m	30.1	18.0	67.2%
Adjusting items	8.4	(50.7)	-	(48.0)	(57.4)	-	(39.6)	(110.0)	-
Reported	49.8	(30.6)	n/m	(50.6)	(51.7)	2.1%	(9.5)	(92.0)	89.7%

Adjusting items

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

Net financial expense

Net finance expense amounted to £3.8m (FY20: £4.3m). The interest payable on bank overdrafts, loans and other similar charges was £3.0m (FY20: £4.1m) and the interest income from bank deposits and other loans and receivables amounted to £0.1m (FY20: £0.6m). In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £nil (FY20: £0.2m income) and the interest expense on lease liabilities of £0.9m (FY20: £1.0m) under IFRS 16.

Tax

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

Cashflow

The Group generated a £38.9m free cash inflow for the year (FY20: £31.6m).

The Group had a positive net cash balance of £119.4m as of 31 December 2021 (HY21: £113.0m, FY20: £102.9m) comprising Costain cash balances of £101.3m (HY21: £100.0m, FY20: £89.8m), cash held by joint operations of £58.1m (HY21: £57.0m, FY20: £61.1m) and borrowings of £40.0m (before arrangement fees of £0.6m (FY20: £1.2m)) (HY21: £44.0m, FY20: £48.0m). During the year, the Group's average month-end net cash balance was £107.0m (HY20: £102.9m, FY20: £73.8m).

Free cash flow reconciliation

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

Net cash reconciliation

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

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

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

Financial resources

The Group has in place banking and bonding facilities from banks and surety bond providers to meet the current and projected usage requirements. The Group has banking facilities of £171.0m with its relationship banks with a maturity date of 24 September 2023. These facilities are made up of a £131.0m revolving credit facility and a £40.0m term loan. The revolving credit facility was not utilised throughout the financial year to 31 December 2021.

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

Capital allocation

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

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

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

Pensions

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

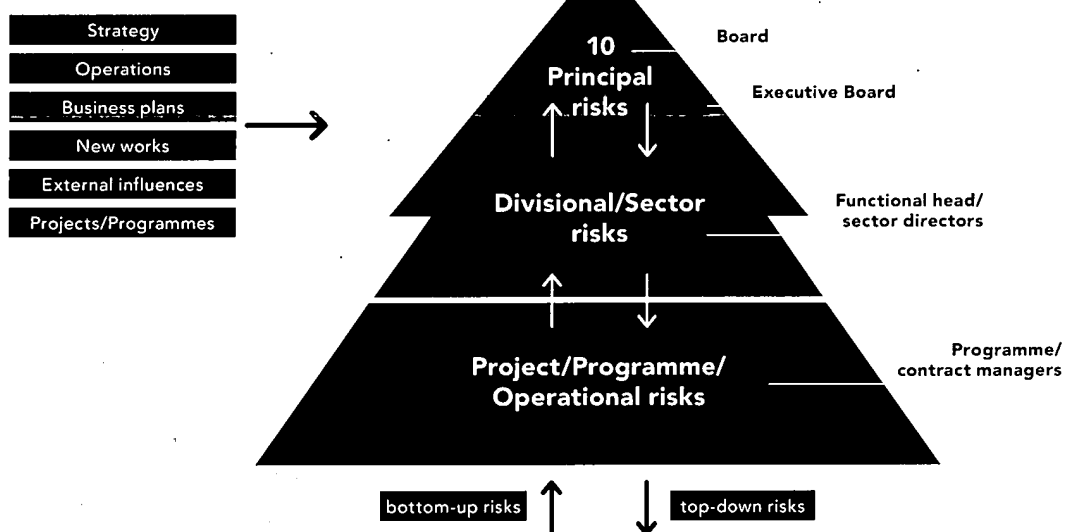
Managing risks and opportunities is integral to the delivery of our strategic objectives

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.

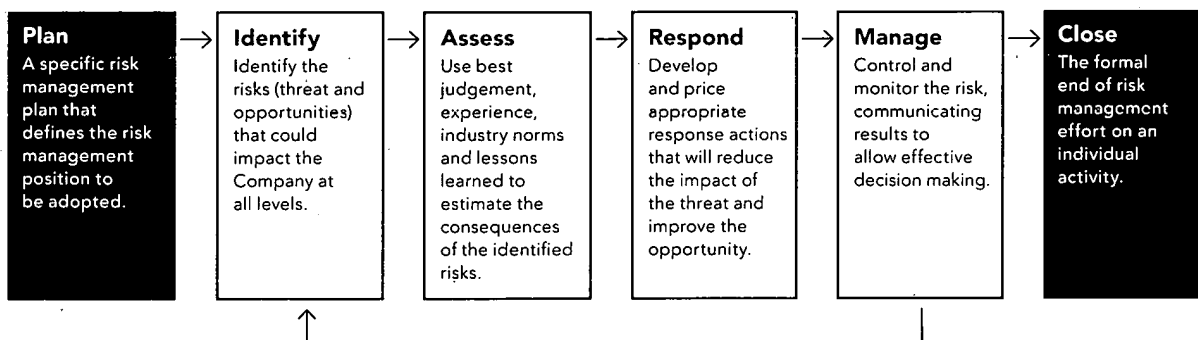
Risks are identified both top-down from the Group strategy and bottom-up from the major projects, programmes, joint ventures and ongoing, business as usual, operational activities. These are then escalated or consolidated (as appropriate) and assessed based on a consistent methodology to identify and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

Risk input factors



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.



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 manager. 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 is 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 opposite.

Risk appetite

Risk appetite, which defines the level and types of risk we are willing to accept, has been considered by the Board in 2021. We have a zero tolerance to harm (physical or mental) to individuals.

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 79.

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.

Following the significant commercial issues on legal contracts, in 2021 Costain launched The Big Risk Conversation. This is a behavioural campaign to embed risk and opportunity discussion in every conversation, every day. Central to the approach has been the application of the behavioural science from Costain's Behavioural Safety programme to shape effective risk conversations to enhance decision making. Further information regarding changes to our contract risk management process can be found on page 9.

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. In 2021, recognising the increasing prevalence of climate change events in the UK and the global environment, we have elevated this emergent risk to a principal risk. We now have 10 principal risks, see pages 46 to 48.






Climate change is increasing the number of unforeseen weather events (flooding, drought, storms). These events bring about 'physical risks' that impact our society directly and have the potential to affect the economy. Significant changes are needed to UK infrastructure to be more climate resilient. This presents an opportunity for us but in order to realise this opportunity we need to demonstrate our own journey to net zero and that we operate in a way that supports the environment and the green economy.

Climate change presents physical and transitional risks. Failure to adapt our business to meeting client needs through the transition or ensuring physical resilience could prevent our business from thriving.

PRINCIPAL RISKS AND UNCERTAINTIES continued

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 8 and 9.

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
① Prevent a major accident, hazard or incident	<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>↔ Risk trend: Neutral (FY20: Neutral)</p>	<ul style="list-style-type: none"> • Safety, Health and Environment (SHE) management policies and procedures. • The Costain Behavioural Safety (CBS) programme. • Mandated accident and near miss reporting and embedding of lessons learned. • SHE governance, monitoring and assurance. • Training to selected supply chain partners on wellbeing, safety and environment. 	  
② Increase the profitability and margin performance of the Group	<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 clients. Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value.</p> <p>↔ Risk trend: Neutral (FY20: Increasing)</p>	<ul style="list-style-type: none"> • Governance (in addition to the Executive Board): key meetings and reports to monitor and measure progress against plans. • Clear implementation plans: business plan, corporate calendar and strategic implementation plan. • Engagement Forums: utilising existing stakeholder group forums to test various elements of the strategy implementation. • Performance and investment – annual business budget includes investments and KPIs linked to the delivery of the business plan. 	
③ Maintain a strong balance sheet	<p>A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our clients. Failure to manage this risk could affect our ability to achieve our business goals and our resilience to withstand economic downturns.</p> <p>↔ Risk trend: Neutral (FY20: Neutral)</p>	<ul style="list-style-type: none"> • Quarterly profit and cash forecast produced for current and following fiscal year including monitoring of covenant compliance and cash headroom and liquidity. Approved forecast reported to Executive Board and Costain Group PLC Board. • Short-term three month rolling weekly cash flow forecast produced and reviewed by senior finance team. • Developed Finance Improvement Plan to include key priorities, milestones and detailed plan. 	
④ Secure new work	<p>Our future growth and profitability is dependent on our ability to secure new work in our competitive marketplace. To be successful we need to maintain strong client relationships and broaden our service offering by delivering innovative solutions across complex delivery, digital and consulting activities.</p> <p>↔ Risk trend: Neutral (FY20: Neutral)</p>	<ul style="list-style-type: none"> • Clear and realistic business plan objectives. • Executive Investment Panel ensuring focus on target markets and prioritisation of resources and activity. • Client Relationship Management (CRM) system to identify, manage and review all key stakeholders. • Develop, implement, monitor and report on targeted divisional market plans. 	

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
5 People	<p>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.</p> <p>↑ Risk trend: Increasing (FY20: Neutral)</p> <p>An increasingly competitive market following very low staff turnover during the pandemic has resulted in a higher staff turnover in 2021. Our continued mitigations are key to our staff retention.</p>	<ul style="list-style-type: none"> 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. Resourcing working group established, with representation from across the business, to identify ways to resolve current challenges in resource requirements. Greater focus on succession planning and development in the talent review process. 	
6 Deliver projects effectively	<p>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 clients and investors.</p> <p>↔ Risk trend: Neutral (FY20: Neutral)</p>	<ul style="list-style-type: none"> Monthly performance review process incorporating standard reporting at project, sector, division and Group levels. Additional "deep dive" on major projects. Increased legal oversight of contracts, including the definition of a set of onerous contract terms requiring approval from the chief financial officer and general counsel. Conduct improved JV analysis based upon values and past experience with partners including putting in place better "Way of working/Teaming agreements". Monitoring supply chain with strategic and preferred supplier status requirements established in the Operational Excellence Model. 	 
7 Manage the legacy defined benefit (DB) pension scheme	<p>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.</p> <p>↔ Risk trend: Neutral (FY20: Neutral)</p>	<ul style="list-style-type: none"> 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. Agree pensions risk approach with Costain Group PLC Board. (Pensions presentation to cover DB pension scheme history, company risks, options to manage risks, 2022 valuation and 2021 Pensions Schemes Act). 	 

Link to strategic priority



People





Planet



Performance

PRINCIPAL RISKS AND UNCERTAINTIES continued

Principal Risk	Description and impact	Controls and key mitigations	Strategic link
8 Ensure that our technology is robust, our systems secure and our data protected	<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, client and third-party data.</p> <p>↑ Risk trend: Increasing (FY20: Neutral)</p> <p>There have been increased threats in the market with more attacks since the start of the pandemic and the current geo-political situation further heightens the risk.</p>	<ul style="list-style-type: none"> Increased investment in cyber security. New chief digital officer with cyber background. Engagement with key technology partners and suppliers to ensure potentially vulnerable systems are identified and updated. Working in line with GCHQ guidance and ensuring we are proactive in our cyber security management. Maintaining our accreditations: ISO27001 and ISO22301; Cyber Essentials Plus. 	 
9 Anticipate and respond to changes in client circumstances	<p>We have seen changes in the business operations and investment priorities of our core clients and clients challenged by ever-evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our clients and respond effectively could restrict our ability to grow margins and increase market share.</p> <p>↔ Risk trend: Neutral (FY20: Neutral)</p>	<ul style="list-style-type: none"> Weekly management information on business development and work winning reviewed at senior leadership teams, Executive Board and sector meetings. Capture client perception and net promoter score via assessment of service quality reviews. Key account management plans in place with targeted actions/reviews. Client zipper (stakeholder relationship map) plans in place aligned to strategy and campaigns from Board downwards, with more formalised data collection. 	  
10 Climate change resilience	<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>New principal risk</p>	<ul style="list-style-type: none"> Development of climate change supply chain risk roadmap for 2021 and beyond. Development of new core climate change competencies for all disciplines. Incorporate climate change into business continuity planning. Roll-out of 2021 climate change action plan targets and training programme across the business. 	  

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 clients' 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 clients 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 2023 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 46 to 48). 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, 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 liquidity and interest covenants as set out within its banking facilities.

Impact of COVID-19

We continue to closely monitor the COVID-19 situation and will continue to follow UK Government Guidelines. We have considered the potential on-going impact of COVID-19 in our scenario analysis.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, 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 2024.

Going concern

The Group's going concern statement is detailed in note 2 of the consolidated financial statements on pages 131 and 132.

Strategic Report

Our 2021 Overview and Strategic Report on pages 1 to 49 have been reviewed and approved by the Board of directors and signed on its behalf by

Sharon Harris
Company Secretary
9 March 2022

BOARD OF DIRECTORS

Experienced and effective leadership



C

Dr Paul Golby

CBE, FREng, FIET, FIMechE, FEI, FCGI

NON-EXECUTIVE CHAIR

Alex Vaughan

BSc (Hons), FRICS, Dip IoD, FloD

CHIEF EXECUTIVE OFFICER

Helen Willis

ACA, BSc

CHIEF FINANCIAL OFFICER

C

Jacqueline de Rojas

CBE

INDEPENDENT
NON-EXECUTIVE DIRECTOR

Appointment	May 2016	May 2019	November 2020	November 2017
Skills and experience	<p>Paul Golby was appointed as chair of Costain in May 2016. A fellow of the Royal Academy of Engineering, Paul has held a variety of roles within the engineering and energy industries. Following an early career with Dunlop Holdings plc and BTR plc he joined Clayhithe plc, becoming an executive director in 1992. In 1998, Paul joined East Midlands Electricity plc and following its acquisition by PowerGen (subsequently E.ON UK plc) was appointed executive director, UK operations. In 2002, Paul became chief executive and later executive chair, stepping down from the E.ON Board in 2011. Paul was also non-executive chair of AEA Technology Group plc (2009–2012), chair of Engineering UK (2010–2016) and pro chancellor and chair of council of Aston University (2009–2017). He was a member of the Prime Minister's Council for Science and Technology (2010–2019), non-executive director of National Grid plc (2012–2021) and also chair of the Engineering and Physical Sciences Research Council (2012–2018).</p>	<p>Alex Vaughan was appointed CEO in May 2019. Prior to this he was managing director of the Natural Resources division with responsibility for Costain's services to water, oil and gas and power clients as well as the development of client-facing technology solutions across the Group. He held this position from 2013. Alex is qualified as a chartered quantity surveyor. He has worked on infrastructure projects in the UK and internationally, as well as having held a number of corporate roles including Group HR director and corporate development director. In 2009 he completed the Harvard Business School Advanced Management Program (AMP). Alex was chair of the CBI regional council from 2019–2021.</p>	<p>Helen Willis was appointed CFO in November 2020. She has significant experience in senior finance roles, including most recently as chief financial officer of De La Rue. Prior to this, Helen worked at Premier Farnell between 2014 and 2017, including as chief financial officer from 2015. She has also held senior finance roles at Pelican Rouge, AZ Electronic Materials, and HSS Hire.</p>	<p>Jacqueline de Rojas was appointed as a non-executive director in November 2017 and became Remuneration Committee Chair on an interim basis on 12 January 2022. As president of techUK she is a leader in the UK technology sector and an experienced non-executive director who has held executive positions at global blue-chip software companies such as Citrix Systems, CA Technologies, McAfee and Novell. Jacqueline was previously a non-executive director of AO World Plc and Home Retail Group. She is the co-chair at the Institute of Coding and advises the board of accelerateHER to address the under-representation of women in technology. Jacqueline also lends her support to the Girlguiding Association and is an executive mentor at Merryck & Co. She was awarded a CBE for services to international trade in technology in the 2018 New Year Honours list.</p>
External appointments	<p>Board member of the ERA Foundation and chair of the National Air Traffic Services (NATS Holdings Ltd).</p>			<p>Non-executive director and senior independent director at Rightmove plc and non-executive director at FDM Group (Holdings) plc. President of techUK, chair of Metapraxis Ltd and non-executive director of IFS.</p>

COMMITTEE MEMBERSHIP

Member of the
Remuneration Committee

Member of the
Audit Committee

Member of the
Nomination Committee

Chair of Committee



Bishoy Azmy
MBA, BSc

NON-INDEPENDENT
NON-EXECUTIVE DIRECTOR

June 2020

Bishoy Azmy was appointed as a non-executive director in June 2020. Bishoy is the designated Board representative of ASGC, a construction conglomerate with its headquarters in Dubai, UAE, and which is a shareholder of Costain. Bishoy has been responsible for developing ASGC's expansion strategies, overseeing the group's digital transformation and optimising operations across diverse construction sectors.

Bishoy is an active member of the Young Presidents Organization (YPO) and an associate of the Chartered Institute of Arbitrators. Bishoy graduated from the American University in Cairo with a BSc in Construction Engineering (2002). He is a PMI Project Management Professional (2006) and also holds a masters in international construction management from the University of Bath, UK (2007) and an MBA from London Business School, UK (2013).



Tony Quinlan
ACA, BSc

SENIOR INDEPENDENT
DIRECTOR

February 2021

Tony Quinlan was appointed as an independent non-executive director in February 2021, became audit committee chair in May 2021 and senior independent director in January 2022. He is a chartered accountant, an experienced non-executive director and audit committee chair with experience as a public company chief executive and finance director. He was previously chief financial officer (2015) and chief executive officer (2016) of Laird PLC, chief financial officer of Drax Group plc (2008-2015) and held senior finance roles at Marks & Spencer plc (1992-2008). Tony was also previously senior independent director and chair of the audit committee for the Port of London Authority.

Non-executive director and senior independent director of Hill & Smith Holdings PLC and non-executive director of Associated British Ports. Adviser to Laird.



Neil Crockett
BA

INDEPENDENT
NON-EXECUTIVE DIRECTOR

October 2021

Neil Crockett was appointed as an independent non-executive director in October 2021. Neil was chief digital officer at Rolls-Royce from 2016-2018 where, in partnership with business unit leaders, he accelerated the development of the group's digital strategy. Before that, Neil gained strong experience of the wider UK digital innovation community and from 2013 to 2016 was the founding CEO of Digital Catapult, a UK Government-funded digital innovation organisation. Neil previously held several global, European and UK leadership positions with Cisco Systems (1998-2012). He is non-executive director of Catalyst, a not-for-profit organisation accelerating innovation and growth in the Northern Ireland knowledge economy. Neil is also a member of the Queen's Awards for Enterprise Innovation category panel.

Trustee board member and chair of risk committee at Barnardo's and non-executive director of Catalyst.



Sharon Harris
LLB

GENERAL COUNSEL AND
COMPANY SECRETARY

September 2020

Sharon Harris trained as a solicitor at Norton Rose Fulbright and worked as a solicitor at Simmons & Simmons. She is a general counsel and company secretary with listed company experience gained in multiple sectors, including energy and defence. She has considerable international and domestic experience of legal, commercial and governance matters.



For more details of the Directors' skills and experience, please see the Notice of 2022 Annual General Meeting / www.costain.com

EXECUTIVE BOARD

An experienced leadership team to deliver the strategy

**Alex Vaughan**

BSc (Hons), FRICS, Dip IoD, FloD

CHIEF EXECUTIVE OFFICER

Helen Willis

ACA, BSc

CHIEF FINANCIAL OFFICER

Matthew Higham

CHIEF DIGITAL OFFICER

Catherine Warbrick

BSc (Hons) Environmental Science

GROUP HR DIRECTOR

	Appointment	May 2019	November 2020	December 2021	September 2019
Skills and experience		For more information please go to page 50.	For more information please go to page 50.	Matthew Higham was appointed chief digital officer in December 2021. His experience has centred around leading digital business transformation and maximising the benefit of digital technology adoption across multiple industries, including infrastructure. Before joining Costain he was chief digital officer & sustainability lead for Microsoft UK. Prior to this Matthew worked across a range of markets including financial services, manufacturing, automotive, critical national infrastructure, travel, transport, local and national services. He has a solid background in design led thinking and has worked for companies such as McLaren Technology Group, Gatwick Airport and Equiniti (now called EQ).	Catherine joined Costain in 2006 and has performed a number of roles, most recently as director of learning and development and corporate responsibility and prior to that as investor relations director. Highlights of her career with Costain include developing and implementing the Group's first Corporate Responsibility (CR) strategy, achieving Platinum status in Business in the Community's CR Index in 2013 and driving change to achieve the Group's recognition in the Times Top 50 Employers for Women 2018-2021, and being cited as a game changer in 2019 for our work on gender parity in early careers recruitment. Catherine graduated with an honours degree in Environmental Science.

External appointments

Member of the techUK Climate Strategy & Resilience Council and Net Zero Technology Centre Industry Advisory Board.

The Executive Board, chaired by Alex Vaughan, focuses on running the business and delivering the Group strategy.

Sue Kershaw
BSc (Hons) Civil Engineering

MANAGING DIRECTOR –
TRANSPORTATION

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.

Sam White
MBA, BSc

MANAGING DIRECTOR –
NATURAL RESOURCES

January 2022

Sam White was appointed managing director of Natural Resources in January 2022. He has a strong track record in developing strategic client 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.

David Taylor
FRICS, FIoD

GROUP COMMERCIAL
DIRECTOR

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, supply chain and procurement functions. David is also executive sponsor for business improvement including the delivery of operational excellence across the Group's portfolio of complex delivery projects. Since December 2020, David is the executive sponsor for wellbeing for the Group.

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.

David is a Fellow of the Institute of Directors and a Fellow of the Royal Institution of Chartered Surveyors.

Sharon Harris
LLB

GENERAL COUNSEL AND
COMPANY SECRETARY

September 2020

For more information please go to page 51.

President of the Association for Project Management, a member of the Mayor of London's Infrastructure Advisory Panel and a Royal Academy of Engineering visiting professor at the Bartlett School of Construction and Project Management, University College London.

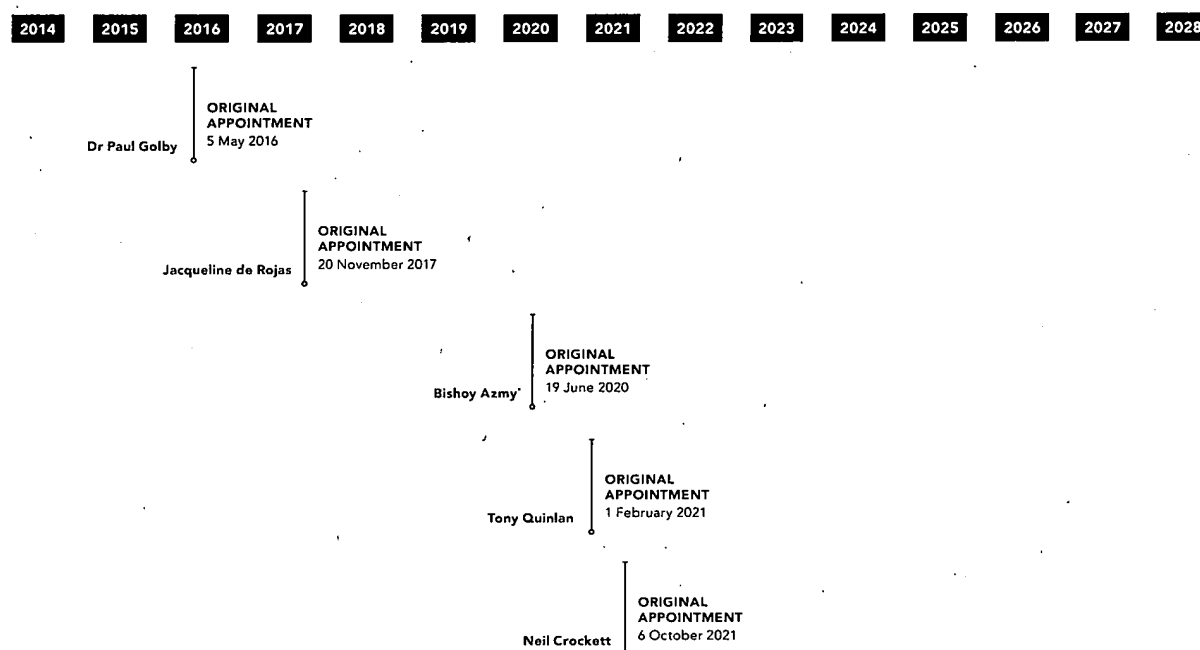
Elected Councillor for the Confederation of British Industry (CBI) in London.

GOVERNANCE AT A GLANCE

Leading a responsible business

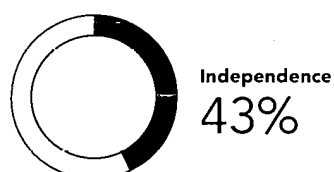
NON-EXECUTIVE DIRECTOR SERVICE TIMELINE

Below we demonstrate the longevity 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.



* Shareholder representative director

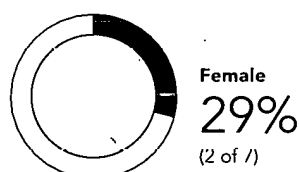
BOARD INDEPENDENCE



Chair*	1
Non-independent directors	3
Independent directors	3

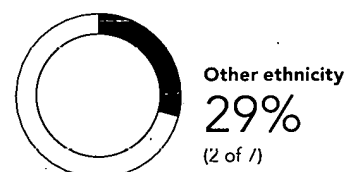
The chair was independent on appointment.

GENDER REPRESENTATION ON OUR BOARD



In March 2021, the Board had 50% female representation, however, this had lowered to 29% by January 2022. The Nomination Committee is working hard to address this position (see pages 80 to 83).

ETHNICITY REPRESENTATION ON OUR BOARD



All other ethnic groups combined (excluding white minorities)

84%

of employees say Costain
is a great place to work

96%

of employees feel
committed to helping
Costain succeed

88%

of employees are proud
of the Costain brand

GOVERNANCE HIGHLIGHTS

- Reviewed Costain's contract lifecycle governance processes.
- Reviewed contract risk appetite including new onerous times policy.
- Considered Company's strategy in managing contractual disputes.
- Approved changes to the delegated authority matrix and matters reserved to increase Board's oversight of higher risk areas.
- Conducted in-depth strategic review.
- Further alignment of Board skills to strategy.
- Updated the whistleblowing policy and transferred ownership to the legal function.
- Board evaluation focused on insightful comments and not a ratings approach.

EXAMPLES OF KEY BOARD DECISIONS

- Contract adjudications impact.
- COVID-19 safety measures.
- Pension Schemes Act 2021 impact.
- Refreshed diversity and inclusion policy.
- Director changes and responsibilities.
- 2022 budget and four-year business plan.

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 2021 annual report.

1. Board leadership and Company purpose

- A Effective Board (pages 50 and 51)
- B Purpose, values and culture (pages 62 and 63)
- C Governance framework and Board resources (pages 26, 27 and 44 to 48)
- D Stakeholder engagement (pages 32 to 37)
- E Workforce policies and practices (page 41)

2. Division of responsibilities

- F Board roles (pages 59 and 74)
- G Independence (pages 50, 51, 54 and 71)
- H External appointments and conflicts of interest (pages 72 and 82)
- I Key activities of the Board during 2021 (pages 64, 65 and 74)

3. Composition, succession and evaluation

- J Appointments to the Board (pages 80 to 83)
- K Board skills, experience and knowledge (pages 50, 51 and 70)
- L Annual Board evaluation (page 74)

4. Audit, risk and internal control

- M Financial reporting, external auditor & internal audit (pages 73 and 76 to 79)
- N Review of the 2021 annual report (page 73)
- O Internal financial controls and risk management (pages 44 to 48 and 73)

5. Remuneration

- P Linking remuneration with purpose and strategy (pages 85 and 86)
- Q Remuneration policy review (page 87)
- R Performance outcomes in 2021 (pages 84, 96 to 98)
Strategic targets (pages 96 to 101)

CHAIR'S INTRODUCTION

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

Dear shareholder

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. The Board recognises the value of good corporate governance to long-term sustainable business success and has demonstrated compliance with the 2018 UK Corporate Governance Code (the 2018 Code) with the exception of Provision 41 relating to opportunities for employees to discuss executive pay. While Costain did not engage with employees during 2021 specifically on this matter, it did engage with and seek feedback from employees (see pages 34, 35, 66 to 69 and 71). In addition, pay, reward and benefits were discussed broadly at the staff roadshow (see page 69).

We have reviewed our engagement channels and will be compliant with Provision 41 of the Code during 2022 by actively using the 'Your Voice' employee forum for this dialogue (see page 68 for details of Your Voice). No questions regarding executive pay have been raised by representatives at the forum, which meets quarterly.

ESG

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

As regards COVID-19, as a Board we have continued our commitment to safety measures to protect our people and the communities in which we operate while continuing to deliver to our clients (see pages 25, 34 and 35).

Further, all Board and Committee meetings were held in line with government guidance in relation to the COVID-19 pandemic.

The Board has spent time in the year focusing on our part in delivering smart motorways and the relevant safety aspects of them (see page 28).

The Board approved our net zero strategy (see page 27 of this report and pages 11 and 12 of our ESG report at www.costain.com for more information).

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 our share price does not reflect the underlying performance of the Group and that Costain has underperformed the sector, the Board identified the need to build stronger investor and market confidence in the Company. Louise Bryant was appointed our new Group communications and investor relations director. In 2021 we also began a review of Costain's strategy, including

its purpose, vision and mission. This exercise confirmed our belief in the opportunities for the Group, but showed that to deliver we need to reposition Costain in the market. By focusing on the delivery of our strategy, we believe we can achieve strong growth. Further details of the strategy update are on pages 6 to 9 and 62.

Contract risk management

Effective risk management is a fundamental aspect of the Group's operating, financial and governance activities.

Following disappointing contractual outcomes (see the Q&A with CEO Alex Vaughan on page 6), the Board has led a review of our contractual processes. This has resulted in the implementation of improvements throughout the Group, including an effective contract lifecycle programme and a new onerous terms policy to ensure the Company does not enter into contracts where the terms are outside the Company's contractual risk appetite.

The Board supported the 'Big Risk Conversation' initiative (see page 45) to make the consideration of risk and opportunity an everyday habit at Costain. Board members use the site visits (see page 67) as an opportunity to lead a 'Big Risk Conversation'.

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

Board and Committee governance

To align with our strategy and further strengthen our Board, we have made two non-executive director appointments in the year. Tony Quinlan was appointed to the Board on 1 February 2021 and became chair of the Audit Committee in May 2021 when Jane Lodge stepped down from the Board. Neil Crockett was appointed as non-executive director in October 2021. These two appointments were in line with the Board's succession plan and followed extensive external search processes.

Pending the departure of Alison Wood later in January 2022, Tony Quinlan became the senior independent director, with Jacqueline de Rojas appointed Remuneration Committee chair on an interim basis, both effective 12 January 2022.

The Nomination Committee has also had significant focus on executive and senior leadership succession planning and development, as well as Board and Group-level diversity and inclusion. The Nomination Committee is working hard to address the current balance of women on our Board. Our instructions to external search consultants are to always include a diverse long-list of candidates. The Board is proud that Costain, for the fourth consecutive year, was named as a Times Top 50 Employer for Women.

Further details of all Nomination Committee matters are provided in the Nomination Committee Report on pages 80 to 83.

During the year the Board also benchmarked then updated its delegated authorities to ensure it had the correct level of oversight set out in the matters reserved for the Board.

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.

We shall be submitting a new remuneration policy for approval by shareholders at our 2023 AGM.

Please see the Directors' Remuneration Report on pages 84 to 107 for more information.

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 63).

Board effectiveness review

Following the externally-facilitated Board evaluation in 2020, an internal effectiveness review of the Board and its Committees was conducted in 2021. This year we asked Board members to provide more detailed commentary on a smaller number of key areas. This led to an increased focus and greater insights (see page 74 for more details).

Chair update

As announced alongside our 2021 full year results, I have decided to step down as chair and non-executive director within the next 12 months. The Nomination Committee, led by Tony Quinlan as senior independent director, will begin a search for my successor who I will work with to ensure a well managed and orderly transition.

Dr Paul Golby CBE

Chair

9 March 2022

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 2021, 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.

Costain was compliant with the provisions of the 2018 Code in 2021 with the exception of Provision 41 (see opposite).

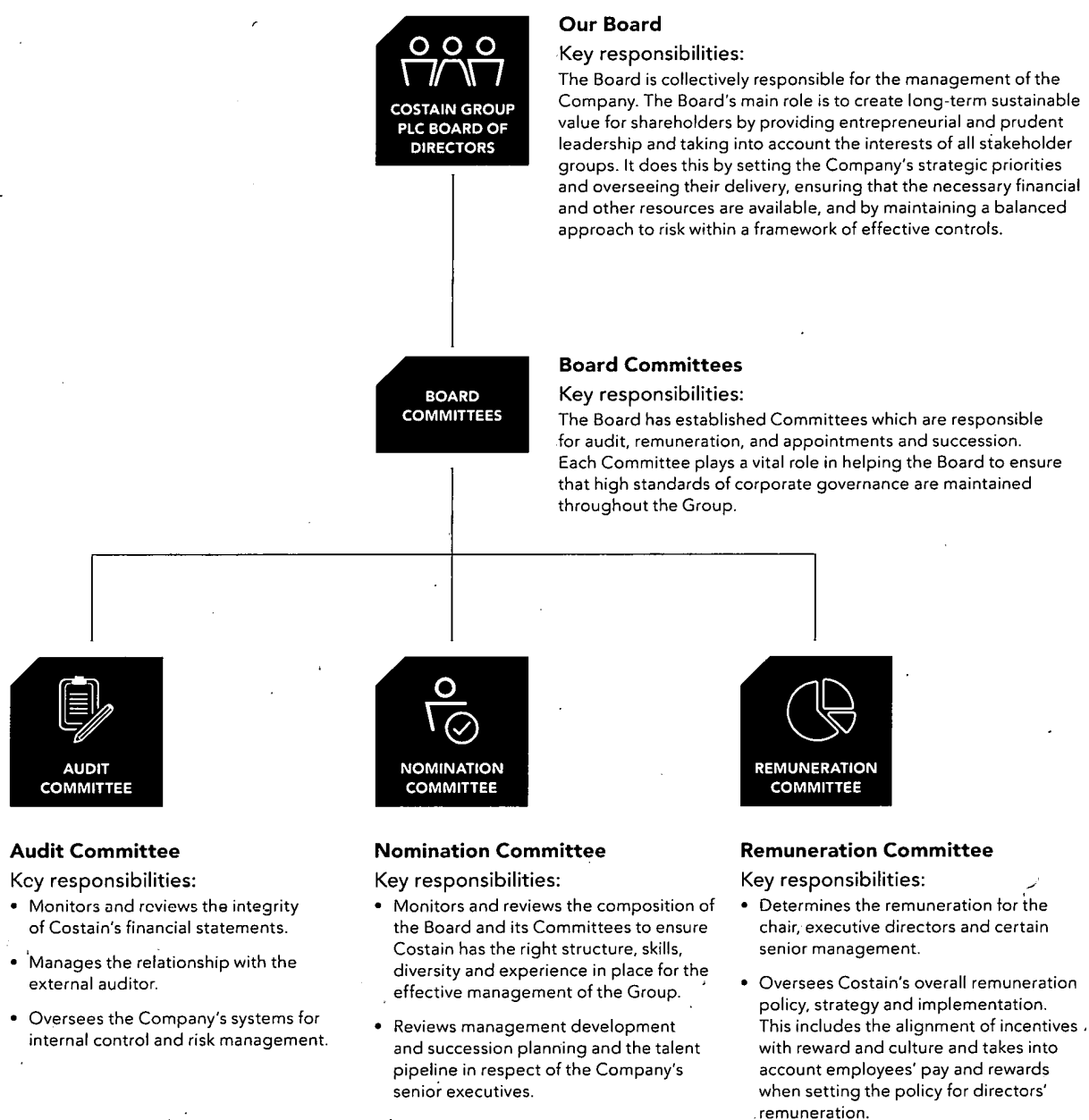
The Audit Committee Report on pages 76 to 79, the Nomination Committee Report on pages 80 to 83 and the Directors' Remuneration Report on pages 84 to 107 are also incorporated into this report by reference.

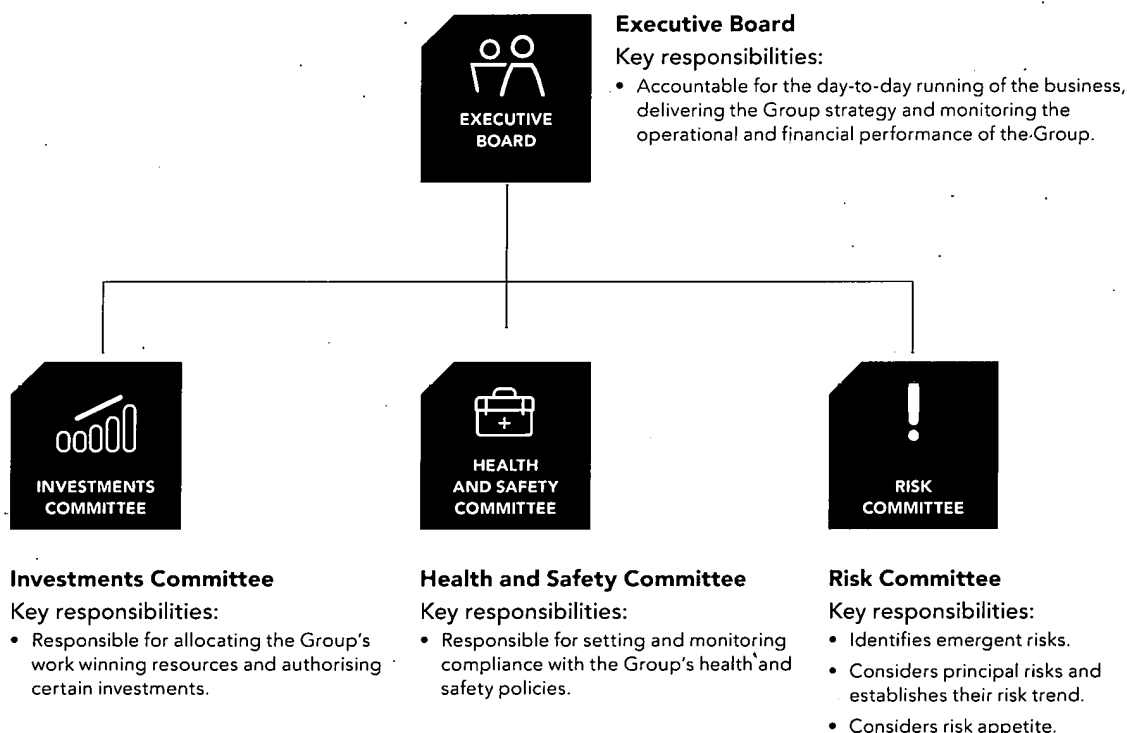
On the following pages we explain our approach to corporate governance, demonstrating how the Board and its Committees have fulfilled their responsibilities to ensure robust governance practices are embedded throughout the Group.

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	
Chair	The chair, Paul Golby, is responsible for the effective leadership and operation of the Board. Paul promotes high standards of governance and supports and guides the CEO.
Chief executive officer	The CEO, Alex Vaughan, is responsible for managing the business of the Company through the implementation of policies and strategies approved by the Board. Alex is responsible for maintaining dialogue with the chair, the Group's shareholders and other stakeholders.
Senior independent director	<p>The role of the senior independent director involves providing a sounding board for the chair, acting as a point of contact for shareholders to raise any concerns and meeting with the other non-executive directors, without the presence of the chair or executive directors, to discuss such matters as the appraisal of the chair's performance (see page 75).</p> <p>Tony Quinlan was appointed senior independent director on 12 January 2022.</p>
Non-executive directors	The non-executive directors all bring valuable experience, insight and perspective to the Board, through their former or current executive roles and their other non-executive positions, which are held across a wide range of businesses and disciplines. This facilitates robust decision making by the Board as a whole. The non-executive directors, including the chair, also meet without the executive directors being present from time to time as a matter of good corporate governance.

Further information



In 2021, the matters reserved for the Board were reviewed and updated to increase the Board's oversight in certain areas. No changes were made to the terms of reference of Board Committees in 2021 which are also reviewed annually. The matters reserved for the Board and Committee terms of reference 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 50 and 51, and 70.

BOARD DIVERSITY

Diversity and inclusion

Female representation

Level	Actual 31 Dec 2020	Actual 31 Dec 2020 (number)	Actual 31 Dec 2021	Actual 31 Dec 2021 (number)	Actual 9 March 2022	Actual 9 March 2022 (number)
Board	57%	4 of 7	38%	3 of 8	29%	2 of 7
Executive Board	50%	4 of 8	56%	5 of 9	50%	4 of 8
Senior Management	30%	10 of 33	38%	11 of 29	41%	13 of 32

Costain is committed to maintaining a diverse Board and in 2021 the Nomination Committee approved a refreshed policy on Board and Committee diversity and inclusion.

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.

In 2021 Costain updated its inclusion strategy setting ambitious objectives and a long-term goal of having a workforce that is representative of the communities in which we operate. This extends to broader diversity aspects such as sexual orientation, disability and socio-economic background.

The Board endorses the objectives and actions set out in the 2021 inclusion strategy.

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

- In 2017 Costain met the target of 33% of a company's board to be female by 2020 and maintained this percentage until very recently. The Nomination Committee's efforts to address Board diversity are set out on pages 80 to 83.
- In 2017 Costain met, and continues to meet, the target for FTSE 250 companies to have at least one non-white director on their boards by 2024. Costain has two BAME directors.

The Board's commitment 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. In 2020 and throughout 2021, we achieved the significant milestone of 50% or more of our Executive Board being female.

We recognise that there is progress to be made on the ethnic diversity of our senior management and we therefore made this a specific focus in our 2021 succession planning work. We are working hard to increase BAME representation in our development programmes.

Costain has a clear implementation plan in place to improve diverse representation, close its gender pay gap 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. Progress in meeting the Company's objectives is monitored by the Board and is built into the objectives of management.



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

ACHIEVEMENTS IN 2021

Managing diversity goes beyond the boardroom. Across the Group we have implemented a number of diversity initiatives to foster a culture of inclusion.

What is psychological safety?

Psychological safety is about creating a workplace where people feel able to speak up with information, ideas, questions or concerns, without fear of discrimination as a result. At Costain, we know that psychological safety is key to creating inclusive teams which bring diversity of thought to our solutions.

How have we improved psychological safety?

Active allyship

As part of our 2021 inclusion strategy, we pledged to train 50 senior leaders to be visible allies across the business. We have achieved double our target and established active allies among our employees and our supply chain to create a safe space to challenge non-inclusive behaviour.

Creating feedback loops

Our six employee networks are crucial to creating a safe space where members can provide feedback. Through feedback from our employee networks, we have enhanced our policies to ensure they are representative of everyone. We have developed our 'A Manager's Guide to...' series, produced a guidance for transitioning (gender) at work and are raising awareness of diverse personal protective equipment (PPE) requirements and how to access PPE for specific needs.

Data-informed decision making

A review in 2019 established that 50% of our workforce had not disclosed ethnicity on their personnel record, which suggested a possible lack of psychological safety around personal data sharing. With the help of our REACH (religion, ethnicity, and cultural heritage) employee network, we contacted employees to understand the barriers to sharing this data, communicated how data was used and protected, and demonstrated to employees how they could update their details on the system. We have since reduced our unknown ethnicity percentage to 9% in 2021.

This demonstrates an improvement around psychological safety in sharing data. It also helps us to ensure there is equal access to promotion and development opportunities through regular review and analysis.

"Having diverse teams can bring diversity of perspective to our approach. However, only with an inclusive culture, fuelled by psychological safety, will we enable diverse thinking to surface, and become embedded in our solutions."

Jyoti Sehdev
Group EDI manager

**TIMES TOP 50 EMPLOYERS
FOR WOMEN CONSULTANTS**

OUR PURPOSE, VALUES AND CULTURE

Our recommended positioning

PURPOSE

Improving people's lives

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 clients, 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 clients.

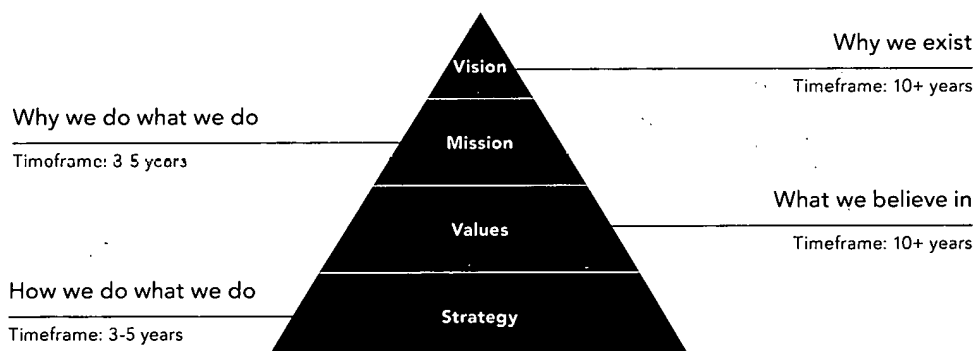
To achieve the best possible solutions and make infrastructure fit for a better future, we collaborate more closely than ever with clients, partners, communities and wider industry. Together we are creating connected, sustainable infrastructure to help people and the planet thrive.

Refreshing our corporate positioning

During the year we undertook an update of our strategy and the future direction of the Group. This exercise confirmed our belief that there is huge opportunity for the Group, but that to deliver this we needed to reposition Costain in the market.

The perception of Costain across key stakeholders was of a solid, but smaller, Tier 1 construction partner. Our strategy was not well understood, and investors in particular were struggling to see differentiating factors. Over an intensive three-month period, we undertook research to understand what current perceptions were across all stakeholder groups, but critically identify those factors that were commonly agreed on and those areas where there was some dissonance. As part of this phase, we spoke to our people, investors, clients, suppliers and also included feedback from the media and Government. This research informed an initial positioning which was subsequently put through rigorous testing to reach the version included here.

This refreshed vision is being rolled out across the Group to ensure that our people understand how it relates to them in their everyday roles. Alongside this we are also refreshing our values to reflect the new positioning. Feedback so far has been very positive; there is a greater understanding of what makes Costain different and our people are inspired by what we are aiming to do. See also Q&A with CEO Alex Vaughan on pages 6 and 7.



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



Outputs from staff surveys



See page 66



Whistleblowing reports



See page 79



Internal audit reports and findings



See page 78



Health and wellbeing performance



See pages 27 and 66



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



See pages 39 and 41



Progress in respect of diversity and inclusion



See pages 60 and 61

Rewarding the right behaviours in our quarterly awards

Being Curious

As part of the commitment to 'Build Back Better', Rhian Lawton was recognised for her instrumental role in helping to fulfil our commitment to offer Government Kickstart placements to young people aged between 16 and 24, who are currently at risk of long-term unemployment. She connected with projects across the organisation to identify opportunities, worked with the HR function and recruitment to develop a process, and has managed our relationship with the Prince's Trust and Department for Work and Pensions. During 2021, we placed 12 'kickstarters' in the business – a true example of how we are improving lives and generating social value through the delivery of our contracts.

Being Innovative

Howard Dukes won an award for always putting the safety of the roadworker and customer first. Working with Chevron TM, Howard has helped develop the Enhanced Mobile Carriageway Closure Technique (EMCC) which involves using a bespoke, adapted traffic management vehicle to provide a rolling road block allowing traffic management operatives installing the taper for upstream lane closures to do so in a safe and controlled environment. Simultaneously, the technique helps to improve delivery of construction programmes, allowing longer, more predictable working periods. This has now been approved by National Highways and is being adopted across the network.

KEY ACTIVITIES

The following summarises the Board's main activities and areas of discussion during 2021.

Key area of activity	Link to Principal Risk
Safety, health and environment	
Monitored safety, health and environment performance against the WISE strategy (see pages 1 and 38 to 40).	1 2 3 4
Continued to review the robustness of the Company's safety procedures and working practices to meet the challenges of COVID-19, including employees' wellbeing (see pages 56 and 66).	5 6 9 10
Monitored progress against the Climate Change Action Plan and targets set in 2020 (see pages 38 and 39).	
Approved a net zero strategy.	
Strategy	
Reviewed the progress made in delivering the Group's strategy, including multiple interactive and in-depth strategy sessions attended by various members of the Executive Board.	1 2 3 4
Conducted a thorough review of the strategy and the Company's market positioning (see page 62 and business model on page 10).	5 6 9 10
Business and financial performance	
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
Reviewed and approved several large projects to support the growth and strategy of the Group.	9 10
Considered the Company's performance on major contracts and the Company's strategy in managing contractual disputes. Undertook detailed discussions in respect of the Peterborough & Huntingdon contract adjudication process, outcome and next steps. Reviewed the position with other legacy contracts and the progress made to resolve them.	
Oversaw improvements to the timing of supplier payments under the Prompt Payment Code.	
Reviewed and approved the 2020 annual report and preliminary results announcement, the 2021 interim results statement and the dividend policy. Continued to review the timing of the reinstatement of future dividends.	
Received reports on analyst and investor feedback and received presentations from the Company's financial advisers.	
Noted the position as regards the Company's bank and surety facilities and financial covenants (see pages 25 and 77).	

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
Risk and opportunity	
Reviewed contract risk appetite, introducing an effective contract lifecycle governance process and a new onerous terms policy (see page 56).	1 2 3 4
Undertook deep dive reviews of our principal risks to reassess these in light of the risk mitigation actions undertaken, including an evaluation of our major accident, hazard or incident process, review of digital and cyber security risks, a presentation on our key clients' changing needs in Transportation and Defence and consideration of progress with our people, as well as a review of our pensions strategy and risk. Approved an additional principal risk in relation to climate change resilience.	5 6 7 8 9 10
Endorsed and took part in discussions on 'The Big Risk Conversation' (see page 45).	
Continued to evaluate the impact of COVID-19 on the Group's operations (including on the supply chain) and financial performance as Government guidance and regulations changed in line with the evolving pandemic.	
Continued to monitor the impact of Brexit on the Company's supply chain.	
Culture and governance	
Approved recommendations from the Nomination Committee regarding Board succession.	2 3 5 7
Implemented actions to address the findings from the 2020 externally-conducted Board effectiveness review. Conducted an internally-facilitated Board effectiveness review in 2021. Further information about this process and the outcomes can be found on page 74.	
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 Tony Quinlan who is a director of Hill & Smith Holdings PLC (a non-material supplier to the Company).	
Approved changes to the delegated authority matrix and the matters reserved for the Board.	
Approved the arrangements for the 2021 AGM to comply with Government guidelines on COVID-19.	
Approved a revised whistleblowing process including transfer of responsibility to the legal function.	
Contributed to and approved the Company's response to the BEIS consultation on 'Restoring trust in audit and corporate governance'.	
Noted restructurings of the legal and finance functions to strengthen their support in delivering the strategy by closely aligning them to the divisions.	
Received updates on the Group's defined benefit pension scheme and related governance including the impact of the Pension Schemes Act 2021. Reviewed the Group's pensions investment strategy and risk with advisers and approved the proposal to seek to appoint an independent professional trustee in conjunction with the current pension scheme trustee board.	
Talent and people	
Discussed, via the Nomination Committee, succession planning and talent development for the executive directors and the Executive Board.	1 4 5 6
Engaged with high potential candidates through presentations and deep dives at Board meetings.	
Reviewed and discussed the feedback from the 'Your Voice' forum, wellbeing survey, site visits and annual staff roadshow (see pages 66 to 69).	
Noted the increase in early careers recruitment and apprenticeships.	
Noted progress with recruitment and reviewed staff turnover rates.	
Agreed not to offer an invitation under the Company's sharesave scheme due to the prevailing share price.	

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 client circumstances

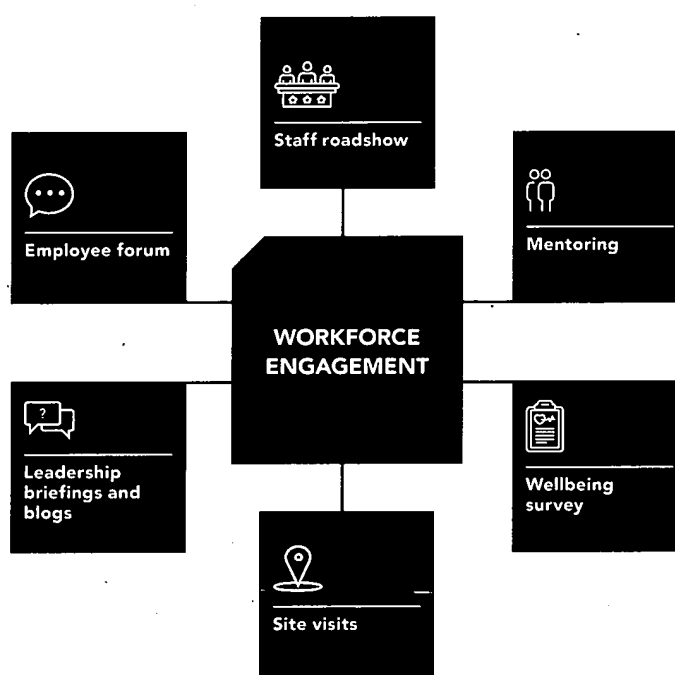
10
Climate change resilience

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, employee surveys and the 'Your Voice' forum. In addition, the Board continues to use a number of recognised indicators of culture (see page 63).



Wellbeing survey

As we continued to navigate through the COVID-19 pandemic, we launched our second Group-wide wellbeing survey in February 2021 to better understand how our employees were feeling.

The results showed that overall wellbeing was down compared to the previous survey in September 2020, with 54% rating their overall wellbeing as good or excellent, compared to 60% in the last survey. The survey also identified the main barriers and concerns for colleagues returning to sites and offices as restrictions started to ease in April. The information was shared with the Board and helped shape the COVID-19 roadmap, a communication endorsed by the Board that detailed, step by step, the changes that colleagues could expect to see and ensuring that at all times Costain was doing the right thing by society, our people and our clients.

More positively, the survey showed an increase in employees feeling supported by their line managers and that employees continued to feel that Costain was taking the right steps through the pandemic.

The survey included three engagement questions as follows:

84% of employees say Costain is a great place to work (82% 2018)

96% feel committed to helping Costain succeed (91% 2018)

88% of our employees are proud of the Costain brand (87% 2018)

During May, the results (comprising overall Group results and a deep dive by business area) were cascaded, detailing the Group actions that would be taken. Teams were encouraged to discuss the results and talk about any local actions they could take.

The Board monitored progress against the actions throughout the rest of the year.



Site visits

Our non-executive directors carry out engagement tours on our projects and sites to gain further insights into the business and to examine in particular our health, safety and environmental performance.

As part of these visits a Q&A session is normally held with members of the site team (including staff, 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.

Due to COVID-19, some site visits were held virtually and some in person in 2021. In early October 2021, our Board members visited two of our London projects in person as follows:

HS2 Main Works, Euston

Paul Golby, Helen Willis and Tony Quinlan, together with the general counsel and company secretary, visited HS2 Main Works hosted by Sue Kershaw as the divisional MD.

They keenly observed the 'zero trim' method conceived by Costain's Lee Piper which avoids breaking the bored piles down to a level after they have been cast. This method reduces our carbon footprint from the reduction in concrete production, waste and transportation. By totally removing the later activity of breaking down the piles, this innovation also saves time, reduces cost and removes any potential health hazards caused by noise, vibration and dust. Lee won an employee award in early 2021 for this initiative which is now used across the industry.

Thames Tideway, Bermondsey

Alex Vaughan, Bishoy Azmy and Jacqueline de Rojas visited this site, hosted by the divisional MD.

After the visit, Jacqueline de Rojas commented, "It was clear from the feedback and our questioning that employee care is top of mind, together with a very strong emphasis on Costain being a real catalyst for opportunity as an employer with space for people to rise to the challenge. I observed a cultural cohesion and pride in their work. An example of an incredibly complex project both in engineering terms but also collaboration with JV partners and other diverse groups."

Subsequently, Paul Golby and Tony Quinlan visited Thames Tideway Greenwich Pumping Station on 1 November 2021, with Paul Golby commenting, "a very well organised site, particularly given the space constraints with a lot of thought given to traffic movements and other local community and environmental issues," and Tony Quinlan commending the "very good operational standards in a potentially hazardous tunnelling environment."

WORKFORCE ENGAGEMENT continued



Leadership briefings and blogs

Every month the CEO has a 30-minute 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. The format is a 10-minute update with a short leadership message from the CEO, followed by a Q&A session with 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 from our CEO and members of our Executive Board to all staff. During the year these blogs have covered topics such as:

- Keeping safe during the pandemic and COVID-19 measures in place.
- Decarbonisation and some of the actions being taken to target net zero.
- Costain's digital growth.
- Update on 'The Big Risk Conversation' programme across the Group.
- Launch of the 2021–2024 Inclusion Strategy, promotion of allyship and zero tolerance of discrimination.
- Update on supply chain relationships and the supply chain conference held in October 2021.
- Performance review process to emphasise the importance of performance and development discussions.
- Wellbeing, including COVID-19 impact and mental health awareness.
- Adoption of dynamic working to provide flexibility as to where, when and how employees work, ensuring they stay connected while allowing them to thrive and be at their best.
- Awards, employee and team recognition and sharing examples of great work.



Employee forum: Your Voice

Our new employee forum 'Your Voice' met for the first time in January 2021 and is chaired by Sara Brady, corporate social responsibility and engagement manager.

Your Voice comprises eight elected champions representing all sectors and capabilities, along with a people lead, engagement lead and rolling Executive Board member. Alex Vaughan represented the Executive Board in 2021 and attended all the quarterly Your Voice forum meetings. Helen Willis is joining Your Voice in 2022.

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.
- Additional support measures implemented to mitigate the isolation challenges of younger colleagues in shared accommodation during lockdowns due to COVID-19.
- Communication plan to promote the support available for parents juggling home school responsibilities, including thrive plans, key-worker letters and access to the parent and carers' network.
- Campaign launched to promote volunteering opportunities and remind employees of Costain's volunteering policy. Many colleagues volunteered as vaccinators or vaccination centre stewards in their spare time as part of the COVID-19 response.
- How the 'Your Voice' champions engaged with frontline staff to ensure as many as possible completed the wellbeing survey.
- Feedback on the success of the rollout of dynamic working as a result of the 'Your Voice' champions holding focus group sessions.

Outputs from the forum are fed back to the Board via the HR director's report. Periodically Catherine Warbrick also attends Board meetings in person to give presentations on HR matters and answer questions raised by the Board. Examples of matters reported to the Board in 2021 were as follows:



Staff roadshow

This year the roadshow, hosted by members of the Executive Board, consisted of three sessions on 2 November 2021 as follows:

- Keynote session: 'Let's talk about our future' during which Alex Vaughan, Helen Willis and the two divisional MDs looked ahead to 2022 priorities.
- 'Let's talk about exceptional delivery' during which David Taylor, Group commercial director and Craig Reade, complex delivery capability director, together with contract leaders, highlighted some best-practice examples.
- 'Let's talk about my future' during which Catherine Warbrick, Group HR director, together with other senior members of the HR team, showcased how colleagues had grown their careers at Costain, the opportunities available and how the Company supported employees in their career development.

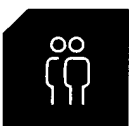
Each session included a Q&A session where employees could submit questions, anonymously if preferred. The questions were then selected using a voting system to ensure matters most important to employees were answered.

A total of 1,170 employees attended at least one roadshow session and 140 later watched at least one of the session recordings. Feedback was very positive with employees liking the new approach to the Q&A session.

Questions received were grouped into the following themes:

Pay and benefits
Career opportunities
Retention
Share price confidence and sharesave plan
Work winning
Dynamic working
Lessons learnt and knowledge sharing
Climate change and net zero
Systems and efficiency

Key feedback from the roadshow has been included in our plans for 2022.



Mentoring

With new Board members in post, the non-executive director mentoring programme is being reinvigorated.

Each non-executive Board member is expected to mentor two senior mentees.

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 2021 is shown in the table below. Also shown

below is the directors' attendance record at scheduled brief update or ad hoc Board meetings, the latter to deal with matters between scheduled meetings such as the Peterborough & Huntingdon adjudication decision (see pages 76 and 77 for more information).

For the Board and Committee meetings, attendance is expressed as the number of meetings that each director attended out of the number that they were eligible to attend.

Board attendance	Scheduled full Board meetings Maximum 7	Other brief update or ad hoc Board meetings Maximum 6	Audit Committee Maximum 8	Remuneration Committee Maximum 4	Nomination Committee Maximum 4
Executive directors					
Alex Vaughan	7/7	6/6	8 ^a	3 ^a	4 ^a
Helen Willis	7/7	6/6	8 ^a	–	1 ^a
Non-executive directors					
Paul Golby	7/7	6/6	8 ^a	4 ^a	4/4
Bishoy Azmy ¹	7/7	3/6	2 ^a	3 ^a	4/4
Neil Crockett ²	2/2	1/1	2/2	1/1	1/1
Jacqueline de Rojas ³	7/7	5/6	7/8	4/4	4/4
Jane Lodge ⁴	2/2	4/4	4/4	2/2	1/1
Tony Quinlan ⁵	7/7	5/5	8/8	4/4	4/4
Alison Wood	7/7	6/6	8/8	4/4	4/4

¹ 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. Two meetings Bishoy was unable to attend in 2021 were unscheduled meetings called at short notice and one was a scheduled brief update meeting.

² Neil Crockett joined the Board on 6 October 2021 and was not eligible to attend any meetings prior to that date.

³ Jacqueline de Rojas was unable to attend a combined Audit Committee and Board unscheduled additional meeting in March 2021 due to other prior commitments.

⁴ Jane Lodge stepped down from the Board at the conclusion of the AGM on 6 May 2021.

⁵ Tony Quinlan joined the Board on 1 February 2021 and was not eligible to attend any meetings prior to that date.

^a Not a member of the Committee – attendance at meeting by invitation. No director attended the Remuneration Committee for discussions on their own remuneration.

Board composition

The Board currently comprises the chair, two executive directors, three 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 50 and 51.

The biographies illustrate that the non-executive directors have a range of business, sector and financial experience that is important and relevant to the management of the Company. The balance between executives and non-executives is constantly under review. 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 depicted in the adjacent chart.

The non-executive directors provide constructive challenge, strategic guidance and specialist advice. They also hold management to account.

Skills and experience (all 7 directors*)

Communications/marketing	4
Construction	2
Consultancy	3
Engineering	3
ESG	3
Finance, audit and banking	3
General management	7
Government relations	4
Natural Resources	3
PLC governance	5
Safety and risk management	6
Strategy and M&A	7
Digital/technology	4
Transportation	3

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

Board independence

Having due regard to the results of the internally-facilitated 2021 review of Board performance (see page 74 for details), the Board considers 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 105.

At the time of his original appointment in May 2016, the chair, Paul Golby, was considered independent by the Board.

Board induction

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

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

1. Meetings with Board members and other external stakeholders

As part of the appointment process, a newly appointed director has meetings with the chair, the senior independent director and Committee chairs to build up their understanding of the Costain business and its markets. Additionally, they will have the opportunity to meet with other key advisers and stakeholders, including the Company's financial advisers and brokers.

2. Meetings with senior management and staff

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.

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 with 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.

During the year the general counsel and company secretary also provided a briefing paper on share ownership governance and shareholder reporting requirements.

Induction of new non-executive directors

In addition to the above, Tony Quinlan and Neil Crockett, on appointment, met with representatives of the Company's external auditor and members of the wider leadership team.

On his induction, Neil commented:

"Since I joined in October 2021 I've undergone a comprehensive, formal induction programme tailored to my needs. In addition to multiple meetings with managers and advisers, together with briefings and documentation on the governance around being a director of a UK listed company, Costain's approach to stakeholders has been an important topic in my induction. I have been able to quickly understand the main areas of business activity, especially areas involving significant risk, and I fully recognise the importance of our relationships with clients and suppliers to our long-term success. I recently joined Sue Kershaw, managing director, Transportation, on a visit to our operations at HS2 Victoria Road Crossover Box, and Matt Higham, the new chief digital officer, on a visit to Worle Technology Centre. I have also visited our Tideway operations in Greenwich with Sam White, our new managing director, Natural Resources. During the visits I enjoyed opportunities to engage with and seek feedback from staff and participated in Q&As which gave me additional insight into the positive and inclusive culture at Costain."

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 and Alex Vaughan ceased to chair the CBI regional council in November 2021.

Remuneration

A summary of the Company's remuneration policy approved in 2020 and how it has been implemented, together with the activities of the Remuneration Committee, can be found on pages 84 to 107 of the Directors' Remuneration Report.

Shareholder communication and engagement

The Company remains committed to maintaining good relationships with both institutional and private shareholders. There continues to be regular dialogue with institutional investors and this has been enhanced during the year with the appointment of Louise Bryant as Group director of communications and investor relations. Additional details of how the Company engages with shareholders can be found on pages 34 and 35 of the Strategic Report.

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.

In line with our shareholder engagement process, in 2021 Paul Golby met with some of our major shareholders.

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.

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 chief executive officer.
- 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 a Construction Site Visitor Card certificated under the Construction Skills Certification Scheme or similar appropriate internal certification.
- 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.

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.

At the time of the 2021 AGM in May, due to the COVID-19 pandemic, there remained restrictions on public gatherings and travel as a result of public health guidance and legislation issued by the UK Government. We therefore held the AGM at our offices in Maidenhead with the minimum attendance required to form a quorum and to conduct the business of the meeting. The quorum of two shareholders comprised the chair and CEO. Shareholders were able to listen to the AGM via a live webcast which was available on-demand after the AGM.

Shareholders were not able to attend the AGM in person but were able to cast their votes ahead of the meeting and submit their questions to the directors in advance of the meeting by email.

At any time, shareholders may raise issues or concerns by contacting investor relations (see contact details on page 180).

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 114 together with the statement on the status of the Company as a going concern and the financial Viability Statement on page 49.

As can be seen on page 78, 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 publication.

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 the update regarding the Peterborough & Huntingdon contract and trading update on 13 December 2021.

Business model

The Overview and Strategic Report on pages 1 to 49 give details of the Company's business model for delivering the priorities of the Company.

Going concern and viability

The Group's going concern statement is detailed in note 2 of the consolidated financial statements on pages 131 and 132. The long-term Viability Statement is set out on page 49.

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 44 to 48 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 44 to 48 ensures that, on an ongoing basis, the most significant risks to the Group's objectives are identified, assessed and managed.

The Costain Way, which forms the basis of the Group's control framework, contains all policies, procedures and controls and is regularly updated to reflect the output of risk and assurance activity to ensure that there is continuous improvement to the control environment.

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 page 78 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 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 78 of the Audit Committee Report.

BOARD EVALUATION

Board evaluation

The Board has a formal process for the evaluation of the effectiveness of the Board and its Committees. For the 2021 financial year, the annual evaluation was conducted internally under the direction of the chair with support from the general counsel and company secretary and took a revised approach to drive more qualitative information.

Instead of a questionnaire with ratings, this year the evaluation comprised 17 statements, each soliciting feedback from the directors on key indicators of good governance and each building on discussions and findings from last year's external performance evaluation. For each statement, directors were asked to comment on what they perceive works well and suggested areas for improvement. Areas covered included strategy and business planning, business model, markets and competitor landscape, relationships at Board level, information around Company

performance, factors affecting the Company's success, risks and uncertainties, the Company's cultures and behaviours and engagement with multiple stakeholders.

The chair then met with each director to discuss the findings and areas identified for future focus in more detail. Board and Committees papers were prepared and the findings were discussed at the Board and Committee meetings in December 2021 and actions agreed.

Based on the review, the Board concluded that its strength continued to be demonstrated through its composition, diversity, clarity of roles and heightened focus on strategy.

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.

As a result of the evaluation, the Board agreed to give additional focus to the following areas in 2022: the strategy for growth including contribution of digital; monitoring the performance of KPIs that underpin the delivery of the business plan; and creating additional opportunities for engagement with management and the talent pipeline.

Following his appointment as senior independent director, Tony Quinlan conducted an assessment of the chair's effectiveness at a meeting of other directors in February 2022 and then met with the chair to provide feedback.

The procedures, effectiveness and development of the Board will continue to be kept under review.

Progress made in 2021 against the areas of focus that were identified during the 2020 external evaluation are shown below.

Areas of focus identified in 2020	Purpose and link to strategy
Contract risk appetite and controls	<ul style="list-style-type: none"> Contract risk appetite reviewed including new onerous terms policy. Improved contract risk reporting to the Board. Deep dives of principal risks undertaken by the Board and Audit Committee. Delegated authority matrix updated and cascaded to increase the Board's oversight of higher risk areas. Review undertaken of Costain's contract lifecycle governance processes.
Delivery and communication of our strategy	<ul style="list-style-type: none"> On multiple occasions during the year, the Board considered progress with strategy implementation. Conducted a strategic update including of the Company's market positioning (see page 62).
Monitoring the culture change required to deliver our strategy	<ul style="list-style-type: none"> Enhanced reporting to the Board by the Group HR director. Detailed presentations to the Nomination Committee on recruitment, talent, diversity and inclusion (see pages 80 to 83). Reviewed the Company's purpose, vision, mission and narrative. Refreshing our values and behaviours to reflect the business we are evolving into is a priority for 2022.

Q&A WITH SENIOR INDEPENDENT DIRECTOR AND CHAIR OF THE AUDIT COMMITTEE TONY QUINLAN

What can you tell us about yourself and your background?

I'm a chartered accountant with financial and commercial experience gained across several sectors, including technology, engineering, industrial, energy and retail. I have recent experience, as CEO, in leading and turning around a UK listed company. I am senior independent director at another FTSE 250 company and a non-executive director at the UK's largest port operator. I also have experience of chairing various audit committees.

You joined the Board in 2021.**What were your first impressions of Costain?**

Costain is rightly proud of its heritage together with its client-centric cultural and behavioural values, which have been very apparent from the day I joined the Board. There has also been a business-critical drive from the leadership team to resolve legacy contract issues, including resetting the culture and processes to better manage contract risk – a challenge for Costain and others in this industry.

Along with a strong client focus, workforce safety and playing a part in improving the environment, are at the very core of Costain. The long-term vision to create connected, sustainable infrastructure that helps people and the planet to thrive offers hugely exciting opportunities to grow the business, delivering value for all stakeholders.

What is your role as senior independent director (SID)?

As is the prescribed role of a SID, I will work closely with Paul Golby as chair of the Company, acting as a sounding board and providing support, as necessary. Ordinarily, the SID leads the Board in an annual review of the chair's performance and is also available if any of our institutional shareholders wish to speak with me or raise any matters which they feel are not being addressed adequately through the normal channels. Outside of these more formal responsibilities, the SID is really there to offer 'wise counsel', mentoring, coaching or whatever may help, to ensure the Board is efficient and effective and all directors can contribute at their best.

Following the announcement of Paul's desire to step down as chair and non-executive director within the next 12 months, my immediate priority is to lead the process for the recruitment of a new chair.

Finally, how do you relax in your spare time?

Well, I am an Arsenal season ticket holder, although that is not exactly relaxing at the moment! Spending time with my family is very important to me; our daughters are young adults now and taking their first steps in their own careers. I also try to keep fit – I find time in the gym or cycling as good ways to decompress.

"I was delighted to be asked to be Costain's senior independent director in January this year. The Company has an important history, going back over 150 years, and has a clear vision for its future. As a Board, we will oversee implementation of the strategy to support clients' needs for innovation, unlocking better and more efficient infrastructure performance."

Tony Quinlan
Senior independent director

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 first report as chair of the Audit Committee which describes how the Committee carried out its responsibilities during the year. A large proportion of the Committee's time was spent reviewing significant contract judgements, in particular in relation to Peterborough & Huntingdon (see opposite)."

Tony Quinlan
Committee Chair

Meetings held

8

Committee members

	Attendance
Tony Quinlan ¹	100%
Neil Crockett ²	100%
Jacqueline de Rojas ³	88%
Jane Lodge ⁴	100%
Alison Wood ⁵	100%

¹ Joined the Board on 1 February 2021.

² Joined the Board on 6 October 2021.

³ Unable to attend one ad hoc meeting.

⁴ Stepped down from the Board and as Committee chair on 6 May 2021.

⁵ Stepped down from the Board on 28 January 2022.

Governance of the Committee

I have been chair of the Audit Committee (the Committee), which is comprised exclusively of independent non-executive directors, since 6 May 2021. The members of the Committee and details of their attendance at Committee meetings are given below and on page 70 and their biographies are shown on pages 50 and 51. 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 members of the Committee as a whole possess relevant skills and sector experience to meaningfully discharge the responsibilities of the Committee.

Absent any specific matters to consider, such as the Peterborough & Huntingdon dispute, the Committee would expect to meet four times a year. During 2021, the Committee held eight meetings reflecting the increased oversight in the year of significant contract judgements and the risk management framework.

The outcome of the Peterborough & Huntingdon dispute was unexpected, given the independent advice the Board had been presented with, and disappointing. Commercial and dispute resolution lessons have been absorbed by management. In 2022, the Committee will continue to review and challenge management's judgements on significant accounting issues including key contract judgements.

The Committee also welcomed the opportunity to submit a response in June 2021 to the BEIS consultation on restoring trust in governance and audit.

In September 2021, the FRC notified Costain that it had been included in a sample of companies reviewed by the FRC in relation to its Viability and Going Concern Thematic Review.

Based on its limited scope review of Costain's compliance with the relevant reporting requirements, the FRC confirmed there were no questions or queries it wished to raise at that stage. Findings which were identified as areas for improvement for almost all companies in the sample have been considered in the preparation of the Viability Statement and Going Concern Assessment on page 49.

The meetings of the Committee are normally also attended by the Group chair, the chief executive officer, the chief financial officer, the head of internal audit and risk, the financial controller and the external auditor. Other senior executives will attend as required to provide information on matters being discussed which fall into their area of responsibility. The Committee also regularly meets privately with the external auditor and the head of internal audit and risk.

Activities

In accordance with its terms of reference and in compliance with the 2018 Code, on behalf of the whole Board, in 2021 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 and risk 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
- adopted a revised policy on the engagement of the external auditor to supply non-audit services (see page 79)
- reviewed its terms of reference and its effectiveness (see pages 59 and 79).

In addition, the Committee expended time as follows:

Revenue and margin recognition

The Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks on which it received detailed reports and presentations from management. As a key area of audit focus, the Committee also received reports from the external auditor setting out the results of its work in relation to key contract judgements.

Provisions

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

Cyber security

The Committee received two separate presentations regarding cyber security and the management and control of key risks associated with providing digital services.

Banking arrangements

The Committee oversaw the terms of an agreement with the Group's banks on the treatment of A465 and Peterborough & Huntingdon as 'exceptional' for the purposes of calculating the banking covenants and carve-outs to the future interest cover covenant test.

Materiality

The Committee considered the auditor's year end materiality benchmark in light of the sector and profitability of the Group and agreed to increase this to 0.4% of reported statutory revenue.

Pension

The Committee considered a risk assessment of the impact of the legacy defined benefit pension scheme.

Risk management

The Committee reviewed the principal and emerging risks and the developments to the risk management framework (see pages 44 to 48). The Committee received presentations by principal risk owners on the following principal risks and undertook a deep dive review of them: (i) ensure that our technology is robust, our systems secure and our data protected (including cyber risk); (ii) secure new work; (iii) deliver projects effectively; and (iv) prevent a major accident, hazard or incident.

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 131 to 140 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 time during the year reviewing the positions and judgements taken by management on a number of material contracts across the Group.

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

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

After due consideration of the unexpected outcome of the adjudication process during 2021, the Committee concluded that it was appropriate to record the £43.4m adjustment in the period ending 31 December 2021 as a charge to the income statement. As disclosed in note 3 on pages 141 to 143, this charge has been treated as an adjusting item, consistent with the treatment adopted in respect of the Peterborough & Huntingdon contract in the prior year.

During the year, Costain recognised a £6.2m provision in respect of the expected future costs of probable rectification works required at a customer's facility where the Group had been prime contractor. Costain has engaged with its insurers and other stakeholders to explore routes for recovery and to minimise the Group's ultimate exposure. However, as at 31 December 2021, the expected recoveries do not yet meet the virtually certain criteria, and accordingly no reimbursement asset has been recognised.

AUDIT COMMITTEE REPORT continued

Management has identified a range of potential solutions to expedite the required rectification works. The Committee has carefully assessed the maximum potential risk and likely scenarios and agree with management's best estimate cost of the single most likely solution as at 31 December 2021 is £6.2m. A provision for this probable economic outflow has been recognised and disclosed in note 20 on pages 166 and 167.

(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, investment returns and member longevity that 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 167 to 171 of the financial statements.

(C) The carrying value of goodwill and intangible assets

As set out in note 12 on pages 151 and 152 of the financial statements, the goodwill and acquired intangible balances within the Group relate to companies acquired by the Group. In particular, the Committee reviewed the carrying value of the goodwill within the Natural Resources division and critically reviewed the key assumptions in relation to forecast operating margin, the discount rates 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 principle 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 49) should be recommended to the Board for approval.

(E) Future IFRS and UK GAAP developments

During the year, there were no changes to the Group's accounting policies and there were no new accounting standards.

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 helps 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 function.

Internal audit

The internal audit and risk function has 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 2021 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.

The head of internal audit and risk continues to report directly into the Committee chair with a second reporting line to the CFO (previously to the CEO) for administrative purposes. During the year the Committee received the results of the head of internal audit and risk's annual performance review. It also reviewed statistics on key staff numbers, qualifications and experience which the Committee considered to be satisfactory.

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. The Committee is satisfied the function is competent to deliver the 2022 internal audit plan.

Internal control and risk

Details of the Group's internal controls and risk management framework are more fully set out on pages 44 and 45 in the Strategic Report and page 73 in the Governance Report. The Group's principal risks are set out on pages 46 to 48.

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; controls reports; 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 PricewaterhouseCoopers LLP (PwC). The audit partner is Andrew Paynter.

Effectiveness of the external audit process

Following the end of the 2020 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 team. 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 2020.

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 2021, the Committee considered and approved the external audit plan for the year ended 31 December 2021. The Committee considered significant risk areas for the audit, the proposed scope, and the materiality threshold.

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. Jonathan Hook, after serving four years, retired in 2021 and Andrew Paynter succeeded him as lead audit partner.

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 2022.

Non-audit fees

During the year the Committee approved an updated 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.

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.

No material changes to the policy were made and approval of the Committee continues to be required for any services provided by the external auditor where the fee is likely to be in excess of £30,000.

In 2021, the value of non-audit work performed by PwC was less than £0.1m (2020: £619,250).

Whistleblowing and fraud

Following the external evaluation of the Audit Committee in 2020, it was agreed to conduct a detailed review of the effectiveness of the Company's whistleblowing procedures in light of the virtual ways of working driven by the COVID-19 pandemic. Following a review in 2021, the Committee on behalf of the Board considered the confidential reporting and whistleblowing procedures in place and noted some improvements to the process had been implemented and communicated to the workforce (see below). The Committee noted there had been 11 reports in 2021 (2020: 10).

The Committee also reviews any instances of fraud perpetrated against the Company and the action taken by management to prevent recurrences.

Committee effectiveness review

During the year, an internal evaluation of the effectiveness of the Committee was conducted (see page 74).

On the basis of the review, 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 2022: review the level of qualitative reporting of financial information to the Board and Committee and further development of the risk management and control framework.

Below is a summary of the agreed areas of focus that came out of the external review of the Audit Committee in 2020 and the actions taken in 2021.

Tony Quinlan
Committee Chair
9 March 2022

Area of focus	Actions taken
Detailed review of the risk management framework, including risk appetite	See pages 44 and 45.
Continuing to oversee risk deep dives and to receive presentations on these from the Executive Board risk sponsor	See page 77.
Oversee a campaign to re-publicise the Company's whistleblowing procedures to ensure they remain effective.	Accountability for the whistleblowing process was transferred from the HR to the legal function reflecting the fact that not all whistleblows are made by employees. The whistleblowing policy was simplified with the objective of encouraging greater utilisation of the independent whistleblowing hotline.

NOMINATION COMMITTEE REPORT

Significant progress made in the year to strengthen our Board and leadership team

"Board and Executive Board composition, succession and development have continued to be a key focus for the Nomination Committee, ensuring we continue to have the right balance of skills, experience and diversity on the Board and at the most senior levels of the business."

Paul Golby
Committee Chair

Meetings held

4

Committee members

	Attendance
Paul Golby	100%
Bishoy Azmy	100%
Neil Crockett ¹	100%
Jacqueline de Rojas	100%
Tony Quinlan ²	100%
Jane Lodge ³	100%
Alison Wood ⁴	100%

- 1 Appointed to the Board on 6 October 2021.
- 2 Appointed to the Board on 1 February 2021.
- 3 Stepped down from the Board on 6 May 2021.
- 4 Stepped down from the Board on 28 January 2022.



The composition of our Board and Executive Board can be found on pages 50 and 51, and 52 and 53 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 50 and 51 and details of their attendance at Committee meetings is shown on page 70 and in the table below. Jane Lodge and Alison Wood stepped down from the Board and as members of the Committee on 6 May 2021 and 28 January 2022 respectively.

The general counsel and company secretary is secretary to the Committee.

Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the chief executive officer, Group HR director, 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 of the Company will chair the meetings of the Committee that deal with the appointment of my successor 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. 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 60. While much 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.



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.

At the sign-off of the 2020 annual report on 9 March 2021, the Board had 50% female representation. Following further Board changes in 2021 and the departure of Alison Wood in January 2022, female representation has fallen to 29%. The Nomination Committee is prioritising addressing diversity on the Board. All instructions to external search firms include a requirement for a diverse long list of candidates.

Our principles on Board diversity also apply to the Executive Board and currently 50% (four 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. This will continue to be an area of continued focus for the Nomination Committee in 2022.

Committee effectiveness review 2021 review

Following an external review in 2020, the effectiveness of the Board and its Committees was conducted internally in 2021. The evaluation process is discussed on page 74. In relation to the work of the Committee, areas explored for comment by directors were: (i) balance of skills, diversity, independence and knowledge; (ii) succession and talent management; and (iii) the importance of diversity and inclusion throughout the Company. On the basis of the review,

Activities in 2021 and into 2022

Succession planning has continued to be a key area of focus during the year in respect of the Board and for those high performing individuals below Board level.

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 effectively deliver our strategy. During the year the Committee achieved its aim to strengthen Board sector-specific knowledge to support the Company's strategy. In this regard, further information on the processes for the recruitment and appointment of Tony Quinlan and Neil Crockett as non-executive directors is detailed on pages 82 and 83.

Since the year end, having tendered her resignation from 28 January 2022, Alison Wood ceased to be senior independent director and chair of the Remuneration Committee with effect from 12 January 2022. 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 the same date.

The Committee received two in-depth updates, in July and December, from the Group HR director, Catherine Warbrick, on the talent management and succession planning activities within the wider Group, including those individuals who have been identified as having longer-term potential for senior roles, including as executive directors.

To support the delivery of our strategy and long-term success of the business, Matt Higham joined the Executive Board as chief digital officer on 1 December 2021 to lead Costain's digital and technology capability. Sam White joined the Executive Board on 4 January 2022 in the position of Managing Director, Natural Resources replacing Maxine Mayhew who left Costain at the end of 2021.

The Committee also-focused on diversity with approval of a refreshed policy (see opposite).

the Nomination Committee concluded that the Committee and its chair remained effective and there were no significant areas for concern in respect of the performance of the Committee or any of its members.

Areas identified for additional focus by the Committee in 2022 were the recruitment of a Remuneration Committee chair and executive team recruitment, talent and succession with an emphasis on the internal pipeline of candidates.

As I have decided to step down as chair within the next 12 months, the Committee, led by Tony Quinlan as senior independent director, will also lead the search for a new chair.

NOMINATION COMMITTEE REPORT continued

Update on actions from the 2020 review

Arising from the external performance evaluation in 2020, the Nomination Committee undertook in 2021 to continue to prioritise diversity, particularly in the Executive Board successor pool and to oversee the development and training plans for this population. Both these matters were considered in detail at the July Committee meeting. At its December meeting, the Committee again discussed succession, talent and development together with progress with the appointment of key hires, for example Louise Bryant as Group communications and investor relations director, and in the Highways and Energy leadership teams.

As previously mentioned, the Committee appointed Tony Quinlan and Neil Crockett in the year, achieving its aim to strengthen Board sector-specific knowledge to support the Company's strategy.

Reappointment of directors

At the 2021 AGM, all our directors in post at the time (with the exception of Jane Lodge who stepped down from the Board from the conclusion of the AGM on 6 May 2021) stood for re-election, as required by the 2018 Code.

The Committee spent time during the course of the year considering all Board members' other appointments and the impact on their time availability in view of shareholders' general concerns regarding overboarding. It also reviewed and approved the potential and actual conflicts of interests of directors including the actual conflict of interest of Tony Quinlan who is also a director of Hill & Smith Holdings PLC, a non-material supplier to the Company in terms of value of goods.

During the year, Jacqueline de Rojas was appointed as a director of two unlisted entities, firstly as chair of Metapraxis Limited, where she had

previously been an adviser, and secondly as a non-executive director of IFS, a global enterprise applications company. Both appointments were approved by the Board, as required under the 2018 Code, and in doing so the Board considered Jacqueline's other commitments and shareholder concerns regarding overboarding.

On 26 July 2021, Paul Golby stepped down as a non-executive director of National Grid plc.

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 to update the letters of appointment for Alison Wood and Tony Quinlan to reflect their additional responsibilities as senior independent director and chair of the Audit Committee respectively, both effective 6 May 2021. Letters have necessarily been updated further in 2022 following Alison's departure and further changes in responsibilities.

Appointment of directors

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. During 2021, two different external search firms were used to ensure Costain was accessing the widest possible and most diverse pool of candidates.

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

Dr Paul Golby CBE
Committee Chair
9 March 2022

Non-executive director succession

During the year, Jane Lodge left Costain after 9 years' service. Tony Quinlan and Neil Crockett were appointed to the Board effective 1 February and 6 October 2021 respectively to further strengthen the Board and align it to the strategy.

Tony Quinlan

As reported in the 2020 Annual Report, during the autumn of 2020, a process to recruit a new non-executive director and successor to the chair of the Audit Committee was progressed leading to the announcement on 27 January 2021 of Tony Quinlan as a director of the Company with effect from 1 February 2021. As expected, Tony took over as chair of the Audit Committee when Jane Lodge stepped down from the Board with effect from the conclusion of the 2021 AGM.

Tony Quinlan – recruitment and appointment process

1. The Committee, supported by the Group HR director, agreed:

- a specification for the role and responsibilities for a non-executive director who would have the financial skills and competency in accounting and auditing, and necessary recent and relevant financial experience, to effectively chair the Audit Committee
- to appoint Russell Reynolds Associates, which has no other connection with the Company or individual directors, as the external search partner, and
- an interview and selection process.

2. With the assistance of Russell Reynolds, a long-list of candidates was drawn up for consideration.

3. The chair and Jane Lodge, at the time senior independent director and chair of the Audit Committee, 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 chair undertook first interviews and recommended three candidates for further interview.
5. After interviews with Jane Lodge, a preferred candidate then met with all the other directors, them noting his experience as a FTSE 250 finance director and qualified accountant, together with his experience as a public company chief executive, and as an experienced NED and audit committee chair.
6. The Committee members reported back to the chair on their views.
7. By written circulation on 26 January 2021, the Nomination Committee and Board considered the proposal, which the directors unanimously approved, subject to final approval of a Board sub-committee comprising the chair and chief executive officer.
8. In the evening of 26 January 2021, the Board sub-committee approved the proposal to appoint Tony Quinlan.
9. On 27 January 2021 we announced the appointment of Tony Quinlan as a non-executive director with effect from 1 February 2021 with the expectation that he would become chair of the Audit Committee on the departure of Jane Lodge at the conclusion of the 2021 AGM.
10. 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 Tony (see page 71).

Neil Crockett

On 28 September 2021, the Company announced the appointment of Neil Crockett as a non-executive director with effect from 6 October 2021.

Neil Crockett – recruitment and appointment process

1. The Committee, supported by the Group HR director, agreed:
 - a specification for the role and responsibilities for a non-executive director who would have skills and expertise in business leadership, preferably in a business characterised by long-term, high-value contracts or frameworks and in industries that have seen significant transformation due to disruptive technologies.
 - to appoint in this instance Lygon Group, which has no other connection with the Company or individual directors, as the external search partner following a review of three executive search firms, and
 - an interview and selection process.
2. With the assistance of Lygon Group, a long-list of candidates was drawn up for consideration.
3. The chair on behalf of the Committee considered the formal appraisals of the candidates on the long-list and agreed a short-list of six candidates to progress to interview.
4. The chair and Bishop Azmy undertook first interviews with a diverse short-list of candidates, and recommended three candidates for further interview and consideration by the other directors.
5. Following the conclusion of these interviews, the Committee members reported back to the chair and Group HR director on their views.
6. An unscheduled meeting of the Nomination Committee took place on 20 August at which Committee members discussed the candidate feedback summary in the context of the Board's skills and competency matrix (see page 70 for the current matrix) and unanimously agreed to recommend to the Board, and the Board immediately approved, the appointment of Neil Crockett, all subject to the chair offering the position and agreeing final details with him to conclude the appointment. Neil Crockett was the preferred candidate due to his passion and expertise in using digital innovation to lead engineering teams and organisations through rapid transformational change, having held several global, European and UK leadership positions.
7. In the evening of 27 September 2021, the chair confirmed all aspects of the appointment had been concluded.
8. On 28 September 2021 we announced the appointment of Neil Crockett as a non-executive director with effect from 6 October 2021.
9. 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 and bespoke induction plan for Neil (see page 71), recognising in particular that he had no public company experience to date and this would be an area for additional focus.

DIRECTORS' REMUNERATION REPORT

Remuneration at a Glance

Actual remuneration for our executive directors for 2021 and proposed application of our policy for 2022

	CEO – Alex Vaughan	CFO – Helen Willis
Base salaries	2021 £433,500 2022 £446,500	2021 £360,000 2022 £370,800
Pension	10% of salary in line with wider workforce	10% of salary in line with wider workforce
AIP – maximum opportunity	2021: 150% of salary 2022: 150% of salary	2021: 150% of salary 2022: 150% of salary
LTIP – maximum opportunity	2021: 100% of salary 2022: 100% of salary	2021: 100% of salary 2022: 100% of salary
Single figure total for 2021	£980,793	£802,055

How was our performance reflected in our pay for 2021?

AIP – Award earned by executive directors for 2021

Director	Group EBITA ¹ (max opportunity: 50%)	Group health and safety (max opportunity: 10%)	Profit secured for 2022 (max opportunity: 15%)	Cash flow ² (max opportunity: 15%)	Role specific ³ (max opportunity: 10%)	Total achieved (% max)	Actual pay-out (% of salary) ⁴
Alex Vaughan	30%	10%	8%	15%	10%	73%	110%
Helen Willis	30%	10%	8%	15%	10%	73%	110%

LTIP – Award vesting for performance over the 3 years ending 31 December 2021⁵

	Aggregate EPS ⁶ for financial years ended 31 December 2019, 2020 and 2021 (75% of the award)	Cash conversion (25% of the award)	Total Achieved
Alex Vaughan	28.2 pence (maximum vesting level: 119.63p or more) [*]	124% (maximum vesting level: 100%)	25%

* As adjusted following the capital raising completed May 2020.

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.
		Alex Vaughan 96% 104%
		Helen Willis ⁷ 200%
		■ Progress toward holding requirement
		■ Balance of 200% holding requirement

1 Earnings before interest, tax and amortisation calculated on an adjusted basis before other items. See definition on page 88. Target underpinned by 90% cash conversion.

2 Measured pre-acquisition and investments.

3 Paid out if Group EBITA threshold target achieved.

4 Both Alex Vaughan and Helen Willis agreed for 50% of the value of their AIP award for 2021 to be deferred into shares under the Share Deferral Plan (SDP).

5 Helen Willis was appointed to the Board on 30 November 2020 and was not granted a 2019 LTIP award.

6 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.

7 Since appointment, Helen Willis has not had any LTIP awards vest nor received any SDP awards.

Alignment of our Remuneration Policy with our strategy



People

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

Our ambition is to become Living Wage Foundation accredited employer in 2022.



Planet

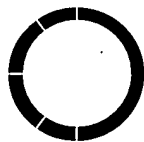
We hold ourselves accountable to the highest safety, health and environment standards and are committed to operating sustainably, ethically and inclusively. A proportion of the AIP is based on wellbeing, health and environment (ESG) performance.



Performance

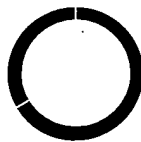
Our core financial and strategic objectives, critical to the success of our long-term transformational strategy, are largely embedded within the executive remuneration framework through the AIP and LTIP.

AIP performance metrics – 2022



- 50% Group EBITA with 90% cash conversion
- 10% ESG (including safety, health and environment)
- 15% Profit secured for 2023
- 15% Cash flow
- 10% Role specific

LTIP performance metrics – 2022



- 66.7% EPS⁸
- 33.3% cash conversion

Wider workforce

All employee share plan – shareholder approval for new Sharesave Plan to be sought at the 2022 AGM

Our intention is to ensure that all employees are paid in line with the real living wage in 2022

We will also review and move away from any zero hours contracts in 2022⁹

Wider workforce base salary increase for 2022: 3%⁸

84% of employees say Costain is a great place to work

88% of employees are proud of the Costain brand

No. of promotions in 2021: 431
400 chartered professionals in our highly skilled teams

Percentage of females in senior management positions: 38%

2024 target: Disability confident level 3; Stonewall Top 100 employer; 33% female and 14% BAME in senior leadership positions

⁸ Excluding promotions, the graduate half-year review and the structured increases for our apprentices.

⁹ We currently have fewer than 10 employees who are contracted to work under 15 hours at their request and a small number of additional seasonal workers who are on zero hours contracts.

DIRECTORS' REMUNERATION REPORT continued

Annual Statement by Interim Chair of the Remuneration Committee

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

Jacqueline de Rojas
Interim Committee Chair

I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2021. I would like to take this opportunity to thank Alison Wood for chairing the Committee since 2014. Our report explains the work of the Committee and how we have implemented our remuneration policy which was approved by shareholders at the 2020 AGM. A summary of how the pay for our executive directors is aligned with delivering our strategy and our performance for 2021 is summarised in the 'Remuneration at a glance' section.

For ease of reference, the policy table summarising the remuneration policy is included on pages 89 to 92. The full remuneration policy is available in the 2019 annual report on the Company's website at www.costain.com.

The Annual Report on Remuneration (on pages 93 to 107) describes how the directors' remuneration policy has been applied for the period ended 31 December 2021, and how we intend to implement the directors' remuneration policy in 2022. This will be the subject of an advisory shareholder vote at the 2022 AGM.

2021 remuneration in the context of our business performance and outcomes for our key stakeholders

Our aim is to always consider the wider workforce, our shareholders and other stakeholders by taking a fair, prudent and balanced approach to remuneration.

Adjusted financial and operating performance for 2021 was in line with our expectations, reflecting management's focus on operating performance and cash generation. As detailed in the Strategic Report, we are pleased to report strong adjusted profit growth and increased cash generation. In particular:

- We have been able to conclude legacy contract issues, including the Peterborough & Huntingdon contract which we signed in 2016. The resolution of this contract will enable management to look forward and focus on the positive long-term prospects for the Group.
- We have continued to be successful in winning new contracts combining Costain's core strengths and our broader service offering. Importantly, we have been selective in our approach to tendering, focussing on bidding discipline and risk management.
- We have continued to drive the implementation of our climate change action plan and are working towards becoming a net zero carbon business by 2035. We also joined the COP26 Race to Zero campaign and the signed 'The Climate Pledge', an initiative with the ambition to beat the Paris Agreement 2050 target by achieving net zero by 2035 at the latest.
- We have further strengthened our Executive Board and senior management team, enhancing the expertise and diversity of our leadership to support the delivery of our strategy.
- Our focus on increasing the diversity of our workforce was recognised with Costain named as a top 50 employer for women by The Times for the fourth consecutive year, attaining a Gold Armed Forces Covenant award by the Ministry of Defence and achieving silver accreditation in the Inclusive Employers Standard.
- The health, safety and wellbeing of our customers, our teams and our communities has continued to be paramount throughout the year. We maintained strong and effective safety measures, ensuring the effective operation of our business both to keep our teams safe and to maintain our productivity.
- The feedback from our wellbeing pulse surveys and employee engagement channels indicates that employee engagement and satisfaction scores remain high.
- The all employee pay rise for 2022 will be 3% (excluding promotions, the graduate half-year review and the structured increases for our apprentices).

Executive directors' bonuses for 2021 will be 73% of the maximum award, reflecting our underlying business performance. Awards granted under the 2019 LTIP, for which 2021 was the final year of the three year performance period, will vest at 25% of the maximum award. Further details are provided on page 98 in this report.

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 2021 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 the Committee determined the outcomes to be appropriate and did not exercise discretion to adjust the AIP earned for 2021 or level of LTIP vesting. However, the Committee also acknowledged the cost incurred in connection with the conclusion of the legacy Peterborough & Huntingdon contract dispute as well as the Group's share price performance and that dividends have not been yet been reinstated. Taking into account these factors and in order to provide further alignment with shareholders, for 2021, the proportion of the AIP that is deferred into shares for two years was increased from one-third to half the AIP earned.

Variable pay outcomes for the year ended 31 December 2021

The 2021 AIP was subject to a mixture of financial and non-financial performance measures aligned with key strategic priorities. 50% was linked to EBITA with a cash flow underpin of 90% and the remainder to continued improvement of our health and safety and environment performance, profit secured for 2022, cash management and personal objectives linked to critical strategic and corporate activities.

Based on performance against the performance measures, Alex Vaughan earned an AIP award equal to 110% of salary (73% of maximum) and Helen Willis also earned an AIP award equal to 110% of salary (73% of maximum). As noted above, taking into account the broader context of the stakeholder experience and in order to enhance alignment with shareholders the proportion of the AIP deferred into shares for two years has been increased. Half of the AIP earned for 2021 will therefore be deferred into shares for two years. Further details are set out on page 96.

The LTIP award granted on 7 May 2019 was subject to EPS performance as regards 75% of the award and cash conversion performance as regards 25% of the award. EPS performance measured over 2019, 2020 and 2021 was below the threshold performance target. However, as a result of the cash conversion target being achieved in full, 25% of the 2019 LTIP award is due to vest in May 2022. LTIP awards which vest will be subject to a two year holding period for the executive directors. Further details are set out on page 98. Helen Willis was appointed to the Board on 30 November 2020 and therefore was not granted a 2019 LTIP award.

2021 LTIP awards

LTIP awards were granted to the executive directors in April 2021 at a level of 100% of salary. Awards are subject to 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 page 99.

Reward for the year ending 31 December 2022

Helen Willis' salary will be increased by 3% for 2022, in line with the increase awarded to the wider workforce.

When Alex Vaughan was appointed as chief executive in May 2019, his base salary was set at £425,000 balancing market rates and taking into account the size and complexity of the Company and his skills and experience. This was lower than his predecessor's base salary of £482,700. Over the last two years, the wider workforce received salary increases of 2% in 2020 and 2.5% in 2021. The base salary increase for Alex in 2021 was 2% (below the wider workforce rate). In acknowledgment of his strong performance and experience gained in role and recognising 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, the Committee intends to increase his base salary to a more market competitive level on a phased basis. For 2022 the proposed increase was 6% from £433,500 to £460,000. However, Alex has made the decision to decline this increase for 2022 and asked instead for his salary increase to be capped at the level awarded to the wider workforce (3%).

The maximum AIP opportunity for executive directors will be 150% of salary. The AIP will be weighted 80% as regards financial measures, 10% as regards ESG: safety, health and environment measures and 10% as regards other non-financial Group and personal measures. The Committee considers that this weighting appropriately aligns the AIP performance measures with key financial, strategic and workforce-based priorities of the business. Details of the AIP performance measures are provided on page 100 and the targets with performance against them will be provided in the 2022 Directors' Remuneration Report. One third of the AIP earned will be deferred into shares for two years.

The maximum LTIP opportunity will be 100% of salary. Vesting will be subject to EPS performance as regards two thirds of the award and cash conversion performance as regards one third of the award. Details of the LTIP performance measures and targets are provided on page 101. As outlined above, LTIP awards which vest are only to be released after five years, thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

Looking ahead – key focus areas for the Committee for 2022

Our remuneration policy was approved at the 2020 AGM with over 90% of the votes cast in favour of it. We were pleased to see strong support for the 2020 Directors' Remuneration Report, with 98% of votes cast in favour of it.

DIRECTORS' REMUNERATION REPORT continued

During the course of 2022 we will be reviewing our remuneration policy to ensure that it continues to support our strategic priorities. The Committee is mindful of the need to attract and retain high calibre individuals in an increasingly competitive market and to remunerate executives fairly and responsibly. As part of this review we will also consider the extent to which we should enhance the focus on ESG targets in the reward framework. We will consult with our shareholders in advance of the next triennial shareholder vote on the policy at the 2023 AGM.

I will also transfer Remuneration Committee responsibilities to a new Committee chair during the course of the year.

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 2021 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 2022 AGM, where I intend to be available to respond to any questions that shareholders may have on this report, or our intended approach to reward for 2022.

Jacqueline de Rojas

Interim Committee Chair

9 March 2022

Definitions used in this report

AIP: Annual Incentive Plan.

EBITA: Adjusted 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.

EPS: Adjusted 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.

SDP: Share Deferral Plan.

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 approved in 2020, 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.

- **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.

The report is in two sections:

- **Extract from the remuneration policy.** This section contains the policy table summarising the remuneration policy approved at the 2020 AGM and is for information only. The full remuneration policy is available in the 2019 annual report on the Company's website at www.costain.com.
- **The annual report on remuneration.** This section sets out details of how our remuneration policy was implemented for the year ended 31 December 2021 and how we intend for the policy to apply for the year ending 31 December 2022 and is the subject of an advisory shareholder vote at the 2022 AGM.

Remuneration Policy

Our remuneration policy was approved by shareholders at our AGM on 19 June 2020, supported by over 90% of the votes cast. We have set out below the policy table and the full remuneration policy is available in the 2019 annual report on the Company's website at www.costain.com.

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

DIRECTORS' REMUNERATION REPORT continued

Element	Purpose and link to strategy	Operation	Performance metrics	Maximum opportunity
Long-Term Incentive Plan	<ul style="list-style-type: none"> Aligned to main strategic objectives of delivering sustainable performance which in turn should deliver enhanced returns. 	<ul style="list-style-type: none"> Annual grant of performance shares, which vest subject to performance measured over three years. Awards may be granted as conditional awards or nil or nominal cost options. Awards are subject to a further holding period of two years following the end of the performance period. 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 from grant to the date on which the vested shares can first be acquired. The benefit may assume the reinvestment of dividends. Awards may be subject to malus and clawback as described below. 	<ul style="list-style-type: none"> The performance condition will be based on key metrics aligned to the business strategy, including but not limited to EPS, return measures and cash-based measures. At least 50% of the opportunity will be subject to an EPS performance measure. Up to 25% of the maximum is earned for threshold performance, 100% for maximum with straight line vesting usually applying between these points. The Committee has discretion to vary the formulaic vesting outturn if it considers that the level of vesting that would otherwise apply is not appropriate, including where that level would materially deviate from the intention of the policy, is unreflective of underlying financial or non-financial performance of the Group or executive director over the vesting period or is not appropriate in the context of circumstances that were unexpected or unforeseen at the grant date. 	<ul style="list-style-type: none"> LTIP awards with a face value of not more than 150% of salary. The combined AIP and LTIP maximum opportunities for any year may not exceed 250% of salary.
SAYE Scheme	<ul style="list-style-type: none"> Offered to all UK employees, to facilitate share ownership and provide further alignment with shareholders. 	<ul style="list-style-type: none"> Periodic grants which normally vest after three or five years subject to continued service. Operated under HMRC requirements as a tax qualifying plan. 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Participation on the same basis as all other employees.
Pension	<ul style="list-style-type: none"> To aid retention and remain competitive in the market place. 	<ul style="list-style-type: none"> Annual pension allowance. Paid as a cash contribution to the Defined Contribution pension scheme, personal pension arrangements and/or a cash supplement. 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> A percentage of base salary not exceeding the pension contribution available to the majority of the wider workforce (which is currently 10%).
Other Benefits	<ul style="list-style-type: none"> To aid retention and be competitive in the market place. Healthcare benefits to minimise business disruption. 	<ul style="list-style-type: none"> Company car (or car allowance) and fuel allowance. Medical insurance. Life assurance. Other benefits as appropriate, for example, relocation expenses and travel and subsistence. 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A

Share ownership guidelines

The Company has adopted share ownership guidelines to provide further alignment between the interests of the Board and the Company's shareholders. During employment, executive directors are expected to build and maintain a shareholding worth not less than 200% of base salary. Shares subject to LTIP awards for which the performance period has ended (i.e. 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's policy on post-employment shareholding requirements is to apply the 'leaver' provisions under the Company's share plans (described on pages 91 and 92 of the 2019 annual report) as regards both unvested awards which are subject to performance conditions (i.e. LTIP awards which are in their performance period) and vested awards (i.e. LTIP awards which are in a holding period and SDP awards which are in a deferral period).

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, particularly, health and safety targets, and specific individual objectives. The LTIP financial metrics capture long-term earnings performance and, if appropriate, may be extended to include return based and cash measures which we believe are closely aligned with the financial performance expected by our shareholders. LTIP measures may also include strategic measures to incentivise the behaviours needed to deliver the Company's overall strategy.

AIP and LTIP performance measures may be adjusted if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance measures (e.g. a material acquisition or divestment) so that they achieve their original purpose.

Recovery provisions

The AIP (including the deferred awards delivered under the SDP) and LTIP awards are subject to 'malus' and 'clawback' provisions as follows.

For up to two years following the payment of the cash element of an AIP award, the Committee may require repayment of all or part of the bonus in the event of a material misstatement or error in assessing performance measures which has led to an overpayment of the bonus or in the event of dismissal due to gross misconduct, or in the event of criminal behaviour, serious reputational damage or serious corporate failure. Some or all of a deferred share award under the SDP may be clawed back (via a cancellation of the award) prior to vesting in equivalent circumstances.

For up to two years following the vesting of an LTIP award (or part of an LTIP award) the Committee may require the repayment of all or part of the award (which may be effected by the cancellation of unvested LTIP awards or vested but unreleased LTIP awards) in the event of a material misstatement or error in assessing performance measures which has led to an award vesting to a greater degree than would otherwise have been the case or in the event of dismissal due to gross misconduct, serious corporate failure or serious reputational damage.

Incentive plan operation

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

Share awards under the SDP, LTIP and SAYE Scheme (and any applicable performance conditions) may be adjusted in the event of a variation of the Company's share capital or a demerger, special dividend or other event which affects the market price of a share. Share awards under the SDP and LTIP may be satisfied, in whole or in part, in cash, although the Committee has no intention to settle any executive director's award in cash and would do so only in exceptional circumstances, such as where there was a regulatory restriction on the delivery of shares, or to settle tax liabilities arising in connection with the acquisition of shares. Awards may vest early, in accordance with the plan rules, in the event of a change of control or other relevant event (such as a winding-up or demerger). Where an LTIP award vests early, the extent of vesting will be determined taking into account the extent to which the performance condition has been satisfied (as assessed by the Committee) and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed.

DIRECTORS' REMUNERATION REPORT continued

Remuneration policy for chair and non-executive directors

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fees	Attract and retain high performing individuals.	<p>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 reviewed annually and any increase is usually effective from 1 April.</p> <p>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 chairship of the Audit and Remuneration Committees.</p> <p>Overall fees will remain within the limit set out in the Company's articles of association.</p> <p>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.</p> <p>May be entitled to benefits such as travel and subsistence and secretarial support, or other benefits as appropriate.</p>	N/A

Share ownership guidelines

The Company has adopted share ownership guidelines to provide further alignment between the interests of the Board and the Company's shareholders. Non-executive directors are expected to build and maintain a shareholding worth not less than 100% of their annual fee.

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' (see pages 66 to 69). The Group HR director briefs the Board on employees' views, ensuring that the Committee's decisions are taken with appropriate insight to employees' views. To ensure full compliance with Provision 41 of the Code, for 2022 we are looking at ways to engage with the workforce, by way of Your Voice, specifically on how executive remuneration aligns with wider company pay policy and to feed back the views of the workforce to the Committee so that the Committee can take these views into account in its decision making.

Consideration of shareholder views

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.

Annual Report on Remuneration

The Annual Report on Remuneration set out on pages 93 to 107 provides details of how our remuneration policy was implemented in the year ended 31 December 2021 and how we intend for the policy to apply for the year ending 31 December 2022. The Annual Report on Remuneration will be subject to an advisory vote at the 2022 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 50 and 51 and details of their attendance at Committee meetings is shown below. The Committee was chaired by Alison Wood from April 2014 until 12 January 2022 when Jacqueline de Rojas took over as chair on an interim basis. The general counsel and company secretary is secretary to the Committee.

Committee members

Director	Attendance
Jacqueline de Rojas ¹	100%
Neil Crockett ²	100%
Tony Quinlan ³	100%
Jane Lodge ⁴	100%
Alison Wood ⁵	100%

¹ Appointed chair of the Committee on an interim basis on 12 January 2022.

² Appointed to the Board on 6 October 2021.

³ Appointed to the Board on 1 February 2021.

⁴ Stepped down from the Board on 6 May 2021.

⁵ Stepped down as chair of the Committee on 12 January 2022 and from the Board on 28 January 2022.

Terms of reference

The Committee's terms of reference are available on the Company's website at 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
4 February 2021	<p>Consideration given to the extent to which the performance measures were likely to have been met with regard to the LTIP granted in 2018.</p> <p>Determined there would be no pay-out of the 2020 AIP.</p> <p>Approved the 2021 AIP performance measures and list of participants.</p> <p>Approved indicative performance targets for the 2021 LTIP grant.</p> <p>Noted the automatic vesting of the 2019 SDP share awards on 3 April 2021.</p> <p>Reviewed and approved the chair's fee increases for 2021 against benchmarked data.</p> <p>Reviewed and approved the executive directors' and senior executives' salary increases for 2021 against benchmarked data.</p> <p>Reviewed the draft Directors' Remuneration Report in the 2020 annual report.</p>
31 March 2021	<p>Approved the grant of awards under the 2021 LTIP and determined quantum, performance targets, participants and other terms.</p> <p>Approved a letter to top 10 shareholders to introduce the Directors' Remuneration Report in the 2020 annual report on publication day and set out the terms of the 2021 LTIP grants.</p>
4 October 2021	<p>Considered the limited shareholder feedback to the 2021 LTIP grants.</p> <p>Reviewed total compensation opportunity and incentives below Board level.</p> <p>Reviewed progress against actions arising from the 2020 external Committee evaluation.</p> <p>Reviewed performance of the Board and leadership team against the share ownership guidelines.</p>

DIRECTORS' REMUNERATION REPORT continued

Remuneration Committee activity continued

Date	Key agenda items
13 December 2021	<p>Received a governance update paper from the Committee's advisers.</p> <p>Reviewed the proposed performance targets for the 2022 LTIP and list of participants.</p> <p>Approved the 2022 AIP performance measures and list of participants.</p> <p>Determined 3.0% annual salary increase for the wider workforce for 2022.</p> <p>Reviewed again total compensation opportunity and incentives below Board level.</p> <p>Recommended to the Board a new sharesave plan for approval by shareholders.</p> <p>Noted a new dashboard on key HR metrics across the workforce, including reward and compensation.</p> <p>Reviewed the output from the Committee's internal performance evaluation and agreed recommended areas for additional focus in 2022.</p> <p>Agreed no changes required to the Committee's terms of reference.</p>

Committee effectiveness review

In 2021, the review of the effectiveness of the Board and its Committees was conducted internally. The evaluation process is discussed in greater detail on page 74. 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.

Based on the review, the areas the Committee identified for additional focus in 2022 were in relation to Committee chair succession, development of a new remuneration policy for submission to shareholders at the 2023 AGM, including appropriate shareholder engagement, and greater focus on ESG targets in the reward framework.

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 Group HR director, and the general counsel and company secretary were invited to attend various meetings of the Committee, although none were 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 £27,300 (2020: £20,910) for the year ended 31 December 2021 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 2021

Last year's Remuneration Report was approved by shareholders with a 98.18% (2020 AGM: 99.82%) 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 2020 AGM.

Implementation of policy in the year to 31 December 2021

Single total figure of remuneration for each director

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

	2021							
	Fixed				Variable			
	Salary and fees £	Taxable benefits £	Pension* £	Subtotal	Annual incentive £	LTIP £	Subtotal	Total £
Executive directors								
Alex Vaughan	431,375	12,892	43,138	487,405	474,683	18,705 ^a	493,388	980,793
Helen Willis ¹	360,000	11,855	36,000	407,855	394,200	–	394,200	802,055
Non-executive chair								
Paul Golby	169,770	–	–	169,770	–	–	–	169,770
Non-executive directors								
Bishoy Azmy ²	47,762	–	–	47,762	–	–	–	47,762
Neil Crockett ³	11,323	–	–	11,323	–	–	–	11,323
Jacqueline de Rojas	47,762	–	–	47,762	–	–	–	47,762
Jane Lodge ⁴	22,110	–	–	22,110	–	–	–	22,110
Tony Quinlan ⁵	50,106	–	–	50,106	–	–	–	50,106
Alison Wood	59,258	–	–	59,258	–	–	–	59,258

	2020							
	Fixed				Variable			
	Salary and fees ⁶ £	Taxable benefits £	Pension** £	Subtotal	Annual incentive £	LTIP £	Subtotal	Total £
Executive directors								
Alex Vaughan	393,125	15,272	39,313	447,710	–	–	–	447,710
Helen Willis ¹	38,308	104	3,000	41,412	–	–	–	41,412
Non-executive chair								
Paul Golby	154,734	–	–	154,734	–	–	–	154,734
Non-executive directors								
Bishoy Azmy ²	24,537	–	–	24,537	–	–	–	24,537
Neil Crockett ³	–	–	–	–	–	–	–	–
Jacqueline de Rojas	46,536	–	–	46,536	–	–	–	46,536
Jane Lodge ⁴	58,536	–	–	58,536	–	–	–	58,536
Tony Quinlan ⁵	–	–	–	–	–	–	–	–
Alison Wood	51,786	–	–	51,786	–	–	–	51,786

2019 LTIP award of 138,942 shares vested at 25%. Value calculated based on average share price over three months ended 31 December 2021 being 53.85p per share.

1 Appointed to the Board on 30 November 2020.

2 Appointed to the Board on 19 June 2020.

3 Appointed to the Board on 6 October 2021.

4 Stepped down from the Board on 6 May 2021.

5 Appointed to the Board on 1 February 2021.

6 The Board agreed to a 30% reduction in salaries and fees for the three month period from April to June 2020 in response to COVID-19.

The salaries and fees disclosed for 2020 are after the reduction.

* 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 benefit. The amount quoted for Helen Willis was paid directly as a taxable benefit.

** A pension contribution of £5,636 was paid into the Company's Group Flexible Retirement Plan for Alex Vaughan and the balance was paid to him directly as a taxable benefit. The amount quoted for Helen Willis was paid directly as a taxable benefit.

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 2021 were £433,500 for Alex Vaughan and £360,000 for Helen Willis.

(b) Taxable benefits provided to executive directors

The main benefits available to the executive directors during 2021, and their approximate values, were a car allowance of £11,537 (2020: £14,048) for Alex Vaughan and £10,500 (2020: £1,117) for Helen Willis, together with private medical insurance for Alex Vaughan of £1,355 (2020: £1,224) and Helen Willis of £1,355 (2020: £104). This package of benefits was unchanged from 2020. As Helen Willis was appointed to the Board on 30 November 2020, her benefits for 2020 were only available for part of the year.

(c) Determination of the 2021 annual incentive

The maximum AIP opportunity for the chief executive and the chief financial officer for the year ended 31 December 2021 remained unchanged from 2020 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 2021 AIP continued to align with the Company's strategy while not encouraging inappropriate business risks to be taken. These included inter alia a maximum target of £33.0m for Group EBITA.

The achievement of the performance measures has been reviewed, with appropriate input from the Audit Committee, following the end of the 2021 financial year. As shown in the table below, Alex Vaughan and Helen Willis earned an AIP award equal to 73% and 73% respectively 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 86 to 88, in line with good practice these outcomes were reviewed in the context of the broader stakeholder experience. The Committee considered that these incentive outcomes are a fair reflection of the Group's underlying financial performance achieved in 2021. 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 the Committee determined the outcomes to be appropriate and did not exercise discretion to adjust the AIP earned for 2021. However, the Committee also acknowledged the cost incurred in connection with the conclusion of the legacy Peterborough & Huntingdon contract dispute as well as the Group's share price performance and that dividends have not been yet been reinstated. Taking into account these factors and in order to provide further alignment with shareholders, for 2021, the proportion of the AIP that is deferred into shares for two years was increased from one-third to half the AIP earned.

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 EBITA (with 90% cash conversion) ¹	50%	30%	50%	30%	£27.0m	£33.0m	£30.1m	30%
Group health and safety ²	10%	10%	10%	10%	n/a	LTIR 0.15	LTIR 0.15	10%
Order book (level of secured gross profit)	15%	8%	15%	8%	£66.6m	£81.4m	£73.3m	8%
Cash flow ³ (average month end cash balances)	15%	15%	15%	15%	£81.3m	£99.3m	£107.0m	15%
Personal performance	10%	10%	10%	10%	see personal performance section below			10%
Total	100%	73%	100%	73%				73%

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

² Includes accident frequency rate and the requirement for all contracts to achieve a minimum of silver in the resource efficiency matrix.

³ Measured pre-acquisition and investments.

Personal performance

Personal performance was based on progress towards delivery of the strategy and corporate activities critical to the strategic transformation of the business which were the personal responsibility of the executive directors. Details of Alex Vaughan's performance against his personal objectives are set out below.

Alex Vaughan

Objective	Achievement during the year	Maximum	Award
Operational excellence	Ensure the business has embedded the lessons learnt from the contract issues root cause review, including the Group's contract risk management and delivery assurance processes. Delivered assured contract performance with increased margins through the Operational Excellence Model.	5%	5%
Developing the senior team, including EDI performance	Successful appointments made to strengthen the executive team, including the appointment of new managing director for Natural Resources, chief digital officer and Group director of communications and investor relations; and succession planning for senior management. Significant progress in the implementation of our inclusion strategy including being named as a Times Top 50 Employer for Women for a fourth year and achieving silver accreditation in the Inclusive Employer Standard. We have also increased female representation in our senior leadership team and BAME representation in our senior management team.	2.5%	2.5%
Repositioning Costain brand	Conducted a strategy update and as a result refreshed Costain's vision and mission (see page 62). A clear business plan and implementation priorities to deliver increased growth in profitability and margins over the next 5 years.	2.5%	2.5%
		10%	10%

Details of Helen Willis' performance against her personal objectives are set out below.

Helen Willis

Objective	Achievement during the year	Maximum	Award
Operational excellence	Ensure the business has embedded the lessons learnt from the contract issues root cause review, including the Group's contract risk management and delivery assurance processes. Delivered assured contract performance with increased margins through the Operational Excellence Model.	5%	5%
Developing the senior team, including EDI performance	Restructured finance team with new appointments at divisional level and the launch of a finance transformation programme. Significant progress in the implementation of our inclusion strategy including being named as a Times Top 50 Employer for Women for a fourth year and achieving silver accreditation in the Inclusive Employer Standard. We have also increased female representation in our senior leadership team and BAME representation in our senior management team.	2.5%	2.5%
Repositioning Costain brand	Strengthened financial oversight across contracts, including a holistic assessment of the risks and range of potential outcomes to ensure timely action is taken where performance might deviate from that in the bid process.	2.5%	2.5%
		10%	10%

DIRECTORS' REMUNERATION REPORT continued

(d) Vesting of the 3 April 2019 LTIP award

The LTIP award granted on 7 May 2019 was based on EPS and cash conversion performance for the three years ended 31 December 2021.

Performance against the measures and the resulting vesting outcome is shown below. The threshold EPS was not achieved and cash conversion performance targets were achieved to the full extent and as such 25% of the 2019 LTIP vested and 75% of the award lapsed.

(A) EPS performance measures¹ (relating to 75% of the award)

Aggregate EPS for the financial years ended 31 December 2019, 2020 and 2021	Vesting level for awards
Below 108.77 pence	0%
108.77 pence	15%
Between 108.77 pence and 119.63 pence	15-100% pro rata
119.63 pence or more	100%
Actual performance: 28.2 pence	Vesting outcome: 0%

¹ As adjusted for the capital raising completed May 2020.

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 25% of the award)

Average cash conversion for the financial years ended 31 December 2019, 2020 and 2021	Vesting level for awards
Below 80%	0%
80%	15%
Between 80% and 100%	15-100% pro rata
100%	100%
Actual performance: 124%	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 £2,411 (2020: £2,407) and for Helen Willis £2,021 (2020: £155).

The Group offers a Group Flexible Retirement Plan which was set up in 2009 with Standard Life for employees and senior management. Alex Vaughan is a participant of this scheme.

(f) Chair

Remuneration for the chair comprised a basic annual fee of £170,600 from 1 April 2021.

(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 2021 were as follows:

2021 Fees	Basic Fee	Senior independent director	Audit Committee chair	Remuneration Committee chair
Fees	£48,000	£6,700	£9,600	£7,200

Grants made during the year

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

2021 LTIP Grant

Grants were made under the LTIP on 8 April 2021 to Alex Vaughan, Helen Willis and other members of the senior leadership team.

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 2021 LTIP are as follows:

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

Aggregate EPS over the financial years ended 31 December 2021, 2022 and 2023	Vesting level
Below 27.9 pence	0%
27.9 pence	15%
Between 27.9 pence and 32.4 pence	15-100% pro rata
32.4 pence or more	100%

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

Average cash conversion for the financial years ended 31 December 2021, 2022 and 2023	Vesting level
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 2021 LTIP, structured as options with a nil exercise price, are as follows:

	Number of shares	Face value ¹	End of performance period	Threshold vesting
Alex Vaughan	710,655	£433,500	31 December 2023	15%
Helen Willis	590,163	£360,000	31 December 2023	15%

¹ Valued using the mid-market closing share price on the business day prior to the date of grant (7 April 2021), being 61 pence.

SDP

No awards were granted under the SDP to the executive directors in 2021 as no bonus was paid under the AIP for 2020 (see page 106).

All-employee share plan

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

DIRECTORS' REMUNERATION REPORT continued

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

No executive directors departed in 2021 and no payments have been made to past directors.

Implementation of policy in the year to 31 December 2022**Salary**

The chief executive officer and chief financial officer will receive a salary increase in 2022 of 3%, effective 1 April. A 3% salary increase will be applied across the Company in 2022. When Alex Vaughan was appointed as chief executive in May 2019, his base salary was set at £425,000 balancing market rates and taking into account the size and complexity of the company and his skills and experience. This was lower than his predecessor's base salary of £482,700. Over the last two years, the wider workforce received salary increases of 2% in 2020 and 2.5% in 2021. The base salary increase for Alex in 2021 was 2% (below the wider workforce rate). In acknowledgment of his strong performance and experience gained in role and recognising 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, the Committee intends to increase his base salary to a more market competitive level on a phased basis. For 2022 the proposed increase was 6% from £433,500 to £460,000. However, Alex has made the decision to decline this increase for 2022 and asked for his salary increase to be capped at the level awarded to the wider workforce (3%).

	Salary 2022	Salary 2021	% change
Alex Vaughan	£446,500	£433,500	3%
Helen Willis	£370,800	£360,000	3%

Chair's fee

The chair's basic annual fee will be increased by 3% with effect from 1 April 2022 to £175,700.

Non-executive director fees

Non-executive directors' fees will be increased by 3% with effect from 1 April 2022, as shown in the table below:

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

2022 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 2022 will remain unchanged from 2021 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 2022 AIP are as follows:

Performance measures	2022 AIP opportunity – maximum percentage of bonus	
	Chief executive officer	Chief financial officer
Group EBITA (with 90% cash conversion)	50%	50%
ESG	10%	10%
Profit secured for 2023	15%	15%
Cash flow (average month end cash balance)	15%	15%
Personal performance	10%	10%
Total	100%	100%

The Committee has chosen not to disclose in advance the performance targets for the year ending 31 December 2022, 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.

2022 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 early April 2022. As with the 2020 and 2021 awards, subject to the achievement of performance measures as set out below, LTIP shares which vest after three years will only be released after five years, thereby ensuring long-term alignment of the executive directors' and shareholders' interests.

As with the 2020 and 2021 LTIP awards, the measures will be two thirds EPS and one third cash conversion, reflecting that the sustainable generation of cash backed profits is a key element to the future success of the Company.

The proposed targets are set out below.

EPS performance measure

Aggregate EPS over the financial years ending 31 December 2022, 2023 and 2024	Vesting level for awards
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%

The Committee believes that EPS remains an appropriate metric to use under the LTIP, as growth in EPS is one of the key drivers of the Company's share price. As with previous LTIP awards, EPS 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.

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

Cash conversion is adjusted cash flow from operations (excluding cash movements in provisions and pension deficit) divided by EBITDA. It is measured as average cash flow conversion over the three-year period ending 31 December 2024.

Cash flow from operations will be adjusted to recognise the timing of cash inflows at the year-end.

The Committee has the discretionary power to vary these targets, should circumstances change, so that the original targets are no longer considered appropriate (e.g. in the case of a material acquisition or divestment in the Group or other material transaction).

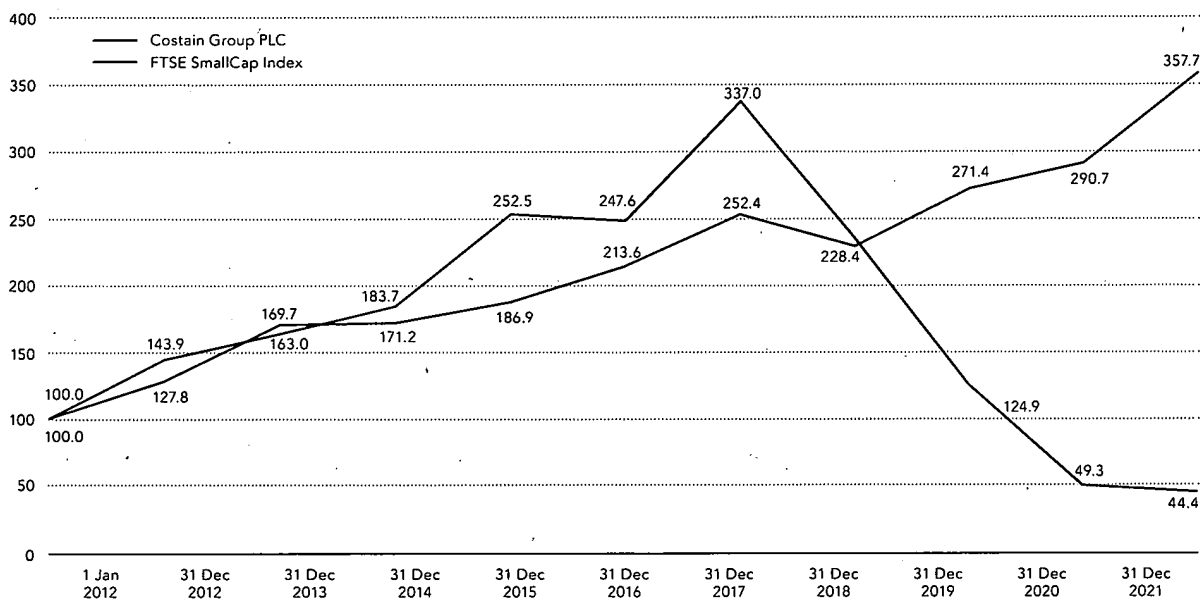
A clawback and malus provision is incorporated in the AIP and the LTIP with regard to any material misstatement to audited accounts, an error in calculation of targets resulting in an overpayment, gross misconduct or criminal behaviour on the part of a participant, reputational damage or serious corporate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

DIRECTORS' REMUNERATION REPORT continued

Other information

Performance graph

The graph below shows the value, to 31 December 2021, of £100 invested in Costain Group PLC on 1 January 2012 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									
	2012	2013	2014	2015	2016	2017	2018	2019 ¹	2020	2021
Chief executive officer	AW	AW	AW	AW	AW	AW	AW	AW	AV	AV
Total remuneration	£1,089,337	£1,251,239	£1,329,007	£1,414,381	£1,089,943	£1,707,094	£1,560,601	£211,927	£312,242	£447,710
AIP (%)	55%	75%	71.6%	79.8%	75.4%	81%	62.6%	Nil	Nil	Nil
LTIP vesting (%)	100%	50%	50%	50%	Nil%	79.1%	100%	Nil	Nil	Nil

¹ Andrew Wyllie (AW) stepped down from the Board on 7 May 2019 and Alex Vaughan (AV) was appointed to the Board on 7 May 2019.

CEO pay ratio

The table below shows, for 2019, 2020 and 2021, 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
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 gender pay reporting. 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
2021				
Total pay and benefits	£980,793	£45,166	£56,596	£77,235
Salary component	£431,375	£39,470	£46,476	£57,330
2020				
Total pay and benefits	£447,710	£34,016	£57,580	£73,844
Salary component	£393,125	£32,948	£45,934	£61,669
2019				
Total pay and benefits	£524,169	£30,923	£50,903	£75,304
Salary component	£445,319	£29,837	£45,170	£60,137

The UK employee percentile pay and benefits has been calculated based on the amount paid or receivable for the relevant financial year. The calculations are on the same basis as required for the CEO's remuneration for single total figure purposes. The calculations were performed as at the final day of the relevant financial year.

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 2021 due to the payment of a bonus in respect of 2021 to the CEO. 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.

DIRECTORS' REMUNERATION REPORT continued

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. The 10% increase in Alex Vaughan's and Paul Golby's salary/fees between 2020 and 2021 reflects that the comparison is between the values reported in the single total figure of remuneration for each year, with the 2020 values taking into account a 30% reduction in salaries and fees for three months in 2020. As reported last year, the actual increase in Alex Vaughan's salary and Paul Golby's fee with effect from 1 April 2021 was 2%.

			Executive directors	Non-executive chair		Non-executive directors					
	Average employee ¹		Alex Vaughan ²	Helen Willis ³	Paul Golby	Bishoy Azmy ⁴	Neil Crockett ⁵	Jacqueline de Rojas	Jane Lodge ⁶	Tony Quinlan ⁷	Alison Wood
Salary/fees	2020 – 2021 ¹⁰	5 ⁸	10	n/a	10	n/a	n/a	3	n/a	n/a	14 ⁹
	2019 – 2020 ¹⁰	(0.8) ¹¹	n/a	n/a	(7)	n/a	n/a	(1)	(7)	n/a	(4)
Taxable benefits	2020 – 2021	(6) ¹²	(16)	n/a	–	n/a	n/a	–	n/a	n/a	–
	2019 – 2020	6.2	n/a	n/a	–	n/a	n/a	–	–	n/a	–
Annual bonus	2020 – 2021	236 ¹³	n/a ¹⁴	n/a	–	n/a	n/a	–	n/a	n/a	–
	2019 – 2020	(18)	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 30 November 2020 and therefore annual change in remuneration is not applicable for the financial years shown.

4 Bishoy Azmy was appointed to the Board on 19 June 2020 and therefore annual change in remuneration is not applicable for the financial years shown.

5 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.

6 Jane Lodge stepped down from the Board on 6 May 2021 and therefore annual change in remuneration between 2020 and 2021 is not applicable.

7 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.

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

9 Alison Wood became senior independent director with effect from 6 May 2021 and received a corresponding fee increase.

10 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.

11 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.

12 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.

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

14 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.

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 2020 to the financial year ended 31 December 2021.

	2021 £m	2020 £m	% change
Overall expenditure on pay	200.3	182.0	10.1%
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. 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 ^{1,2}
Alex Vaughan	7 May 2019	7 May 2019	Terminable on 12 months' notice
Helen Willis	30 November 2020	30 November 2020	Terminable on 12 months' notice
Paul Golby	5 May 2016	5 May 2019	5 May 2022 ³
Bishoy Azmy	19 June 2020	19 June 2020	n/a ⁴
Neil Crockett	6 October 2021	6 October 2021	6 October 2024
Jacqueline de Rojas	20 November 2017	12 January 2022 ⁵	20 November 2023
Tony Quinlan	1 February 2021	12 January 2022 ⁶	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).

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 As announced on 9 March 2022, Paul Golby has indicated his intention to step down as chair and from the Board within the next 12 months. His current letter of appointment, due to expire on 5 May 2022, will therefore be renewed for an additional period.

4 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.

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

6 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 2021 ^a	Granted during year	Share price at date of grant	Vested during year	Lapsed during year	Market price at date of exercise	Average market price ^b	Value of shares at date of sale/retention of balance ^c	Balance at 31 December 2021	Actual/expected vesting/release date
Alex Vaughan	04.04.18 ¹	21,388	–	461p	–	21,388	–	–	–	–	April 2021
	07.05.19 ²	138,942	–	325p	–	–	–	–	–	138,942	May 2024
	07.10.20 ³	553,909	–	42.2p	–	–	–	–	–	553,909	April 2025
	08.04.21 ⁴	–	710,655	61.0p	–	–	–	–	–	710,655	April 2026
Helen Willis	30.11.20 ³	258,705	–	53.7p	–	–	–	–	–	258,705	April 2025
	08.04.21 ⁴	–	590,163	61.0p	–	–	–	–	–	590,163	April 2026

a Awards under the LTIP are structured as options with a nil exercise price. 2018 and 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 EPS target (relating to 75% of the award) of 99.44p (for 15% vesting) and 109.37p (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. 50% of the award will normally vest three years after grant, subject to the satisfaction of the performance conditions over the three-year financial period ending 31 December 2020, while the remaining 50% of the award will normally vest on the fifth anniversary of the date of grant (with no further performance conditions applying) provided, ordinarily, the individual remains an employee or officer of the Company. This award lapsed in full based on the performance against these targets during the period.

2 Performance targets are as follows:

(a) an 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 is due to vest at 25% based on performance during the year.

DIRECTORS' REMUNERATION REPORT continued

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

3 Performance targets are as follows:

- (a) an 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.

4 Performance targets are as follows:

- (a) an 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.

The LTIP awards, which are expressed as options, have a nil exercise price. At 31 December 2021, the derived mid-market price of the ordinary shares in the Company, as advised by the Company's brokers, was 53.4 pence. The range of the closing share price of the ordinary shares during 2021 was 47.0 pence to 69.4 pence.

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 2021 ^{1,2}	Granted during year	Share price at date of grant	Vested during year ³	Lapsed during year	Market price at date of exercise	Average market price ⁴	Value of shares at date of sale/retention of balance ⁵	Balance at 31 December 2021 ¹	Actual/expected vesting date
Alex Vaughan	03.04.19	17,080	–	342.5p	21,041	–	61.5p	61.5p	£6,858	–	April 2021
Helen Willis	–	–	–	–	–	–	–	–	–	–	–

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

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

3 Adjusted number of shares following the capital raising in May 2020 (adjustment factor of 1.0625). In addition, Alex Vaughan was awarded 3,961 dividend shares upon vesting which are also included in this figure. Alex Vaughan exercised his 2019 SDP award on 6 April 2021.

4 At date of sale/retention of balance.

5 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 2021 ¹	Granted during year	Exercise price ²	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 2021	Exercised/exercisable from/to
Alex Vaughan	25.09.17	1,401	–	–	–	1,401	–	–	–	–	Nov 2020 May 2021
	24.09.18	1,396	–	316.90p	–	–	–	–	–	1,396 ³	Nov 2021 May 2022
	23.09.19	1,485	–	111.40p	–	–	–	–	–	1,485	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 2021, 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 2021 and therefore there was no gain on exercise.

The Company granted no options under the SAYE Scheme in 2020 or 2021.

Directors' shareholdings

Details of the directors' share interests in the Company as at 31 December 2021, 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)	Actual shareholding as at 31.12.21 (% of salary/fee) ¹	Actual shareholding as at 09.03.22 (% of salary/fee) ¹
Alex Vaughan	247,705 ²	–	1,403,506	2,881 ³	200%	96.23%	96.23%
Helen Willis	–	–	848,868	–	200%	0%	0%
Paul Golby	118,333 ⁴	–	–	–	100%	94.43%	94.43%
Bishoy Azmy	– ⁵	–	–	–	100%	100%+ ⁵	100%+ ⁵
Neil Crockett	20,000 ⁶	–	–	–	100%	23.25%	23.25%
Jacqueline de Rojas	12,828 ⁴	–	–	–	100%	50.35%	43.78% ⁷
Tony Quinlan	25,000 ⁸	–	–	–	100%	27.93%	25.02% ⁸

¹ Based on the calculation methodology set out in the Company's Share Ownership Guidelines.

² Part held by persons closely associated.

³ 2018 SAYE award was granted prior to Alex Vaughan becoming a director.

⁴ Held by persons closely associated.

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 Neil Crockett was appointed to the Board on 6 October 2021 at which time he had no share interests. Neil purchased 20,000 shares on 9 November 2021 at a price of 55.79p per share.

⁷ Jacqueline de Rojas was appointed chair of the Remuneration Committee on 12 January 2022. As a result of the associated fee increase, Jacqueline's holding as a percentage of her total fee decreased with effect from this date.

⁸ Tony Quinlan was appointed to the Board on 1 February 2021 at which time he had no share interests. Tony purchased 25,000 shares on 20 April 2021 at a price of 64.34p per share. Tony was appointed senior independent director on 12 January 2022. As a result of the associated fee increase, Tony's holding as a percentage of his total fee decreased with effect from that date.

The executive directors are expected to build and maintain a shareholding of not less than 200% of base salary through the retention of vested share awards or through open market purchases. The non-executive directors are also expected to build and maintain a shareholding of 100% of their fee.

DIRECTORS' REPORT

The directors submit to the members their report and accounts of the Company for the year ended 31 December 2021.

The Governance Report on pages 50 to 107 and the Strategic Report on pages 06 to 49 (and in particular pages 08 to 39, 60 and 61 and 66 to 69 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 40 and in our separate ESG Report at 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 2022 AGM will be held on Thursday 5 May 2022 at No. 11 Cavendish Square, London W1G 0AN. A circular incorporating the Notice of AGM accompanies this annual report.

(Loss)/profit, dividend payments and dividend policy

The loss after tax for the financial year ended 31 December 2021 was £5.8m (2020: loss £78.0m).

No interim dividend was paid during the year ended 31 December 2021 (2020: no interim dividend). The Company will pay no final dividend in respect of the year ended 31 December 2021 (2020: no final dividend). The total dividend paid for the year will therefore be nil (2020: nil).

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

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

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

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 2021 was £137,474,870.50, consisting of 274,949,741 ordinary shares of 50 pence each. Further details of the share capital of the Company can be found in note 22 on page 171.

The awards granted in April 2018 under the 2014 Long-Term Incentive Plan (LTIP) matured as at 31 December 2020, resulting in nil vesting as the performance criteria attached to the awards were not met. Further details regarding the nil vesting of the 2018 LTIP awards can be found in the Directors' Remuneration Report on page 105. Details regarding the 2019 LTIP awards that are due to vest in May 2022 can also be found in the Directors' Remuneration Report on page 98.

Share options granted under the Company's Save As You Earn Scheme (SAYE) in November 2018 (at a post capital raising adjusted option price of 316.90p) matured as at 1 November 2021. 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 2021. Further details of the SAYE Scheme can be found on page 106 of the Directors' Remuneration Report.

At the 2019 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 2022 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. Shareholder approval will therefore be sought to renew the directors' authority to offer a scrip dividend scheme at the 2022 AGM.

In 2021, 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 179. Details about joining the scrip dividend scheme can also be found on the Company's website at 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 2021 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:

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 % of 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	07.09.2020	19,534,640	7.10	n/a	n/a	7.10
KBI Global Investors Ltd*	13.05.2020	7,528,503	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 (i.e. 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 2021 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).

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.

DIRECTORS' REPORT continued

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 6 May 2021, shareholders granted an authority to the directors to allot ordinary shares up to an aggregate nominal amount of £45.8m. As at 31 December 2021, no shares had been allotted in the Company.

As this authority is due to expire on 6 May 2021, 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 2021 or during the period from 1 January 2022 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 2021, Buck Trustees (Guernsey) Limited, as trustee of the Costain Group Employee Trust, held 0.13% (2020: 0.24%) 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. A resolution will be put to shareholders at the 2022 AGM to approve new articles of association of the Company, further details of which are provided in the Notice of 2022 AGM.

Political donations

No political donations were made during the year ended 31 December 2021 (2020: 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 auditors

PricewaterhouseCoopers LLP (PwC) were reappointed as auditor of the Company at the 2021 AGM. The Board is proposing the reappointment of PwC as auditor from the conclusion of the AGM in May 2022 until the conclusion of the next general meeting at which the accounts are laid before the Company. See page 79 of the Audit Committee Report and the Notice of this year's AGM, available on the Company's website at www.costain.com, for further details.

Financial instruments

Details of the Group's use of financial instruments, together with information on policies and exposure to price, liquidity, cash flow, credit, interest rate and currency risks, can be found in note 18 on pages 159 to 165. 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.

Event after the reporting date

On 24 February 2022, the Company announced it has reached a final settlement with National Grid regarding the legacy Peterborough & Huntingdon contract. The settlement agreement brings an end to the dispute after the contract was mutually terminated in June 2020 and prevents any further claims under the contract.

As announced on 13 December 2021, Costain was due to make a payment to National Grid of £53.5m in January 2022. Instead, Costain has made a full and final payment of £43.4m to National Grid.

Research and development

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

Greenhouse gas emissions

The Strategic Report on page 39 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 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 172 to 175. The Company has two overseas branches in Abu Dhabi.

DIRECTORS' REPORT continued

Directors

Biographies of the Board are given on pages 50 and 51 and include details of the skills, experience and career history of directors in post as at the date of this report, and the Committees on which they serve. Jane Lodge stepped down as senior independent director and chair of the Audit Committee at the conclusion of the AGM on 6 May 2021 when Alison Wood assumed the additional responsibilities of senior independent director. Tony Quinlan was appointed to the Board on 1 February 2021 and became chair of the Audit Committee on 6 May 2021. Neil Crockett was appointed as non-executive director with effect from 6 October 2021.

Since the year-end, Alison Wood stepped down from the Board on 28 January 2022. Tony Quinlan became our senior independent director, with Jacqueline de Rojas becoming Remuneration Committee chair on an interim basis, both effective from 12 January 2022. A search for an additional non-executive director to become Remuneration Committee chair on appointment is well advanced and we will update the market in due course. On 9 March 2022, Costain announced that Paul Golby has decided to step down as chair and from the Board within the next 12 months. The Board will commence a search for a successor.

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

Appointment and replacement of directors

The appointment and replacement of directors is governed by the Company's articles, the 2018 UK Corporate Governance Code, the Companies Act 2006 and related legislation. The articles may be amended by a special resolution of the Company's shareholders. Directors may be appointed by the Company by ordinary resolution or by the Board. At every AGM of the Company, all directors are required to retire from office and may offer themselves for reappointment by the members.

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

The Company may, by special resolution, remove any director before the expiration of 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 time the appointment is reviewed to determine whether the appointment should continue. Bishoy Azmy's appointment does not have the same three-year review period, his appointment being subject to the relationship agreement between the Company and ASGC described in the Company's prospectus dated 7 May 2020. All contracts and letters of appointment are available for inspection at the Company's registered office 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 who is also a director of Hill & Smith Holdings PLC, a non-material supplier to the Company in terms of value of goods.

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 2021, are contained in the Directors' Remuneration Report, which appears on pages 84 to 107.

Directors' indemnity

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

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 60 and 61 and the Nomination Committee Report on pages 80 to 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 147.

The Company maintains a strong communication network and employees are encouraged to discuss with management matters of interest and issues affecting the day-to-day operations of the Group. Regular staff engagement surveys are run by the Company, the results of which are communicated to employees.

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 at the annual staff roadshow, as well as via the employee forum 'Your Voice' (see pages 66 to 69 for engagement with workforce).

The Company also operates 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 2021.

Stakeholder engagement

For more information on how the directors have engaged with the workforce, clients, 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 of the Strategic Report on pages 34 to 37, and pages 66 to 69 of the Governance Report.

Essential contracts or other arrangements

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

Disclosure of information to auditor

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

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

By Order of the Board



Sharon Harris

Company Secretary

9 March 2022

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

Dr Paul Golby CBE
Chair

Alex Vaughan
Chief Executive Officer
9 March 2022

INDEPENDENT AUDITOR'S 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 2021 and of the Group's loss 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; 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 2021; the consolidated income statement, the consolidated statement of comprehensive income and expense, 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, 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 five legal entities requiring a full scope audit, either due to their size or their risk characteristics.

Key audit matters

- Contract accounting (Group)
- Impairment of goodwill, investments in Group companies and amounts owed by subsidiaries (Group and Company)
- Valuation of defined benefit pension scheme obligation (Group)

Materiality

- Overall Group materiality: £4,500,000 (2020: £1,600,000) based on 0.4% of the Group's revenue.
- Overall Company materiality: £3,000,000 (2020: £1,400,000) based on 1% of total assets.
- Performance materiality: £3,375,000 (2020: £1,200,000) (Group) and £2,250,000 (2020: £1,100,000) (Company).

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.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Costain Group PLC

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.

COVID-19 and Going Concern, which was a key audit matter last year, is no longer included because of the reduced impact of the pandemic and its related impact on the Group's ability to execute long term contracts. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Contract accounting (Group)</p> <p>Refer to page 77 (Audit Committee Report), pages 131 to 140, 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 the stage of completion of contract activity.</p> <p>Profits 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 also 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>These 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 from 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>Peterborough and Huntingdon contract ("P&H")</p> <p>On 29 June 2020, Costain announced that a termination and settlement agreement had been reached with National Grid to cease work on the Peterborough & Huntingdon gas compressor project following a significant change in scope. The agreement included a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.</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"> • contracts with high levels of revenue recognised in the year; • low margin or loss making contracts; • contracts with significant balance sheet exposure; and • contracts identified through our discussions with management, review of Board minutes, review of legal reports and review of publicly available information. <p>Our work was tailored according to the specific risk profile of each contract and included the following procedures (where relevant):</p> <ul style="list-style-type: none"> • challenging management's forecasts, in particular the appropriateness of key assumptions, which include the expected recovery of variations, claims and compensation events from clients, as well as pain/gain mechanisms, to determine the basis on which the associated revenue was considered to be 'highly probable' of not reversing; • we also challenged 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; • we substantively tested a sample of actual costs incurred to date to check that these had been recorded accurately; • we performed a margin analysis on the end-of-life forecasts to assess the performance of the contract portfolios year on year; • we inspected correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtained 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; • we obtained an understanding of the relevant contractual clauses and terms and conditions and agreed forecast revenue to signed contracts, signed variations, agreed compensation events or other corroborative and supporting documentation; • we reconciled revenue recognised with amounts applied for and amounts certified by clients, agreed the amounts received to cash using our industry knowledge and experience to ensure any reconciling items are appropriate; • we agreed forecast costs to complete to supporting evidence (such as orders signed with subcontractors, performed look back testing and assessed the appropriateness of forecast run rates) and applied industry knowledge and experience to challenge the completeness and accuracy of the forecast costs to completion including any cost contingencies held. In doing so we also challenged management to ensure an appropriate provision was included for significant rectification works that, although expected to be covered by insurance, would likely to lead to a cash outflow; • we assessed the recoverability of balance sheet items by comparing these to external certification of the value of work performed and subsequent cash receipts; • we obtained corroborative evidence of settlement agreements with clients and where relevant reviewed legal correspondence and expert advice obtained for key judgments; • for the residual contract population ("the tail") we performed 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; • we assessed the potential impact of other identified risks including COVID-19, inflation and climate change related costs on the costs incurred and cost to complete; • we considered the adequacy of the disclosures in the financial statements in relation to specific contracts and also the disclosures in respect of significant judgements and estimates. <p>Based on all of the evidence obtained in the above procedures, we were satisfied with the recognition of contract revenue and profit and of the amounts held as contract assets. Given the degree of estimation, we also considered the disclosures around significant ongoing contracts included in note 2 to the financial statements.</p>

Key audit matter

Under the terms of the agreement, the aggregate potential outcome for Costain of these adjudications ranged from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect the Group's banking arrangements) of up to a maximum of £57.3m.

At 31 December 2020, the Group, supported by external advice, determined it had a strong entitlement to retain, at a minimum, the reported position which was consistent with the cash received to date with no further asset or liability being recorded on the balance sheet at that time.

During 2021 various adjudications were scheduled. On 10 December 2021, Costain received the outcome of a material combined adjudication where the adjudicator found in Costain's favour on principle in respect of three out of the four compensation events, however, the adjudicator unexpectedly declined to make a quantum assessment leaving the matter undecided. Within his decision the adjudicator also indicated that in the event he had made a decision on quantum, the adjudicator would have sought to apply a methodology that was not envisaged by either party nor widely used within the construction industry nor in accordance with or defined within the form of contract.

In light of these changes in events, Costain concluded that it was appropriate to enter into discussions with National Grid with a view to reaching a settlement. Thereafter on 24 February 2022, Costain announced that it had reached a full and final settlement with National Grid regarding the P&H contract. The settlement agreement brings an end to the dispute after the contract was mutually terminated in June 2020 and prevents any further claims under the contract. Costain made a full and final payment of £43.4m to National Grid after the end of the financial year 2021.

In considering the appropriate accounting treatment for this full and final settlement, the Costain Board concluded that there have been specific unexpected triggers, events and changes in circumstances that have occurred during the year which have led to this position. These events were not envisaged nor could they reasonably have been foreseen at the time the Board's accounting decisions were made in approving the December 2020 accounts. This position has been rigorously reviewed and confirmed and supported by external advisors.

The Board, therefore, concluded that the adjustment to contract revenue which arises as a result of this settlement and cash payment of £43.4m should be recorded in the year ended 31 December 2021. Consistent with the prior year, any adjustments relating to the P&H contract have been separately disclosed within note 3 as an adjusting item.

Impairment of goodwill, investments in Group companies and amounts owed by subsidiaries (Group and Company)

Refer to page 78 (Audit Committee Report), pages 131 to 140, note 2 (Significant areas of judgement and estimation), and page 151 note 12 – Intangible Assets.

At 31 December 2021 the Group had £45.1m of goodwill (2020: £45.1m).

Goodwill has been allocated to the applicable cash generating units of the Transportation segment £15.5m (2020: £15.5m) and the Natural Resources segment £29.6m (2020: £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 to the carrying value of the assets.

We determined there to be a significant audit risk that the carrying value of goodwill allocated to the Natural Resources business may not be supportable when compared to its recoverable amount, given the impairment of £9.0m booked in the 2020 financial statements and the current headroom of £3.0m showing in the Directors impairment assessment.

The Company holds an investment in subsidiaries of £152.3m (2020: £151.2m). We have focussed on this area due to the size of investments balance in the context of the Group's market capitalisation which remains below the carrying value of the investments in subsidiaries. The Directors assessment of the carrying value of the investment in its subsidiaries was that no impairment was required.

How our audit addressed the key audit matter

In respect of the P&H contract with National Grid we have:

- obtained the settlement agreement and understood and assessed the key terms therein;
- obtained and reviewed management's own assessment of the £43.4m contract adjustment and challenged management on the appropriate period in which the adjustment should be recorded;
- obtained and reviewed management's position papers, correspondence, adjudication results and relevant independent reports that had been obtained from management's legal and other representatives throughout the year;
- re-assessed the evidence which supported the highly probable traded position at the previous year-end, including the reports from experts and legal advisors and also determined whether the changes in circumstances which led to the ultimate settlement and cash outflow could reasonably have been envisaged at the previous year-end; and
- assessed the related disclosures included in the Group financial statements.

Based on all of the evidence obtained as a result of the above procedures, we were satisfied with the recognition of the P&H contract adjustment in the financial statements for the year ending 31 December 2021.

We were also satisfied, given the nature and significance of this contract loss, that it was acceptable to disclose this loss as an adjusting item in note 3, consistent with the treatment adopted in the prior year.

We obtained the directors' future cash flow forecasts, which were prepared to a sufficiently detailed level. We evaluated management's basis of determination of the CGUs as Transportation and Natural Resources.

In evaluating the Directors' impairment assessment for goodwill in respect of the Natural Resources segment where the CGU's assumptions were more sensitive to an impairment, we performed the following:

- we compared the cash flows to the latest Board approved budgets for FY22 and forecasts until FY25, tested the integrity of the underlying calculations and assessed how both internal and external drivers of performance were incorporated into the projections;
- we challenged the discount and long term growth rate, with the support of our valuations experts;
- we tested certain contracts in the Group's pipeline to provide evidence of the associated revenue forecast in the cash flow model;
- we assessed operating margin assumptions in the context of historic performance (including any impact resulting from Covid-19 or climate change related risks) for each CGU and the remaining work to be obtained;
- we challenged management's forecasts and compared future cash flow performance to historic levels as part of our assessment as to whether the planned performance was considered achievable;
- we compared the 2021 financial performance to budget and understood the drivers of the projected improvements in profitability and working capital movements;
- we performed 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 would lead to an impairment; and
- we ensured that reasonably possible changes in assumptions were appropriately disclosed in accordance with IAS 36, 'Impairment of Assets'.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Costain Group PLC

Key audit matter	How our audit addressed the key audit matter
<p>The Company also has amounts receivable from subsidiaries of £71.9m (2020: £134.9m). During the year the Company has recognised a £40.0m expected credit loss provision in respect of a financial guarantee that had been provided by the Company to National Grid, guaranteeing obligations of the subsidiary delivering the Peterborough & Huntington contract. The requirement for the expected credit loss provision follows the settlement agreement with National Grid (see Key Audit Matter above), and reflects the subsidiary's inability to make the agreed cash payment itself. See note 20 on page 166.</p>	<p>We concluded that management's assessment that no impairment was required in respect of the Natural Resources Goodwill was supportable.</p> <p>We assessed the accounting policy for investments in, and amounts due from, subsidiaries to ensure they were compliant with IFRS. We verified that the methodology used by management in arriving at the carrying value of investments in subsidiaries as at 31 December 2021, and the expected credit loss for intercompany receivables, was compliant with IFRS.</p> <p>We obtained management's impairment assessment for the recoverability of investments in and amounts receivable from subsidiaries and assessed the conclusions reached by management.</p> <p>We determined that management's conclusion that the Company's investments in subsidiaries were recoverable due to the carrying values being supported by the future cash flow forecasts, was supportable.</p> <p>We confirmed that the expected credit loss provision in the Company's balance sheet in respect of the financial guarantee impacted by the P&H settlement was appropriate.</p>
<p>Valuation of defined benefit pension scheme obligation (Group)</p> <p>Refer to page 78 (Audit Committee Report), pages 131 to 140 note 2 (Significant areas of judgement and estimation), and page 167 note 21 – Employee Benefits.</p> <p>The Group has significant retirement benefit obligations. At 31 December 2021 the present value of these obligations was £837.5m (2020: £886.5m) offset by plan assets at fair value of £904.6m (2020: £880.9m) in respect of funded schemes. Therefore a net pension asset of £67.1m (2020: liability of £5.6m) has been recognised on the Group's balance sheet.</p> <p>These retirement benefit obligations were determined based on a number of actuarial assumptions and calculations, which were subject to significant judgement and estimate.</p> <p>Changes in these assumptions can have a material impact on the quantum of obligations recorded in the Consolidated statement of financial position.</p>	<p>We obtained the actuarial valuation at 31 December 2021 and tested the valuation of the pension liabilities as follows:</p> <ul style="list-style-type: none"> • We 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 2021. 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; • We agreed the underlying census data to supporting documents to confirm completeness and accuracy; • We independently 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 concluded that they were appropriate; and • We reviewed the scheme rules and legal advice previously obtained by the Group that no asset restrictions are applied to the scheme. <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>

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 five legal entities requiring full scope audit; Costain Limited (financially significant component), Costain Oil and Gas Process Limited, 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% (2020: 97%) of Group revenues and 88% (2020: 78%) of Group loss before tax. The percentage of Group loss before tax is calculated on an absolute basis, which aggregates component profits and losses.

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 – Company
Overall materiality	£4,500,000 (2020: £1,600,000).	£3,000,000 (2020: £1,400,000).
How we determined it	0.4% of the Group's revenue	1% of total assets
Rationale for benchmark applied	This year, we re-evaluated the way in which we determined materiality, and 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 on 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 £4.5m was appropriate, which represents approximately 0.4% of the Group's revenue.	The 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 £4.3 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% (2020: 75%) of overall materiality, amounting to £3,375,000 (2020: £1,200,000) for the Group financial statements and £2,250,000 (2020: £1,100,000) 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 higher 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 £200,000 (Group audit) (2020: £100,000) and £200,000 (Company audit) (2020: £100,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- assessing the appropriateness of the Group's cash flow, liquidity and covenant forecasts in the context of the Group's 2021 financial position and its banking and related facilities;
- 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 the disclosures provided relating to the going concern basis of preparation in the financial statements, as a result of which we found that these provided an explanation of the Directors' assessment that was consistent with the evidence we obtained.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Costain Group PLC

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 the 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 the Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Directors' Report for the year ended 31 December 2021 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 the 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, included within the Governance report 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 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.

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, tax 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 the Companies Act 2006 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.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Costain Group PLC

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, impairment of goodwill and investments in Group companies and amounts owed by subsidiaries (see 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. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

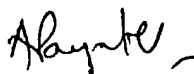
Appointment

Following the recommendation of the 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 five years, covering the years ended 31 December 2017 to 31 December 2021.

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
9 March 2022



CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2021

	Notes	2021 £m	2020 £m
Continuing operations			
Group revenue		1,135.2	978.4
Cost of sales		(1,095.0)	(1,027.0)
Gross profit/(loss)		40.2	(48.6)
Administrative expenses		(49.7)	(43.4)
Group operating loss		(9.5)	(92.0)
Share of results of joint ventures and associates	14	–	0.2
Loss from operations	4	(9.5)	(91.8)
Finance income	8	0.1	0.8
Finance expense	8	(3.9)	(5.1)
Net finance expense		(3.8)	(4.3)
Loss before tax	4/5	(13.3)	(96.1)
Taxation	9	7.5	18.1
Loss for the year attributable to equity holders of the Parent		(5.8)	(78.0)
Earnings/(loss) per share			
Basic	10	(2.1)p	(36.7)p
Diluted	10	(2.1)p	(36.7)p

The impact of business disposals in either year was not material and, therefore, all results are classified as arising from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

Year ended 31 December 2021

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

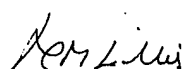
As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Intangible assets	12	52.5	52.1
Property, plant and equipment	13	32.0	39.9
Equity accounted investments	14	0.4	0.4
Retirement benefit asset	21	67.1	–
Trade and other receivables	16	5.5	3.5
Deferred tax	9	15.4	23.6
Total non-current assets		172.9	119.5
Current assets			
Inventories		0.3	0.6
Trade and other receivables	16	199.6	218.7
Taxation	9	0.2	0.2
Cash and cash equivalents	17	159.4	150.9
Total current assets		359.5	370.4
Total assets		532.4	489.9
Liabilities			
Non-current liabilities			
Retirement benefit obligations	21	–	5.6
Other payables	19	1.8	1.1
Interest-bearing loans and borrowings	17	32.0	39.6
Lease liabilities	13	18.2	20.8
Total non-current liabilities		52.0	67.1
Current liabilities			
Trade and other payables	19	215.1	246.0
Interest-bearing loans and borrowings	17	7.4	7.2
Lease liabilities	13	8.6	12.5
Provisions for other liabilities and charges	20	50.3	0.6
Total current liabilities		281.4	266.3
Total liabilities		333.4	333.4
Net assets		199.0	156.5
Equity			
Share capital	22	137.5	137.5
Share premium		16.4	16.4
Translation reserve		0.6	0.6
Hedging reserve		–	(0.3)
Retained earnings		44.5	2.3
Total equity		199.0	156.5

The financial statements were approved by the Board of directors on 9 March 2022 and were signed on its behalf by:

A Vaughan
DirectorH Willis
Director

Registered number: 1393773



COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Investments in subsidiaries	14	152.3	151.2
Deferred tax	9	1.0	0.1
Total non-current assets		153.3	151.3
Current assets			
Trade and other receivables	16	71.9	134.9
Cash and cash equivalents	17	75.0	20.1
Total current assets		146.9	155.0
Total assets		300.2	306.3
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	17	32.0	39.6
Provisions for other liabilities and charges	20	0.7	0.7
Total non-current liabilities		32.7	40.3
Current liabilities			
Trade and other payables	19	27.3	28.0
Taxation	9	1.6	1.5
Interest-bearing loans and borrowings	17	7.4	7.2
Provisions for other liabilities and charges	20	40.0	0.1
Total current liabilities		76.3	36.8
Total liabilities		109.0	77.1
Net assets		191.2	229.2
Equity			
Share capital	22	137.5	137.5
Share premium		16.4	16.4
Hedging reserve		–	(0.3)
Retained earnings		37.3	75.6
Total equity		191.2	229.2


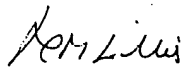
The loss for the year was £39.4 million (2020: loss of £35.0 million).

The financial statements were approved by the Board of directors on 9 March 2022 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 2021

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 January 2020	54.1	16.4	1.1	(0.5)	–	86.6	157.7
Loss for the year	–	–	–	–	–	(78.0)	(78.0)
Other comprehensive (expense)/income	–	–	(0.5)	0.2	–	(16.1)	(16.4)
Shares purchased to satisfy employee share schemes	–	–	–	–	–	(0.2)	(0.2)
Equity-settled share-based payments	–	–	–	–	–	0.9	0.9
Capital raise (note 22)	83.4	–	–	–	9.1	–	92.5
Transfer	–	–	–	–	(9.1)	9.1	–
At 31 December 2020	137.5	16.4	0.6	(0.3)	–	2.3	156.5
At 1 January 2021	137.5	16.4	0.6	(0.3)	–	2.3	156.5
Loss for the year	–	–	–	–	–	(5.8)	(5.8)
Other comprehensive income	–	–	–	0.3	–	47.1	47.4
Shares purchased to satisfy employee share schemes	–	–	–	–	–	(0.2)	(0.2)
Equity-settled share-based payments	–	–	–	–	–	1.1	1.1
At 31 December 2021	137.5	16.4	0.6	–	–	44.5	199.0

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

Merger reserve

The 2020 capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Share capital £m	Share premium £m	Other reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 January 2020	54.1	16.4	25.9	(0.2)	–	74.6	170.8
Total comprehensive expense	–	–	–	(0.1)	–	(35.0)	(35.1)
Equity-settled share-based payments granted to employees of subsidiaries	–	–	1.0	–	–	–	1.0
Capital raise (note 22)	83.4	–	–	–	9.1	–	92.5
Transfer	–	–	(26.9)	–	(9.1)	36.0	–
At 31 December 2020	137.5	16.4	–	(0.3)	–	75.6	229.2
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
At 31 December 2021	137.5	16.4	–	–	–	37.3	191.2

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

Merger reserve

The 2020 capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from/(used by) operating activities			
Loss for the year		(5.8)	(78.0)
Adjustments for:			
Share of results of joint ventures and associates	14	-	(0.2)
Finance income	8	(0.1)	(0.8)
Finance expense	8	3.9	5.1
Taxation	9	(7.5)	(18.1)
Impairment of Alcaidesa marina	13	-	0.6
Impairment of other investment	5	-	0.6
Profit on sales of interests in joint ventures and associates	5	-	(1.6)
Profit on disposal of subsidiary undertakings	26	-	(1.4)
Pension GMP equalisation charge	21	-	0.9
Depreciation of property, plant and equipment	5	12.9	15.0
Amortisation and impairment of intangible assets	5	1.1	10.5
Shares purchased to satisfy employee share schemes		(0.2)	(0.2)
Share-based payments expense	6	1.1	0.9
Cash from/(used by) operations before changes in working capital and provisions		5.4	(66.7)
Decrease in inventories		0.3	0.7
Decrease in receivables		17.7	25.5
Decrease in payables		(29.9)	(0.1)
Movement in provisions and employee benefits		39.7	(10.4)
Cash from/(used by) operations		33.2	(51.0)
Interest received		0.1	0.8
Interest paid		(3.9)	(5.1)
Taxation received		0.1	8.3
Net cash from/(used by) operating activities		29.5	(47.0)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates	14	-	0.2
Additions to property, plant and equipment	13	(0.7)	(0.5)
Additions to intangible assets	12	(1.5)	(3.6)
Proceeds of disposals of property, plant and equipment and intangible assets		-	0.3
Proceeds of sales of interests in joint ventures and associates	26	-	3.7
Proceeds of sales of subsidiary undertakings	26	-	4.6
Net cash (used by)/from investing activities		(2.2)	4.7
Cash flows from/(used by) financing activities			
Issue of ordinary share capital	22	-	92.5
Repayments of lease liabilities		(10.8)	(12.1)
Drawdown of loans	17	-	71.5
Repayment of loans	17	(8.0)	(139.0)
Net cash (used by)/from financing activities		(18.8)	12.9
Net increase/(decrease) in cash and cash equivalents		8.5	(29.4)
Cash and cash equivalents at beginning of the year	17	150.9	180.9
Effect of foreign exchange rate changes		-	(0.6)
Cash and cash equivalents at end of the year	17	159.4	150.9

COMPANY CASH FLOW STATEMENT

Year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from/(used by) operating activities			
Loss for the year		(39.4)	(35.0)
Adjustments for:			
Finance income		(2.7)	(2.2)
Finance expense		3.2	4.1
Taxation		(0.4)	–
Impairment in investments	14	–	34.0
Cash from operations before changes in working capital and provisions		(39.3)	0.9
Decrease in receivables		63.9	38.2
(Increase)/decrease in payables		(0.6)	0.3
Movement in provisions		39.9	(0.1)
Cash from operations		63.9	39.3
Interest received		1.7	2.2
Interest paid		(3.2)	(4.1)
Taxation paid		(0.5)	–
Net cash from operating activities		61.9	37.4
Cash flows from/(used by) investing activities			
Investment in subsidiaries	14	–	(42.9)
Dividends received		1.0	1.0
Net cash from/(used by) investing activities		1.0	(41.9)
Cash flows from/(used by) financing activities			
Issue of ordinary share capital	22	–	92.5
Drawdown of loans	17	–	71.0
Repayment of loans	17	(8.0)	(139.0)
Net cash (used by)/from financing activities		(8.0)	24.5
Net movement in cash and cash equivalents		54.9	20.0
Cash and cash equivalents at beginning of the year	17	20.1	0.1
Cash and cash equivalents at end of the year	17	75.0	20.1

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 179 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 2021 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 9 March 2022.

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 are stated 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 for the current year from the Group's assessment of the impact of climate change, including estimates and judgements made, specifically in relation to long-term contract accounting.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of 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 IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed later in this note.

Going concern

The Group's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flows, liquidity position, borrowing and bonding facilities, use of financial instruments and hedging activities, exposure to credit risk and its objectives, policies and processes for managing its capital and financial risk are described in the 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. These borrowing facilities give the Group access to an RCF cash drawdown component of £131m and a £40m five-year Term Loan, which reduces by £4m every six months on 30 June and 31 December.

These facilities have a liquidity covenant of net debt / EBITDA ≤ 1.5 times and an interest covenant of EBITA / net interest payable covenant of ≥ 4.0 times and these financial covenants are tested quarterly. As at 31 December 2021, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 11.0 times. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its £35m bank bonding and £275m surety company bonding facilities.

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

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued**Going concern** continued

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

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

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 2021:

- Covid-19-Related Rent Concessions – amendments to IFRS 16, and
- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The Group also elected to adopt the following amendments early:

- Annual Improvements to IFRS Standards 2018–2020,
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12, and
- Covid-19-Related Rent Concessions beyond 30 June 2021.

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 2021 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 and on foreseeable future transactions.

Basis of consolidation

- (a) The Group's financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities controlled by the Group and control exists when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control starts until the date that control ceases.
- (b) Associates are operations over which power exists to exercise significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Associates are accounted for using the equity method.
- (c) Joint ventures are those joint arrangements where control is shared with another entity, and where the Group has rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method from the date that the joint venture starts until the date that joint control of the entity ceases.
- (d) The presentation of investments in associates and joint ventures in the statement of financial position restricts the minimum carrying value to £nil. Where the cost of investment would be negative, due to losses incurred, then an amount up to the value of the negative position is applied to any outstanding loan balance with the investment or, where future funding commitments exist, a provision is made up to the value of the commitment.
- (e) Joint operations are those joint arrangements over which joint control exists, established by contractual agreement, which are not legal entities and where the parties have rights to the assets and obligations for the liabilities relating to the arrangement. Where a joint operation exists, 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 item to the customer, increasingly involve 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 separately. The scope of the works will be often 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 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 standalone contracts and the resulting performance obligations depends on how the customer procures the contract.

Group 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.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

Revenue from contracts with customers continued

(a) Long-term contracts continued

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) Other revenue

Revenue from other services contracts is recognised when the service is provided and revenue from the sale of land is recognised when title has been transferred to the buyer. The revenue recognised is the amount that can be measured reliably and is highly probable to flow to the Group and not reverse. 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 earning per share' alternative performance measurements. These are reconciled to statutory numbers in note 3 to the financial statements and reported in the presentation of segmental reporting in note 4.

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

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 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 carried at cost. 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.

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
- the development costs can be measured reliably.

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

Brands	– on a straight-line basis up to three years
Order book	– in line with expected profit generation up to three years
Customer relationships	– on a straight-line basis up to seven years
Other intangibles (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	– remaining useful life (generally 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 assets, except inventories and deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

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

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

Provisions

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

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

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 dealt with in equity.

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

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 some 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.

Financial guarantee contracts

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

Share capital

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

Dividends

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

Share-based payments

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

Retirement benefit obligations

A defined benefit pension scheme is operated in the UK, which provides benefits based on pensionable salary. The details are included in note 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 and a charge to reflect the impact of GMP equalisation was included in other items in the income statement in 2020. 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.

Trade and other receivables

Trade and other receivables do not carry interest and are stated at their initial value less impairment losses. Trade receivables mostly relate to long-term contracts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

NOTES TO THE FINANCIAL STATEMENTS continued

2 Summary of significant accounting policies continued

Financial assets and liabilities continued

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 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, 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 and acquired intangible assets, the assumptions used in the accounting for defined benefit pension schemes under IAS 19 'Employee benefits', the recognition of deferred tax assets in relation to tax losses and the items classified as other items and contract adjustments.

Long-term contracts

The majority of the Group's activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted individually. The most common type of contracts undertaken by the Group with multiple performance obligations are framework contracts. In most cases, the obligations are satisfied over time and estimates are made of the total contract costs and revenues. In many cases, these obligations span more than one financial period. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims and assessments of the impact of pain/gain arrangements to the extent that the amounts the Group expects to recover or incur can be reliably estimated and are highly probable not to reverse.

Management bases its estimates of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations, progress on discussions over compensation events, variations and claims with customers, progress against the latest programme for completing the works, forecasts of the costs to complete and, in certain limited cases, assessments of recoveries from insurers where virtually certain. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered in management's judgement highly probable to be agreed.

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

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

	2021 £m	2020 £m	2019 £m
Overall contract value	1,501.9	1,135.6	1,334.0
Revenue in year	146.3	176.9	281.3
Total estimated end of contract compensation events	135.4	83.1	472.1
Total estimated unagreed end of contract compensation events (included in the above)	96.1	51.3	238.6
Total unagreed compensation events valued at year-end and included in contract assets	22.9	22.5	45.7

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

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 contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates both positive and negative is then reflected in the financial statements.

While management believes it has recorded positions that are highly probable not to reverse on the basis of existing knowledge, there are a number of factors affecting the positions and some possible outcomes could require material adjustment within the next financial year. Given the pervasive impact of judgements and estimates on revenue, cost of sales and related balance sheet amounts, it is difficult to quantify the impact of taking alternative assessments on each of the judgements above. However, a sensitivity analysis of the potential impact is included above.

Peterborough & Huntingdon

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

Contract in the water sector

During the year Costain recognised a £6.2m provision in respect of the expected future costs of probable rectification works required at a customer's facility where the Group had been prime contractor. Costain has engaged with its insurers and other stakeholders to explore routes for recovery and to minimise the Group's ultimate exposure. However, as at 31 December 2021, the expected recoveries do not yet meet the virtually certain criteria, and accordingly no reimbursement asset has been recognised.

The Group has identified a range of potential solutions to expedite the required rectification works, with an estimated cost ranging between £5.5m to £12.2m. The Group's best estimate cost of the single most likely solution as at 31 December 2021 is £6.2m. A provision for this probable economic outflow has been recognised and disclosed in note 20.

Carrying value of goodwill and intangible assets

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires an estimation of the value in use of cash generating unit to which the goodwill has been allocated. These valuations involve estimation and judgement, principally, in respect of the levels of operating margins, growth rates and future cash flows of the cash generating units and also include a consideration of potential sensitivities around those figures. The useful lives of intangible assets and the selection of discount rates used to calculate present values are set out in note 12.

The carrying values of investments in some subsidiaries in the Company (note 14) are based on a value in use assessment of that subsidiaries assets and liabilities. This requires estimates to be made of the future profitability and cash flows of these subsidiaries.

Defined benefit pension schemes

Defined benefit pension schemes require significant estimates in relation to the assumptions for the discount rate, inflation and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in note 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 six years. The critical judgements in assessing the recoverability relate to the ability of the Group to achieve its taxable profit forecasts and the ability to withstand the application of what the Board considers appropriate sensitivities. Details of deferred tax assets are shown in note 9.

Adjusting items

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

3 Reconciliation of reported revenue and operating (loss)/profit to adjusted revenue and operating profit

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

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

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

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

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

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

On 10 December 2021, Costain received the outcome of a material combined adjudication where the adjudicator found in Costain's favour on principle in respect of three out of four compensation events under consideration. However, the adjudicator unexpectedly declined to make a quantum assessment and noted that had he been able to determine quantum, this would only be in respect of non-productive time-related costs. In doing so the adjudicator therefore indicated that he would have sought to apply a methodology that was not envisaged nor widely used within the construction industry, nor was it in accordance with or defined within the contract. The impact of this would have been to allow recovery of only a small proportion of the additional costs incurred and claimed. This left the matter undecided and, in respect of certain matters, the subject of further adjudication.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS continued

3 Reconciliation of reported revenue and operating (loss)/profit to adjusted revenue and operating profit continued

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

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. In 2020, an arbitration decided that Costain was responsible for design information for a specific retaining wall and that the additional building cost associated with the wall was not a compensation event under the contract. As a consequence of the decision, at 30 June 2020, the Group adjusted the revenue recognised based on the level of cash received to that date and reflected a write down of the £45.4m contract asset. The Group continued to fulfil its obligations under the contract, which was largely completed during the current year. The final costs to complete were lower than forecast at the end of 2020 and a profit of £8.4m is recognised in the year. 2020 adjusted Group revenue includes £18.0m of revenue on the A465 contract.

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

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)
Group revenue	1,178.6	(43.4)	-	-	1,135.2
Cost of sales	(1,099.2)	(4.2)	8.4	-	(1,095.0)
Gross profit/(loss)	79.4	(47.6)	8.4	-	40.2
Administrative expenses before other item:	(49.3)	-	-	-	(49.3)
Amortisation of acquired intangible assets	-	-	-	(0.4)	(0.4)
Administrative expenses	(49.3)	-	-	(0.4)	(49.7)
Group operating profit/(loss)	30.1	(47.6)	8.4	(0.4)	(9.5)
Share of results of joint ventures and associates	-	-	-	-	-
Profit/(loss) from operations	30.1	(47.6)	8.4	(0.4)	(9.5)
Net finance expense	(3.8)	-	-	-	(3.8)
Profit/(loss) before tax	26.3	(47.6)	8.4	(0.4)	(13.3)
Taxation	0.1	9.0	(1.6)	-	7.5
Profit/(loss) for the period attributable to equity holders of the parent	26.4	(38.6)	6.8	(0.4)	(5.8)
Basic earnings/(loss) per share	9.6p				(2.1)p

2020	Adjusted £m	P&H £m	A465 £m	ASF South £m	Other items £m	Total £m
Revenue before contract adjustments	1,070.5	–	–	–	–	1,070.5
Contract adjustments	–	(42.0)	(45.4)	(4.7)	–	(92.1)
Group revenue	1,070.5	(42.0)	(45.4)	(4.7)	–	978.4
Cost of sales	(1,019.4)	(7.3)	–	(0.3)	–	(1,027.0)
Gross profit/(loss)	51.1	(49.3)	(45.4)	(5.0)	–	(48.6)
Administrative expenses before other items	(33.1)	–	–	–	–	(33.1)
Other items:						
Impairment of Alcaidesa marina	–	–	–	–	(0.6)	(0.6)
Impairment of other investment	–	–	–	–	(0.6)	(0.6)
Profit on sales of interests in joint ventures and associates	–	–	–	–	1.6	1.6
Profit on disposal of subsidiary undertakings	–	–	–	–	1.4	1.4
Refinancing advisory fees	–	–	–	–	(1.2)	(1.2)
Pension GMP equalisation charge	–	–	–	–	(0.9)	(0.9)
Amortisation of acquired intangible assets	–	–	–	–	(1.0)	(1.0)
Impairment of goodwill	–	–	–	–	(9.0)	(9.0)
Administrative expenses	(33.1)	–	–	–	(10.3)	(43.4)
Group operating profit/(loss)	18.0	(49.3)	(45.4)	(5.0)	(10.3)	(92.0)
Share of results of joint ventures and associates	0.2	–	–	–	–	0.2
Profit/(loss) from operations	18.2	(49.3)	(45.4)	(5.0)	(10.3)	(91.8)
Net finance expense	(4.3)	–	–	–	–	(4.3)
Profit/(loss) before tax	13.9	(49.3)	(45.4)	(5.0)	(10.3)	(96.1)
Taxation	(1.5)	9.4	8.6	1.0	0.6	18.1
Profit/(loss) for the period attributable to equity holders of the parent	12.4	(39.9)	(36.8)	(4.0)	(9.7)	(78.0)
Basic earnings/(loss) per share	5.8p					(36.7)p

4 Operating segments

The Group has two core business segments: Natural Resources and Transportation and until its disposal in 2020, the non-core business Alcaidesa in Spain. The core segments are strategic business units with separate management and have different core customers or offer different services. This information is provided to the Chief Executive who is the chief operating decision maker. The segments are discussed in the Strategic Report section of these financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Group evaluates segment performance on the basis of profit or loss from operations before interest and tax expense before and after other items 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

2021	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Adjusted revenue	314.4	864.2	–	1,178.6
Contract adjustments	(43.4)	–	–	(43.4)
Group revenue	271.0	864.2	–	1,135.2
Segment profit/(loss)				
Adjusted operating profit/(loss)	(2.6)	41.4	(8.7)	30.1
Contract adjustments	(47.6)	8.4	–	(39.2)
Operating profit/(loss) before other items	(50.2)	49.8	(8.7)	(9.1)
Share of results of joint ventures and associates	–	–	–	–
Profit/(loss) from operations before other items	(50.2)	49.8	(8.7)	(9.1)
Other items:				
Amortisation of acquired intangible assets	(0.4)	–	–	(0.4)
Profit/(loss) from operations	(50.6)	49.8	(8.7)	(9.5)
Net finance expense				(3.8)
Loss before tax				(13.3)
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
Segment assets				
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
Total assets				532.4
Expenditure on non-current assets				
Property, plant and equipment	4.3	14.4	–	18.7
Intangible assets	0.7	0.8	–	1.5
Segment liabilities				
Reportable segment liabilities	100.7	183.0	10.3	294.0
Unallocated liabilities:				
Borrowings				39.4
Total liabilities				333.4

2020	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Adjusted revenue	345.1	724.2	1.2	–	1,070.5
Contract adjustments	(42.0)	(50.1)	–	–	(92.1)
Group revenue	303.1	674.1	1.2	–	978.4
Segment profit/(loss)					
Adjusted operating profit	5.7	20.1	(0.1)	(7.7)	18.0
Contract adjustments	(49.3)	(50.4)	–	–	(99.7)
Operating loss before other items	(43.6)	(30.3)	(0.1)	(7.7)	(81.7)
Share of results of joint ventures and associates	0.2	–	–	–	0.2
Loss from operations before other items	(43.4)	(30.3)	(0.1)	(7.7)	(81.5)
Other items:					
Impairment of Alcaidesa marina	–	–	(0.6)	–	(0.6)
Impairment of other investment	–	–	–	(0.6)	(0.6)
Profit on sales of interests in joint ventures and associates	1.6	–	–	–	1.6
Profit on disposal of subsidiary undertakings	–	–	0.4	1.0	1.4
Refinancing advisory fees	–	–	–	(1.2)	(1.2)
Pension GMP equalisation charge	–	–	–	(0.9)	(0.9)
Amortisation of acquired intangible assets	(0.7)	(0.3)	–	–	(1.0)
Impairment of goodwill	(9.0) ^a	–	–	–	(9.0)
Loss from operations	(51.5)	(30.6)	(0.3)	(9.4)	(91.8)
Net finance expense					(4.3)
Loss before tax					(96.1)
Segment profit/(loss) is stated after charging the following:					
Depreciation and impairment	3.5	11.2	0.9	–	15.6
Amortisation and impairment (including acquired intangible assets)	9.9	0.6	–	–	10.5
Segment assets					
Reportable segment assets	123.2	191.9	–	0.1	315.2
Unallocated assets:					
Deferred tax					23.6
Taxation					0.2
Cash and cash equivalents					150.9
Total assets					489.9
Expenditure on non-current assets					
Property, plant and equipment	2.7	18.1	–	–	20.8
Intangible assets	1.7	1.9	–	–	3.6
Segment liabilities					
Reportable segment liabilities	61.1	195.9	–	24.0	281.0
Unallocated liabilities:					
Retirement benefit obligations					5.6
Borrowings					46.8
Total liabilities					333.4

NOTES TO THE FINANCIAL STATEMENTS continued

4 Operating segments continued

Geographical information

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

2021	External revenue £m	Non-current assets £m
UK	1,135.2	157.5
<hr/>		
2020	External revenue £m	Non-current assets £m
UK	977.2	95.9
Spain	1.2	–
	978.4	95.9

Customers accounting for more than 10% of revenue

Two customers (2020: two) in the Transportation sector accounted for revenue of £629.0m (2020: £546.1m).

5 Other operating expenses and income

	2021 £m	2020 £m
Loss before tax is stated after charging:		
Amortisation and impairment of intangible assets (note 12)	1.1	10.5
Depreciation and impairment of property, plant and equipment (note 13)	12.9	15.6
Impairment of other investment (note 16)	–	0.6
Refinancing advisory fees	–	1.2
Pension GMP equalisation charge (note 21)	–	0.9
Expenses relating to short-term leases and leases of low value assets	41.3	24.0
and after crediting:		
Profit on sales of interests in joint ventures and associates	–	1.6
Profit on disposal of subsidiary undertakings – Spain and Zimbabwe (note 26)	–	1.4
RDEC grant income	3.0	1.7
Receipts under the Coronavirus Job Retention Scheme	–	2.0

Amortisation and impairment of intangible assets includes the goodwill impairment of £nil (2020: £9.0m).

In the prior year, depreciation and impairment of property plant and equipment included impairment charges relating to the Alcaidesa marina of £0.6m. The charges were based on offers for the sale of the asset, which was sold in August 2020 (note 26).

In the prior year, one-off advisory costs of £1.2m were associated with the Group's capital raise and bank facilities.

Short-term leases mostly relate to the hiring of plant for operations on construction sites.

Auditors' remuneration

	2021 £m	2020 £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 and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	1.0	0.7
	1.1	0.8

An amount of £0.1m was paid to the Group's auditors in 2021 for the independent review of the interim results and other non-audit services (2020: £0.6m comprising £0.6m for the capital raise (note 22) and less than £0.1m for the independent review of the interim results and other non-audit services).

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

6 Employee benefit expense

Group	2021 £m	2020 £m
Wages and salaries	200.3	182.0
Social security costs	21.4	19.2
Other pension costs – defined contribution schemes (note 21)	10.4	9.9
Share-based payments expense (note 21)	1.1	0.9
	233.2	212.0

	2021 Number	2020 Number
Average number of persons employed		
Natural Resources	1,549	1,402
Transportation	1,741	1,827
Alcaidesa	–	20
Central	21	20
	3,311	3,269

Of the above employees one was employed overseas (2020: 21).

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 2021 and 2020 are detailed below.

	2021 £m	2020 £m
Remuneration	1.2	1.2
Post-employment benefits	–	0.1
	1.2	1.3

NOTES TO THE FINANCIAL STATEMENTS continued

8 Net finance expense

	2021 £m	2020 £m
Interest income from bank deposits	0.1	0.5
Interest income on loans to related parties	–	0.1
Interest income on the net assets of the defined benefit pension scheme (note 21)	–	0.2
Finance income	0.1	0.8
Interest payable on interest bearing bank loans, borrowings and other similar charges	(3.0)	(4.1)
Interest expense on lease liabilities	(0.9)	(1.0)
Finance expense	(3.9)	(5.1)
Net finance expense	(3.8)	(4.3)

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

9 Taxation

	2021 £m	2020 £m
On loss for the year		
UK corporation tax at 19% (2020: 19%)	–	(1.9)
Adjustment in respect of prior years	0.1	3.0
Current tax credit for the year	0.1	1.1
Deferred tax credit for the current year	8.4	19.7
Adjustment in respect of prior years	(1.0)	(2.7)
Deferred tax credit for the year	7.4	17.0
Tax credit in the consolidated income statement	7.5	18.1
	2021 £m	2020 £m
Tax reconciliation		
Loss before tax	(13.3)	(96.1)
Taxation at 19% (2020: 19%)	2.5	18.3
Amounts qualifying for tax relief and disallowed expenses	(0.3)	(1.3)
Tax decrease from other tax effects	–	0.6
Rate adjustment relating to UK deferred taxation (2020: overseas profits and losses)	6.2	0.2
Adjustments in respect of prior years	(0.9)	0.3
Tax credit in the consolidated income statement	7.5	18.1
Effective rate of tax	56.4%	18.8%

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 asset of £0.2m (2020: £0.2m) for the Group and liability of £1.6m (2020: £1.5m) 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.

	2021 £m	2020 £m
Tax in other comprehensive income and expense statement		
Current tax – Retirement benefit assets/obligations	–	1.8
Deferred tax – Retirement benefit assets/obligations	(15.6)	2.0
Tax (charge)/credit in the other comprehensive income and expense statement	(15.6)	3.8
	2021 £m	2020 £m
Deferred tax asset recognised		
Accelerated capital allowances	0.8	1.1
Short-term temporary differences	2.7	1.5
Retirement benefit obligations/assets	(16.7)	1.1
Tax losses	28.6	19.9
Deferred tax asset	15.4	23.6

Deferred tax assets have been recognised in respect of accumulated tax trading losses in the UK of £119.5m (2020: 104.5m). The deferred tax assets include an amount of £28.6m (2020: £19.9m) which relates to these carried forward tax losses. These have been recognised to the extent it is expected that they will be recoverable within six years using the estimated future taxable income based on the approved forecasts for the Group and reasonably likely estimated future profits following the final settlement of the Peterborough & Huntingdon project as well as settlement of other longstanding contracts and the introduction of the operational excellence model. These losses can be carried forward indefinitely and have no expiry date.

The Company has a deferred tax asset of £1.0m (2020: £0.1m) relating to short-term temporary differences.

	2021 £m	2020 £m
Analysis of deferred tax movements		
At 1 January	23.6	4.6
Deferred tax in consolidated income statement		
Accelerated capital allowances	(0.3)	(0.2)
Short-term temporary differences	1.2	(0.4)
Retirement benefit obligations/assets	(2.2)	(0.1)
Tax losses	8.7	17.7
	7.4	17.0
Deferred tax in other comprehensive income and expense statement		
Retirement benefit obligations/assets	(15.6)	2.0
At 31 December	15.4	23.6

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 24 May 2021 and therefore is reflected in these financial statements. Deferred tax balances in these financial statements have been calculated at the rate of 25% for those where the asset will unwind after 1 April 2023, at 19% where the asset will unwind prior to 1 April 2023, or a blended rate.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

9 Taxation continued

The following gross assets are included in the net unrecognised deferred tax asset balances:

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Accelerated capital allowances	–	–	–	–
Short-term temporary differences	–	–	–	–
Trading tax losses	0.1	0.1	–	–
Total	0.1	0.1	–	–
In addition to the above temporary differences, the following gross value items are available as deferred tax assets:				
Management expenses and charges incurred by Parent Company	54.7	54.7	54.7	54.7
Capital losses	270.6	270.6	241.0	241.0

The current year tax effect, at 19%, of claiming unrecognised short-term temporary differences and tax losses was £nil (2020: £nil) as shown in the table 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 loss of £5.8m (2020: £78.0m) and the number of shares set out below.

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

At 31 December 2021, nil options were excluded from the weighted average number of ordinary shares calculation because they were anti-dilutive (2020: 816,290 options were excluded).

11 Dividends

No dividends were paid or recommended in respect of the year ended 31 December 2021. 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
Cost					
At 1 January 2020	54.1	15.4	9.7	10.8	90.0
Additions	–	–	–	3.6	3.6
At 31 December 2020	54.1	15.4	9.7	14.4	93.6
At 1 January 2021	54.1	15.4	9.7	14.4	93.6
Additions	–	–	–	1.5	1.5
At 31 December 2021	54.1	15.4	9.7	15.9	95.1
Accumulated amortisation and impairment					
At 1 January 2020	–	14.3	9.4	7.3	31.0
Charge in year	–	0.7	0.3	0.5	1.5
Impairment in year	9.0	–	–	–	9.0
At 31 December 2020	9.0	15.0	9.7	7.8	41.5
At 1 January 2021	9.0	15.0	9.7	7.8	41.5
Charge in year	–	0.4	–	0.7	1.1
At 31 December 2021	9.0	15.4	9.7	8.5	42.6
Net book value					
At 31 December 2021	45.1	–	–	7.4	52.5
At 31 December 2020	45.1	0.4	–	6.6	52.1
At 1 January 2020	54.1	1.1	0.3	3.5	59.0

The amortisation charges for the year are included in administration expenses.

Other intangibles includes development expenditure of £6.1m (2020: £5.0m) 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 (2020: £15.5m)) and the Natural Resources segment (£29.6m (2020: £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 Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows for the Transportation CGU was 13.2% and for the Natural Resources CGU was 14.3%. In 2020, the discount rates used for the two CGUs were Transportation 12.4% and Natural Resources 12.5%.

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 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	2021	2021	2020	2020
	Transportation %	Natural Resources %	Transportation %	Natural Resources %
Year 5	1.9	1.9	1.5	1.5
Long-term average	1.9	1.9	1.5	1.5

At 31 December 2021, 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 on goodwill. Accordingly, in the view of the directors there is no reasonably foreseeable change in a key assumptions that would result in an impairment charge.

At 31 December 2021, 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 value of the Natural Resources cash generating unit exceeded its carrying amount, but with limited headroom on goodwill. 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:

- Increase discount rate by 0.25% decreases headroom by £1.9m, but no impairment triggered;
- Decrease growth rate by 0.25% decreases headroom by £1.4m, but no impairment triggered;
- Reduce business operating margin by 0.5% (over and above the 30% reduction in absolute business operating profit already applied) decreases headroom and triggers an impairment of £11.7m.

Accordingly, reasonably possible changes exist that would give rise to a further impairment, recognising that in the prior year, in respect of Natural Resources, the sensitivity of the assessment to a lower revenue and / or underlying operating margins resulted in an impairment of the goodwill by £9.0m, reducing the amount allocated to Natural Resources to the current carrying value of £29.6m.

13 Property, plant and equipment

Group	Land and buildings £m	Plant and equipment £m	Right-of-use assets		Total £m
			Land and buildings £m	Vehicles, plant and equipment £m	
Cost					
At 1 January 2020	12.5	32.3	19.5	21.2	85.5
Currency movements	0.8	0.3	–	–	1.1
Additions	–	0.5	1.2	19.1	20.8
Disposal of subsidiary undertakings (note 26)	(12.5)	(4.0)	–	–	(16.5)
Disposals	(0.2)	(2.1)	(0.2)	(10.0)	(12.5)
At 31 December 2020	0.6	27.0	20.5	30.3	78.4
At 1 January 2021	0.6	27.0	20.5	30.3	78.4
Additions	–	0.7	1.0	17.0	18.7
Disposals	–	(0.7)	(7.4)	(17.9)	(26.0)
At 31 December 2021	0.6	27.0	14.1	29.4	71.1
Accumulated depreciation					
At 1 January 2020	9.5	20.8	4.3	6.8	41.4
Currency movements	0.6	0.1	–	–	0.7
Charge in year	–	2.7	4.3	8.0	15.0
Impairment	0.6	–	–	–	0.6
Disposal of subsidiary undertakings (note 26)	(10.0)	(1.9)	–	–	(11.9)
Disposals	(0.1)	(1.9)	(0.2)	(5.1)	(7.3)
At 31 December 2020	0.6	19.8	8.4	9.7	38.5
At 1 January 2021	0.6	19.8	8.4	9.7	38.5
Charge in year	–	2.5	3.3	7.1	12.9
Disposals	–	(0.7)	(5.6)	(6.0)	(12.3)
At 31 December 2021	0.6	21.6	6.1	10.8	39.1
Net book value					
At 31 December 2021	–	5.4	8.0	18.6	32.0
At 31 December 2020	–	7.2	12.1	20.6	39.9
At 1 January 2020	3.0	11.5	15.2	14.4	44.1

In the prior year, land and buildings includes an impairment charge of £0.6m in respect of the Alcaidesa marina.

Leased assets

Other amounts recognised in the income statement:

	2021 £m	2020 £m
Interest expense (included in finance expense)	0.9	1.0
Expense relating to short-term leases (included in cost of sales and administrative expenses)	41.3	24.0

The lease liabilities relating to these right-of-use assets are as follows:

	2021 £m	2020 £m
Current	8.6	12.5
Non-current	18.2	20.8
	26.8	33.3

NOTES TO THE FINANCIAL STATEMENTS continued

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

Group	Investments		Loans	Total £m
	Joint ventures £m	Associates £m	Associates £m	
Cost				
At 1 January 2020	14.4	0.1	1.5	16.0
Disposals	–	(0.1)	(1.5)	(1.6)
At 31 December 2020	14.4	–	–	14.4
At 1 January 2021	14.4	–	–	14.4
At 31 December 2021	14.4	–	–	14.4
Share of post-acquisition reserves				
At 1 January 2020	(14.0)	0.5		(13.5)
Disposals	–	(0.5)		(0.5)
Dividends	–	(0.2)		(0.2)
Profit for the year	–	0.2		0.2
At 31 December 2020	(14.0)	–		(14.0)
At 1 January 2021	(14.0)	–		(14.0)
At 31 December 2021	(14.0)	–		(14.0)
Net book value				
At 31 December 2021	0.4	–	–	0.4
At 31 December 2020	0.4	–	–	0.4
At 1 January 2020	0.4	0.6	1.5	2.5

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

	2021			2020		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
Revenue	(4.1)	–	(4.1)	1.9	0.5	2.4
Profit before tax	–	–	–	–	0.2	0.2
Taxation	–	–	–	–	–	–
Profit for the year	–	–	–	–	0.2	0.2
Non-current assets	–	–	–	–	–	–
Trade and other receivables	6.0	–	6.0	6.1	–	6.1
Cash and cash equivalents	(0.1)	–	(0.1)	0.1	–	0.1
Trade and other payables – current	(5.5)	–	(5.5)	(5.8)	–	(5.8)
Non-current liabilities	–	–	–	–	–	–
Investments in joint ventures and associates	0.4	–	0.4	0.4	–	0.4
Dividends received by Group	–	–	–	–	0.2	0.2

Net interest payable by joint ventures and associates in 2021 was £nil (2020: £nil). There was no interest income and interest expense during the year (2020: applicable interest rates on interest income of 0.2% to 13.6% and on interest expense of 10.7% to 13.6%).

At the year-end, there were no capital or financial commitments entered into by the joint ventures or associates (2020: £nil).

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

	2021			2020		
	Joint ventures £m	Associates £m	Total £m	Joint ventures £m	Associates £m	Total £m
Revenue	(12.1)	–	(12.1)	4.8	1.3	6.1
Profit before tax	–	–	–	–	0.5	0.5
Taxation	–	–	–	–	(0.1)	(0.1)
Profit for the year	–	–	–	–	0.4	0.4
Non-current assets	–	–	–	–	–	–
Trade and other receivables	17.3	–	17.3	17.6	–	17.6
Cash and cash equivalents	(0.3)	–	(0.3)	0.3	–	0.3
Trade and other payables – current	(16.1)	–	(16.1)	(16.9)	–	(16.9)
Non-current liabilities	–	–	–	–	–	–
Equity	0.9	–	0.9	1.0	–	1.0

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

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

Company

Investments in subsidiaries	£m
Cost	
At 1 January 2020	381.0
Additions	43.9
At 31 December 2020	424.9
At 1 January 2021	424.9
Additions	1.1
At 31 December 2021	426.0
Amounts written off	
At 1 January 2020	(239.7)
Impairment in year	(34.0)
At 31 December 2020	(273.7)
At 1 January 2021	(273.7)
At 31 December 2021	(273.7)
Net book value	
At 31 December 2021	152.3
At 31 December 2020	151.2
At 1 January 2020	141.3

Additions relate to a capital increase in a subsidiary of the Company (£nil (2020: £42.9m)) and 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 (2020: £1.0m)).

In respect of subsidiaries valued on a value in use basis, a 10% reduction in the value in use assessment would result in an impairment of £21.4m.

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

NOTES TO THE FINANCIAL STATEMENTS continued

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:

	2021 £m	2020 £m
Contract assets	39.9	97.3
Non-current assets recognised relating to customer retentions	5.5	3.5
Contract liabilities	(10.7)	(5.5)

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. The reversal of revenue as included in note 3 has resulted in a decrease in contract assets of £43.4m. There are no significant one-off factors outside of normal trading.

Contract liabilities result when cumulative cash received exceeds cumulative revenue on any particular contract. On contracts undertaken by the Group, this typically results from work being undertaken, or on framework contracts awarded, in a different order to the programme envisaged in the contractual payments schedule. There are no significant one-off factors outside of normal trading contributing to the increase in contract liabilities.

Revenue recognised in 2021 from performance obligations satisfied in previous periods was immaterial.

The aggregate amount of costs incurred plus recognised profits, less recognised losses, for all contracts in progress at the statement of financial position date was £4,041.3m (2020: £4,220.5m). Progress billings and advances received from customers under open construction contracts amounted to £4,057.8m (2020: £4,126.9m). 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:

	2021 £m	2020 £m
Aggregate amount of the transaction price allocated to long-term contracts that are partially or fully unsatisfied as at 31 December	2,633.5	2,996.1

Management expects that approximately 35% of the transaction price allocated to the unsatisfied contracts as of 31 December 2021 will be recognised as revenue during the next reporting period (£917.0m). Of the remaining 65%, 55% will be recognised during 2023 to 2025.

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts included in current assets				
Trade receivables	120.0	82.7	–	–
Other receivables	4.5	7.6	–	–
Contract assets	39.9	97.3	–	–
Prepayments and accrued income	34.5	25.8	–	–
Amounts owed by joint ventures and associates	0.7	5.3	–	–
Amounts owed by subsidiary undertakings	–	–	71.9	134.9
	199.6	218.7	71.9	134.9
Amounts included in non-current assets				
Other receivables	5.5	3.5	–	–

At 31 December 2021, contract assets falling due within one year include retentions of £1.8m (2020: £1.9m) relating to long-term contracts in progress. Other receivables falling due after more than one year include retentions of £5.5m (2020: £3.5m) relating to long-term contracts in progress.

The amounts included in contract assets as at 31 December 2020 have not been reversed other than the reversal of revenue included in note 3.

The average credit period within trade receivables on amounts billed for construction work and on sales of goods is 31 days (2020: 32 days). The analysis of the due dates of the trade receivables was £115.8m (2020: £76.3m) due within 30 days, £1.7m (2020: £4.1m) due between 30 and 60 days and £2.5m (2020: £2.3m) 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 £58.1m (2020: £61.1m).

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Cash and cash equivalents	159.4	150.9	75.0	20.1
Cash and cash equivalents in the cash flow statement	159.4	150.9	75.0	20.1

Interest-bearing loans and borrowings

	Group		Company	
	2021 £m	2020 £m	2021 £m	2020 £m
Current				
Term Loan	7.4	7.2	7.4	7.2
	7.4	7.2	7.4	7.2
Non-current				
Term Loan	32.0	39.6	32.0	39.6
	32.0	39.6	32.0	39.6

The Term Loan is stated after associated arrangement fees of £0.6m (2020: £1.2m), which are being amortised over the period of the facility with £0.6m (2020: £0.8m) classified within one year. 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	
	2021 £m	2020 £m	2021 £m	2020 £m
Cash and cash equivalents	159.4	150.9	75.0	20.1
Borrowings – current	(7.4)	(7.2)	(7.4)	(7.2)
Borrowings – non-current	(32.0)	(39.6)	(32.0)	(39.6)
Net cash/(debt) before lease liabilities	120.0	104.1	35.6	(26.7)
Lease liabilities (note 13)	(26.8)	(33.3)	–	–
Net cash/(debt)	93.2	70.8	35.6	(26.7)

Group	Cash and cash equivalents £m	Borrowings – current £m	Borrowings – non-current £m	Lease liabilities £m	Total £m
Net cash/(debt) at 1 January 2020	180.9	(68.0)	(48.0)	(30.0)	34.9
Cash flows	(29.4)	60.8	8.4	12.1	51.9
New leases	–	–	–	(20.3)	(20.3)
Disposal of leases	–	–	–	4.9	4.9
Interest expense	–	–	–	(1.0)	(1.0)
Interest payments (presented as operating cash flows)	–	–	–	1.0	1.0
Effect of foreign exchange rate changes	(0.6)	–	–	–	(0.6)
Net cash/(debt) at 31 December 2020	150.9	(7.2)	(39.6)	(33.3)	70.8
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

Company	Cash and cash equivalents £m	Borrowings – current £m	Borrowings – non-current £m	Total £m
Net cash/(debt) at 1 January 2020	0.1	(68.0)	(48.0)	(115.9)
Cash flows	20.0	60.0	8.0	88.0
Arrangement fees	–	0.8	0.4	1.2
Net cash/(debt) at 31 December 2020	20.1	(7.2)	(39.6)	(26.7)
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

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 or the Group enters into speculative transactions.

NOTES TO THE FINANCIAL STATEMENTS continued

18 Financial instruments – Fair values and risk management continued

Risk management continued

a) Capital management

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

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

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

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 £106.7m (2020: £73.8m).

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 2021, the Group had banking and bonding facilities, including a £131.0m (2020: £131.0m) Revolving Credit Facility and a £40.0m (2020: £48.0m) Term Loan, extending to 24 September 2023. The unsecured facilities have financial covenants based on interest cover and leverage 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 2021. The unsecured bonding facilities are set out below:

	Group and Company	
	2021 £m	2020 £m
Expiring between one and five years	310.0	320.0
Element of above facilities available for borrowings	2.5	2.5

At 31 December 2021, the utilisation of these bonding facilities amounted to £100.7m (2020: £112.3m).

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. Group revenue of £1,123.0m (2020: £964.2m) was attributable to Group 1 customers and £12.2m (2020: £14.2m) 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 loss rates, which were reviewed in the light of the impact of COVID-19 and considered still appropriate, will be 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 2021 and 31 December 2020 was determined as follows for both trade receivables and contract assets:

	Current	Less than 60 days past due	60 to 120 days past due	More than 120 days past due	Total
31 December 2021					
Group 1					
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	8.4	39.9
Loss allowance	-	-	-	-	-
Group 2					
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	-	-	-	-	-
Loss allowance	-	-	-	-	-
31 December 2020					
Group 1					
Expected loss rate	0.00%	0.10%	0.25%	0.50%	
	£m	£m	£m	£m	£m
Trade receivables	67.7	11.3	1.1	1.6	81.7
Contract assets	53.8	26.9	10.2	6.4	97.3
Loss allowance	-	-	-	-	-
Group 2					
Expected loss rate	1.0%	2.0%	15.0%	30.0%	
	£m	£m	£m	£m	£m
Trade receivables	0.2	0.8	-	-	1.0
Contract assets	-	-	-	-	-
Loss allowance	-	-	-	-	-

Impairment losses on trade receivables and contract assets are included within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. The total provision for impairment of trade and other receivables is £0.3m (2020: £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-. Overseas deposits are placed with major banks operating in those countries. Transactions involving derivative financial instruments are with bank or insurance company counterparties with high credit ratings that are monitored regularly and with whom there are signed netting agreements. Given the high credit ratings of the banks and insurance companies used, management does not expect any counterparty will fail to meet its obligations.

At the year-end date, 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 borrowings in the UK mostly denominated in pounds sterling.

The Group had interest rate swap arrangements that fixed the effective LIBOR interest rate on £50.0m of pounds sterling borrowings up to June 2021.

A 1% rise in interest rates would increase the annual interest income on net cash balances by approximately £1.0m (2020: approximately £1.0m).

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 2021, the Group had cash flow hedges as summarised below. The carrying value represents the fair value of the contract; the contractual cash flows represent the pounds sterling commitments. There were no ineffective hedges at the year-end. (2020: none).

	2021				2020			
	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)	-	-	(4.5)	(4.5)	-
Sales	-	1.0	1.0	-	-	1.1	1.1	-
	-	0.8	0.8	-	-	(3.4)	(3.4)	-
Interest rate swaps	-	-	-	-	(0.4)	(0.2)	(0.2)	-
	-	0.8	0.8	-	(0.4)	(3.6)	(3.6)	-

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 2022.

The movements on the hedging reserve by classification are set out below.

	Spot component of currency forwards £m	Interest rate swaps £m	Total hedge reserves £m
At 1 January 2020	(0.2)	(0.3)	(0.5)
Change in fair value of hedging instrument recognised in OCI for the year	–	(0.3)	(0.3)
Reclassified from OCI to profit or loss	0.2	0.3	0.5
At 31 December 2020	–	(0.3)	(0.3)
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	–	–	–

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

	2021				2020			
	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	158.8	158.8	–	–	149.4	149.4	–	–
other	0.6	0.6	–	–	1.5	1.5	–	–
	159.4	159.4	–	–	150.9	150.9	–	–
Trade, other receivables and amounts owed by joint ventures and associates:								
pounds sterling	130.7	125.2	5.5	–	99.1	95.6	3.5	–
Total financial assets not measured at fair value	290.1	284.6	5.5	–	250.0	246.5	3.5	–

The Group has not disclosed the fair values for short-term trade receivables and amounts due from joint ventures and associates within financial assets, because their carrying amounts are a reasonable approximation of fair values.

Financial assets measured at fair value

The Group measures its currency forwards 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

b) Currency and maturity of financial liabilities

Financial liabilities not measured at fair value

	2021			2020		
	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	46.8	7.2	39.6
Lease liabilities – pounds sterling	26.8	8.6	18.2	33.3	12.5	20.8
Trade and other payables – pounds sterling	116.0	114.2	1.8	117.2	116.1	1.1
Total financial liabilities not measured at fair value	182.2	130.2	52.0	197.3	135.8	61.5

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 1 year £9.2 million (2020: £13.0 million), 2-5 years £16.3 million (2020: £20.0 million) and over 5 years £3.8 million (2020: £2.2 million).

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 other than in relation to the Peterborough & Huntingdon contract they have not been utilised.

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

	2021		2020	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other receivables (as above)	125.2	5.5	95.6	3.5
Contract assets	39.9	–	97.3	–
Prepayments and accrued income	34.5	–	25.8	–
	199.6	5.5	218.7	3.5

	2021		2020	
	Current £m	Non-current £m	Current £m	Non-current £m
Trade and other payables (as above)	114.2	1.8	116.1	1.1
Contract liabilities	10.7	–	5.5	–
Accruals and deferred income	90.2	–	124.4	–
	215.1	1.8	246.0	1.1

d) Effective interest rates of financial assets and liabilities

	2021	2020
Financial assets		
Cash and cash equivalents	0.0% to 0.3%	0.0% to 0.7%
Loans to joint ventures and associates	–	10.7% to 13.6%

Financial liabilities

The Group has a Term Loan and a Revolving Credit Facility (RCF). £39.4m (net of fees) (2020: £46.8m (net of fees)) Term Loan and £nil (2020: £nil) of the RCF were drawn at the year-end. These loans are unsecured and carry interest at floating rates at a margin over LIBOR and for 2022 onwards SONIA.

The Company's financial assets comprised cash at bank of £75.0m (2020: £20.1m) denominated in pounds sterling, either on demand or with a maturity of up to three months, and trade and other receivables of £71.9m (2020: £134.9m) denominated in pounds sterling and maturing within one year.

The Company's financial liabilities comprise trade and other payables of £26.4m (2020: £26.4m) denominated in pounds sterling and the £39.4m (net of fees) (2020: £46.8m (net of fees)) Term Loan denominated in pounds sterling. The Term Loan matures between one and five years, all other liabilities mature within one year.

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	
	2021 £m	2020 £m	2021 £m	2020 £m
Current liabilities				
Trade payables	83.0	80.5	–	–
Other payables	23.2	28.3	0.1	0.1
Social security	7.6	6.9	–	–
Contract liabilities	10.7	5.5	–	–
Accruals and deferred income	90.2	124.4	0.9	1.6
Amounts owed to joint ventures and associates	0.4	0.4	–	–
Amounts owed to subsidiary undertakings	–	–	26.3	26.3
	215.1	246.0	27.3	28.0
Non-current liabilities				
Other payables	1.8	1.1	–	–
	1.8	1.1	–	–

Accruals and deferred income include subcontract liabilities (not yet payable), subcontract retentions and other accruals and deferred income.

The amounts included in contract liabilities and in deferred income at 31 December 2020 have all been recognised in the income statement in the year.

Other payables primarily includes the VAT liability.

The directors consider that the carrying amount of trade payables, other payables, social security and amounts owed to joint ventures and associates approximates to their fair value.

Financial risk management policies are in place that seek to ensure that all payables are paid within their credit timeframes.

NOTES TO THE FINANCIAL STATEMENTS continued

20 Provisions for other liabilities and charges

Group	Rectification provision £m	Onerous contract £m	Other £m	Total £m
Current				
At 1 January 2020	–	–	0.7	0.7
Provided	–	–	0.4	0.4
Utilised	–	–	(0.5)	(0.5)
At 31 December 2020	–	–	0.6	0.6
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

Company	Expected credit loss provision £m	Funding obligations £m	Total £m
Current			
At 1 January 2020	–	0.1	0.1
Reclassified from non-current	–	0.1	0.1
Utilised	–	(0.1)	(0.1)
At 31 December 2020	–	0.1	0.1
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
Non-current			
At 1 January 2020	–	0.8	0.8
Reclassified to current	–	(0.1)	(0.1)
At 31 December 2020	–	0.7	0.7
At 1 January 2021	–	0.7	0.7
At 31 December 2021	–	0.7	0.7

Group

During the year Costain recognised a £6.2m provision in respect of the expected future costs of probable rectification works required at a customer's facility where the Group had been prime contractor. Costain has engaged with its insurers and other stakeholders to explore routes for recovery and to minimise the Group's ultimate exposure. However, as at 31 December 2021, the expected recoveries do not yet meet the virtually certain criteria, and accordingly no reimbursement asset has been recognised.

The Group has identified a range of potential solutions to expedite the required rectification works, with an estimated cost ranging between £5.5m to £12.2m. The Group's best estimate cost of the single most likely solution as at 31 December 2021 is £6.2m. A provision for this probable economic outflow has been recognised as disclosed above.

On 24 February 2022, Costain announced that it had reached a final settlement with National Grid regarding the Peterborough & Huntingdon contract. The settlement agreement brings an end to the dispute after the contract was mutually terminated in June 2020 and prevents any further claims under the contract. At 31 December 2021 a provision of £43.4m was taken in relation to the settlement. This is further disclosed in note 3.

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 relating to funding obligations to a non-trading overseas subsidiary, which eliminates on consolidation.

During the year, the Company has recognised a £40.0m expected credit loss provision in respect of a financial guarantee that had been provided by the Company to National Grid, guaranteeing obligations of the subsidiary delivering the Peterborough & Huntingdon contract. The requirement for the expected credit loss provision follows the settlement agreement with National Grid and reflects the subsidiary's inability to make the agreed cash payment itself. This provision eliminates on consolidation.

21 Employee benefits

Pensions

A defined benefit pension scheme is operated in the UK and a number of defined contribution pension schemes are in place in the UK. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension charge in the income statement was £11.7m comprising £11.7m included in operating costs and £nil interest income included in net finance expense (2020: £12.7m, comprising £12.9m in operating costs less £0.2m interest income included in net finance expense).

The Company does not operate a pension scheme.

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2019 and this was updated to 31 December 2021 by a qualified independent actuary. At 31 December 2021, there were 2,875 retirees and 2,629 deferred members (2020: 2,869 retirees and 2,730 deferred members). The weighted average duration of the obligations is 16.3 years.

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

Movements in present value of defined benefit obligations

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

Movements in fair value of scheme assets

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

NOTES TO THE FINANCIAL STATEMENTS continued

21 Employee benefits continued

Pensions continued

Expense recognised in the income statement

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

The GMP (Guaranteed Minimum Pension) equalisation charge in the prior year resulted from a decision in November 2020 when the High Court issued a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement, which followed an earlier decision that the schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits, ruled that the decision would also apply to past transfers from the schemes. The effect of GMP equalisation has implications for the majority of defined benefit schemes with liabilities before 1997. The change was recorded as a £0.9m past service cost increase to the reported pension liabilities.

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

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. All the PFI investments were sold in 2021.

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 PFI investments are valued using a Level 3 valuation method based on the future cash flows of the individual investments. The property investment is held within a limited partnership and is 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.

Principal actuarial assumptions (expressed as weighted averages)

	2021 %	2020 %	2019 %
Discount rate	1.80	1.35	2.05
Future pension increases	3.25	2.85	2.85
Inflation assumption	3.40	2.95	2.95

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

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

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

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

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

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

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

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

Defined contribution schemes

Several defined contribution pensions are operated. The total expense relating to these plans was £10.4m (2020: £9.9m).

NOTES TO THE FINANCIAL STATEMENTS continued

21 Employee benefits continued**Share-based payments**

The Company operates a number of share-based payment plans as described below.

Long-Term Incentive Plans (LTIP)

Shareholders approved 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 (after which the options expire) using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved. Exercise of options is subject to continued employment within the Group (except where permitted by the rules of the scheme).

Share-based payment expense

The amounts recognised in the income statement, before tax, for share-based payment transactions with employees was £1.1m (2020: £0.9m); the entire charge relates to subsidiaries.

Options outstanding at the end of the year

The movements in the outstanding LTIPs (exercise price £1 per individual grant), AIP (Nil-cost option) and DSBPs (Nil-cost option), which arrange for the grant of shares to executive directors and senior management, and the outstanding SAYE schemes are shown below.

	LTIP	DSBP	AIP	SAYE	
	Number (m)	Number (m)	Number (m)	Number (m)	Weighted average exercise price (p)
Outstanding at 1 January 2020	1.6	0.1	0.5	3.2	326.1
Adjusted during the year	0.2	(0.1)	0.2	0.1	229.3
Forfeited during the year	(0.7)	–	(0.8)	(1.2)	265.3
Exercised during the year	(0.1)	–	(0.3)	–	–
Granted during the year	2.8	–	0.8	–	–
Outstanding at 31 December 2020	3.8	–	0.4	2.1	229.5
Outstanding at 1 January 2021	3.8	–	0.4	2.1	229.5
Adjusted during the year	–	–	–	–	–
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
Exercisable at the end of the period	0.1	–	0.1	–	–

Share options outstanding at the end of the year had a weighted average remaining contractual life of 4.2 years (2020: 4.8 years).

The fair value of options granted is calculated using the Black-Scholes option pricing model. The aggregate fair value of options granted during the year was £1.7 million (2020: £1.1 million). The assumptions used in valuing the grants were:

	2021	2020
Expected volatility	20%	20%
Expected life (years)	3.0	3.0
Risk-free interest rate	1.2%	1.1%
Expected dividend yield	0.0%	3.0%

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

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

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

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

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. Similarly, the 2017 LTIP lapsed in full and so no shares were issued in respect of the LTIP.

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 2021, the asset was £67.1m (2020: liability of £5.6m) on an IAS 19 basis and is included in these financial statements as disclosed in note 21.

NOTES TO THE FINANCIAL STATEMENTS continued

24 Subsidiary undertakings, joint ventures, associates and joint operations

Activity	Percentage of equity held	Registered office/principal place of business
Principal subsidiary undertakings		
Costain Limited	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
Principal joint ventures				
ABC Electrification Ltd	Rail Electrification	–	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
Major joint operations		
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
A-one+ Joint Venture – ASC area 12 – Highways England	Engineering and Maintenance	33.3 UK
ATC Joint Venture – C610 – Crossrail	Rail Engineering	32.5 UK
CH2M-Costain Joint Venture – Area 14 M&R contract	Engineering and Maintenance	50 UK
Costain-CH2M UK – ESCC JV – East Sussex highway maintenance	Engineering and Maintenance	50 UK
Costain-Atkins-Black & Veatch Joint Venture – Thames Water AMP6	Engineering	70 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 C360 Joint Venture – Eleanor Street – Crossrail	Civil Engineering	50 UK
Costain-Skanska C405 Joint Venture – Paddington – Crossrail	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
Other subsidiaries owned directly by Costain Group PLC			
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)
Other subsidiaries owned indirectly by Costain Group PLC			
Brunswick Infrastructure Services Limited	Trading	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	Trading	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	Trading	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 Group Holdings Limited	Dissolved 2021	100	(1)
Promanex Group Limited	Dissolved 2021	100	(1)
Promanex (Total FM & Environmental Services) Ltd	Dormant	100	(1)
RG Bidco Limited	Dissolved 2021	100	(1)
Rhead Group Holdings Limited	Dissolved 2021	100	(1)
Rhead Holdings Limited	Dissolved 2021	100	(1)
Sunland Mining Corporation (II)	Dormant	100	(5)
Westminster Plant Co. Limited	Dormant	100	(1)

NOTES TO THE FINANCIAL STATEMENTS continued

24 Subsidiary undertakings, joint ventures, associates and joint operations continued

	Status	Percentage of equity held	Registered office/principal place of business
Other joint ventures or associates owned indirectly by Costain Group PLC			
ACM Health Solutions Limited	Dormant	33.3	(4)
Brighton & Hove 4Delivery Limited	Trading	49	(3)
Budimex & Costain SP ZO.O	Dormant	50	(14)
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
Other joint operations, including completed			
ACTUS Joint Venture – Trawsfynydd nuclear power station active waste retrieval	Civil Engineering	25	UK
Alstom-Babcock-Costain Joint Venture – Edinburgh to Glasgow Rail Improvement Programme	Rail Engineering	33.3	UK
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
Bachy Soletanche-Costain-Skanska Joint Venture – CTRL 240 – Stratford Box	Civil Engineering	33.3	UK
Balfour Beatty-BmJV-Carillion-Costain Joint Venture – National Major Projects – Highways England	Civil Engineering	22	UK
Black & Veatch-Costain Joint Venture – Margate & Broadstairs UWWTD Scheme – Southern Water	Civil Engineering	50	UK
CosMott Joint Venture – Devonport Major Infrastructure Programme – Construction Delivery Partner	Consultancy	50	UK
Costain Arup Joint Venture – Yorkshire Water	Consultancy	50	UK
Costain-Carillion Joint Venture – M1 Widening and A5/M1 Link	Civil Engineering	100	UK
Costain-Dalekovid Joint Venture – National Grid HV Overhead Line System	Engineering	60	UK
Costain-Hochtief Joint Venture – Reading station	Civil Engineering	50	UK
Costain-John Mowlem-Skanska Joint Venture – A2/M2 widening (Cobham to Jct.2)	Civil Engineering	30	UK
Costain-Lafarge Joint Venture – East and South East Framework	Civil Engineering	50	UK
Costain-Lafarge Joint Venture – Midlands Framework	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – Bond Street station	Civil Engineering	50	UK
Costain-Laing O'Rourke Joint Venture – Farringdon station	Civil Engineering	50	UK

Activity	Percentage interest	Country of business
Other joint operations, including completed continued		
Costain-Laing O'Rourke Joint Venture – King's Cross Eastern Range Refurbishment	Civil Engineering	50 UK
Costain-Skanska C411 Joint Venture – Bond Street – Crossrail	Civil Engineering	50 UK
Costain-Skanska 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 – A43 Silverstone	Civil Engineering	50 UK
Costain-Skanska Joint Venture – Crossrail Civils Framework Enabling Works	Civil Engineering	50 UK
Costain-Skanska Joint Venture – Kings College Hospital, London	Building	50 UK
Costain-Skanska Joint Venture – Lower Precinct Shopping Centre, Coventry	Building	50 UK
Costain-Skanska Joint Venture – NGT Tunnels, London	Civil Engineering	52.6 UK
Costain-Skanska Joint Venture – Paddington Station Bakerloo Line Link Project	Civil Engineering	50 UK
Costain-Skanska Joint Venture – The new Met Office	Building	50 UK
Costain-Taylor Woodrow Joint Venture – King's Cross re-development & Phase II Northern works	Civil Engineering	50 UK
Costain-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 Perintonville 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) Building 4F, Corniche Road, Ground floor, Office 1, Mussafah Industrial Area, 3069, Abu Dhabi, UAE
(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**

A related party relationship exists with its subsidiaries, joint ventures and associates, joint operations, The Costain Pension Scheme and with its directors and executive officers.

Sales of goods and services

	2021			2020		
	Joint ventures and associates £m	Joint operations £m	Total £m	Joint ventures and associates £m	Joint operations £m	Total £m
Services of Group employees	0.4	81.4	81.8	2.0	130.7	132.7
Construction services and materials	–	17.3	17.3	–	27.8	27.8
	0.4	98.7	99.1	2.0	158.5	160.5

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 personnel as defined in IAS 24 'Related Party Disclosures' are given in note 6. Key management personnel, as defined under IAS 24 'Related Party Disclosures', have been identified as the Board of directors as the controls operated by the Group ensure that all key decisions are reserved for the Board.

As at 9 March 2022, the date of signing of this report, the Directors of the Company and their immediate relatives control 423,866 ordinary shares in Costain Group PLC, which expressed as a percentage of the issued share capital is 0.15% (2020: 0.16%) 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	
	2021 £m	2020 £m
Directors' emoluments	1.2	1.1
Executive officers' emoluments	1.5	1.3
Post-employment benefits	–	0.1
Share-based payments	0.6	0.3
	3.3	2.8

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) (2020: none).

26 Disposals of subsidiary and associated undertakings**Alcaidesa Servicios S.A.U. (Spain)**

In 2020, the Group disposed of its investment in Alcaidesa Servicios S.A.U. for a net consideration of £3.6m, which generated a profit of £0.4m.

Zimbabwe subsidiaries

In 2020, the Group completed the sale of its legacy companies that held property assets in Zimbabwe for £1.0m (net of costs), which as the net assets were held at no value represents the profit on disposal.

Associated undertakings

In 2020, the Group completed the sale of its interests in its two remaining "Buildings Schools for the Future" partnership companies for a combined consideration of £3.7m, which generated a profit of £1.6m.

27 Event after the reporting date

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

FIVE-YEAR FINANCIAL SUMMARY

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue and profit					
Group revenue	1,135.2	978.4	1,155.6	1,463.7	1,684.0
Group operating (loss)/profit before other items	(9.1)	(81.7)	17.9	52.5	49.1
Other items:					
RDEC grant income	–	–	–	2.6	2.5
Arbitration award on historical building project	–	–	(9.7)	–	–
Impairment of Alcaidesa marina	–	(0.6)	(5.9)	–	–
Impairment of other investment	–	(0.6)	–	–	–
Profit on sales of interests in joint ventures and associates	–	1.6	–	–	–
Profit/(loss) on disposal of subsidiary undertakings	–	1.4	(3.0)	–	–
Refinancing advisory fees	–	(1.2)	–	–	–
Pension GMP equalisation charge	–	(0.9)	–	(8.6)	–
Amortisation of acquired intangible assets	(0.4)	(1.0)	(2.3)	(3.0)	(3.2)
Impairment of goodwill	–	(9.0)	–	–	–
Employment related and other deferred consideration	–	–	(0.2)	(0.4)	(1.2)
Group operating (loss)/profit	(9.5)	(92.0)	(3.2)	43.1	47.2
Share of results of joint ventures and associates	–	0.2	0.3	0.3	0.3
(Loss)/profit from operations	(9.5)	(91.8)	(2.9)	43.4	47.5
Finance income	0.1	0.8	1.0	0.4	0.4
Finance expense	(3.9)	(5.1)	(4.7)	(3.6)	(6.1)
Net finance expense	(3.8)	(4.3)	(3.7)	(3.2)	(5.7)
(Loss)/profit before tax	(13.3)	(96.1)	(6.6)	40.2	41.8
Taxation	7.5	18.1	3.7	(7.4)	(9.2)
(Loss)/profit for the year attributable to equity holders of the Parent	(5.8)	(78.0)	(2.9)	32.8	32.6
(Loss)/earnings per share – basic*	(2.1)p	(36.7)p	(2.3)p	30.9p	31.1p
(Loss)/earnings per share – diluted*	(2.1)p	(36.7)p	(2.3)p	30.2p	30.6p
Dividends per ordinary share					
Final	–	–	–	10.00p	9.25p
Interim	–	–	3.80p	5.15p	4.75p
Summarised consolidated statement of financial position					
Intangible assets	52.5	52.1	59.0	58.5	62.5
Property, plant and equipment	32.0	39.9	44.1	40.0	43.0
Investments in and loans to equity accounted joint ventures and associates	0.4	0.4	2.5	2.5	2.7
Retirement benefit asset	67.1	–	4.9	–	–
Other non-current assets	20.9	27.1	6.7	6.3	15.0
Total non-current assets	172.9	119.5	117.2	107.3	123.2
Current assets	359.5	370.4	435.3	467.3	539.8
Total assets	532.4	489.9	552.5	574.6	663.0
Current liabilities	281.4	266.3	328.9	326.7	423.2
Retirement benefit obligations	–	5.6	–	4.2	23.9
Other non-current liabilities	52.0	61.5	65.9	61.4	61.9
Total liabilities	333.4	333.4	394.8	392.3	509.0
Equity attributable to equity holders of the Parent	199.0	156.5	157.7	182.3	154.0

* The Loss per share figures for 2019 have been restated for the capital raise in 2020.

FINANCIAL CALENDAR AND OTHER SHAREHOLDER INFORMATION

Financial calendar¹

Full-year results	9 March 2022
Annual General Meeting	5 May 2022
Half-year end	30 June 2022
Half-year results 2022	24 August 2022
Financial year-end	31 December 2022

¹ The financial calendar may be updated from time to time throughout the year. Please refer to the Investors section of our website at www.costain.com for up-to-date details.

Scrip dividend scheme

The Company will pay no final dividend in respect of the year ended 31 December 2021. Subject to shareholder approval at the 2022 AGM for its renewal, a scrip dividend scheme is offered when a dividend is paid. Those shareholders who have already elected to join the scheme will automatically have their future dividends sent to them in this form.

Shareholders wishing to join the scrip dividend scheme for all future dividends should return a completed mandate form to the Registrar, EQ (formerly known as Equiniti). Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website at www.costain.com or obtained from EQ by telephoning +44 (0)371 384 2268* (please use the country code if calling from outside the UK)

Dividend mandate

Shareholders can arrange to have their dividends paid directly into their bank or building society account, by completing a bank mandate form. The advantages of using this service are:

- the payment is more secure as you can avoid the risk of cheques getting lost in the post
- it avoids the hassle of paying in a cheque and
- there is no risk of lost, stolen or out-of-date cheques.

A mandate form can be obtained from the Company's website, or by contacting EQ on +44 (0)371 384 2250* (please use the country code if calling from outside the UK) and can also be obtained via the shareholder website at www.shareview.co.uk (see overleaf for further details). Overseas shareholders can arrange for their dividends to be paid in their local currency and more information can be obtained from www.shareview.com/overseas.

**Analysis of shareholders
as at 3 March 2022**

	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Shareholdings 100,000 and more	135	1.61	262,860,840	95.6
Shareholdings 50,000–99,999	48	0.57	3,374,305	1.23
Shareholdings 25,000–49,999	43	0.51	1,497,022	0.54
Shareholdings 5,000–24,999	394	4.71	3,948,993	1.44
Shareholdings 1–4,999	7,750	92.6	3,268,581	1.19
Totals	8,370	100	274,949,741	100

Secretary

Sharon Harris

Registered Office

Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB, United Kingdom
Telephone 01628 842 444
www.costain.com
Company Number 1393773

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

FINANCIAL CALENDAR AND OTHER SHAREHOLDER INFORMATION continued**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, you can register your preferred format (post or email) for shareholder communications. If you select email as your mailing preference, you will be notified of various shareholder communications, such as annual results, by email instead of post.

If you have your dividends paid straight to your bank account, and you have selected email as your mailing preference, you can also collect your 'dividend tax confirmation' electronically. Instead of receiving the paper 'dividend tax confirmation', you will be contacted by email with details of how to download your electronic version. Visit the website at www.shareview.co.uk for more details.

Details of software and equipment requirements are given on the website.

* Lines are open Monday to Friday 08.30am to 5.30pm, excluding public holidays in England and Wales.

Bereavement services

In the event of the death of a shareholder the next of kin or administrator of the estate should contact our registrar, EQ. EQ have a Designated Bereavement Services Helpline on +44 (0)371 384 2793 (please use the country code if calling from outside the UK). You will be asked to supply a certified copy or the original of the death certificate, together with an appropriate authority to deal with the estate, such as a Grant of Probate.

Further information is available on www.shareview.co.uk.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. Shareholders who wish to limit the amount of unsolicited mail they receive can contact The Mailing Preference Service at www.mpsonline.org.uk or on 0207 291 3310.

Further guidance can also be found on the Company's website at www.costain.com.

ShareGift

The Orr Mackintosh Foundation (ShareGift – Registered Charity No. 1052686) operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomical to sell them. Details of the scheme are available on the ShareGift website at www.sharegift.org. EQ can provide stock transfer forms on request. Donating shares to charity in this way gives rise neither to a gain nor a loss for Capital Gains Tax purposes and the service is free of charge.

Website

The Company's website at www.costain.com provides information about the Group including its strategy and recent news. The 'Investors' section is a key source of information for shareholders, containing details of financial results, shareholder meetings and dividends. Current and past annual reports are also available to view and download.

Contact us

We are committed to engaging in dialogue with all our stakeholders.

For investor relations enquiries, please contact: ir@costain.com

For media enquiries, please contact: mediaenquiries@costain.com

Disclaimer

The purpose of this document is to provide information to the members of Costain Group PLC. This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and unless otherwise required by applicable law the Company undertakes no obligation to update or revise these forward-looking statements.

Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

Costain Group PLC

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