

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your shares in Costain Group PLC (the 'Company'), please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.



Costain Group PLC

(incorporated and registered in England and Wales under number 01393773)

Notice of Annual General Meeting and Explanatory Notes to Shareholders

Your attention is drawn to the letter from the Chairman of the Company which is set out on page 3 of this document and which recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting. Notice of the Annual General Meeting of the Company, to be held at Slaughter and May, One Bunhill Row, London EC1Y 8YY on Wednesday 7 May 2014 at 10.30am, is set out on pages 4 to 8 of this document.

If you are unable to attend the Annual General Meeting, please complete and submit the form of proxy enclosed with this document in accordance with the instructions printed on the proxy form. Completion and return of a proxy form will not preclude shareholders from attending and voting at the Annual General Meeting should they choose to do so. The proxy form must be received by the Company's registrars, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by no later than 10.30am on Friday 2 May 2014. Further instructions relating to the proxy form are set out on page 6 of this document.

Part 1

Costain Group PLC

(registered in England and Wales under number 01393773)



COSTAIN

Registered Office

Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB

21 March 2014

Notice of Annual General Meeting

Dear Shareholder,

I am pleased to be writing to you with details of our Annual General Meeting ('**AGM**') which we are holding at Slaughter and May, One Bunhill Row, London EC1Y 8YY on Wednesday 7 May 2014 at 10.30am.

Resolutions

The resolutions that will be put to shareholders are set out in the formal Notice of the AGM which is set out on pages 4 to 8 of this document. Explanatory notes to the Notice of the AGM are set out on pages 9 and 10 of this document.

Annual Report and Accounts

Those shareholders who have elected to receive paper copies of shareholder information will receive a copy of the Annual Report and Accounts for 2013 under cover of this letter. For those shareholders who have elected to receive shareholder information electronically via the Company's website this is to give you notice that the annual Report and Accounts for 2013 is now available for viewing and downloading online from the Company's website at www.costain.com. The majority of our shareholders have now taken the opportunity to receive shareholder information electronically and I would therefore encourage those of you that have not yet done so to choose this option by visiting www.shareview.co.uk and electing to receive future shareholder information from the Company, such as the annual Report and Accounts, in electronic form.

Final Dividend

The payment of a final dividend of 7.75 pence per ordinary share for the year ended 31 December 2013 was considered and duly approved at the General Meeting held on 17 March 2013. As such, no resolution relating to a final dividend will be put to the shareholders at the AGM.

Action To Be Taken

It is important to the Company that shareholders have the opportunity to vote, even if they are unable to attend in person. A form of proxy is enclosed for use by shareholders so that they can nominate someone else to attend the meeting and vote on their behalf. One option is to nominate the Chairman of the meeting as proxy to vote on the shareholder's behalf at the meeting in the manner they direct or at his discretion.

Please complete and return the form of proxy in accordance with the instructions on the form in order that it may be received by the Company's Registrars, Equiniti, as soon as possible and, in any event, not later than 10.30am on Friday 2 May 2014. The completion and return of the form of proxy will not prevent you from attending and voting in person at the meeting should you so wish.

Recommendation

The Board of Directors of the Company (the '**Board**') considers that all the resolutions to be put to the AGM are in the best interests of the Company and its shareholders as a whole. Your Board will be voting in favour of them and unanimously recommends that you do so as well.

Yours faithfully,



David Allvey
Chairman

Part 2

Costain Group PLC (the ‘Company’) Notice of Annual General Meeting

This year’s AGM will be held at Slaughter and May, One Bunhill Row, London EC1Y 8YY on Wednesday 7 May 2014 at 10.30am. You will be asked to consider and pass the resolutions listed below. Resolution 13 will be proposed as a special resolution. All other resolutions will be proposed as ordinary resolutions.

Ordinary Resolutions

Annual Report and Accounts

1. To receive and adopt the Company’s Annual Report and Accounts for the financial year ended 31 December 2013, together with the reports of the directors and auditors.

Directors’ Remuneration Report

2. To approve the Directors’ Remuneration Report (other than the part containing the Directors’ Remuneration Policy), which may be found on pages 59 to 76 of the Company’s Annual Report and Accounts for the financial year ended 31 December 2013.

Directors’ Remuneration Policy

3. To approve the Directors’ Remuneration Policy, which may be found on pages 60 to 64 of the Company’s Annual Report and Accounts for the financial year ended 31 December 2013.

Re-election of Directors

4. To re-elect Mr Ahmed A Samy, appointed by the Board since the last AGM, as a director of the Company.

The biographical details for Ahmed Samy are as follows:

Ahmed Samy was appointed as a Non-Executive Director in November 2013. He is Deputy Director General Investment Affairs of Mohammed Abdulmohsin Al-Kharafi & Sons Co. W.L.L., and his responsibilities include managing the company’s offshore investments on international markets, evaluation and implementation of project/investment opportunities and undertaking various corporate actions including mergers and acquisitions. Previous to his 25 years in the investment field, Ahmed Samy gained 11 years banking experience, culminating in his appointment as Staff Credit Officer at Commercial International Bank (formerly Chase National Bank), Egypt. External Appointment: Board Member of Credit Bank of Albania.

5. To re-elect Mrs Alison J Wood, appointed by the Board since the last AGM, as a director of the Company.

The biographical details for Alison Wood are as follows:

Alison Wood was appointed as a Non-Executive Director with effect from 1 February 2014 and will be appointed as Chair of the Remuneration Committee from the beginning of April 2014. Alison is the former Global Director of Strategy and Corporate Development at National Grid plc (2008 to 2013). Before that, Alison spent nearly 20 years in a number of strategy and leadership roles at BAE Systems plc including Group Strategic Development Director. Alison has also held Non-Executive Director positions with BTG plc (2004 to 2008) and Thus Group plc (2007 to 2008). External Appointments: Non-Executive Director at Cobham plc and Senior Independent Director at e2v technologies plc.

6. To re-elect Mr David P Allvey, who retires by rotation, as a director of the Company.

The biographical details for David Allvey are as follows:

David Allvey was appointed Chairman in January 2008 prior to which he was Chairman of the Audit Committee. With a career that started in civil engineering and subsequently as a Chartered Accountant, his previous roles include Group Finance Director for BAT Industries plc, Barclays Bank plc and Chief Operating Officer for Zurich Financial Services, member of the UK Accounting Standards Board, member of the International Accounting Standards Insurance Group, Non-Executive Director of Thomas Cook plc (2007 to 2012), Senior Non-Executive Director of Intertek Group plc (2002 to 2011), Senior Non-Executive Director of William Hill plc (2002 to 2011), Senior Independent Director of Friends Life FPG Limited (formerly Friends Provident Group plc) (2009 to 2011) and Chairman of Arena Coventry Ltd (2006 to 2012). External Appointments: Senior Independent Director of Friends Life Group plc, Non-Executive Director of Clydesdale Bank plc and National Australia Group Europe Limited.

7. To re-elect Mr James Morley, who retires by rotation, as a director of the Company.

The biographical details for James Morley are as follows:

James Morley served as Chairman of the Audit Committee from January 2008 until the end of October 2012 and was appointed as the Senior Independent Director at the start of January 2013. He is a Chartered Accountant with some 27 years’ experience as a board member of both listed and private companies. Previous roles include Chief Operating Officer of Primary Group Ltd (2006 to 2007), Group Finance Director of Cox Insurance Holdings plc (2002 to 2005), Group Finance Director of Arjo Wiggins Appleton plc (1999 to 2001), Group Executive Director Finance of Guardian Royal Exchange plc (1990 to 1999), Deputy Chief Executive and Finance Director of Avis Europe plc (1976-1989), Non-Executive Director of the Bankers’ Investment Trust plc (1994 to 2008), Non-Executive

Director of W S Atkins plc (2001-2009), Non-Executive Director of Trade Indemnity Group plc (1991-1996) and Non-Executive Chairman of Acumus Ltd. (2011-2012). External Appointments: Non-Executive Director of The Innovation Group plc, Clarkson plc, Speedy Hire plc, BMS Group Ltd. and BMS Associates Ltd.

Appointment of auditors and auditors' remuneration

8. To appoint KPMG LLP as auditors of the Company until the conclusion of the next AGM of the Company.
9. To authorise the Directors to determine the auditors' remuneration.

Renewal of the powers of the Board to allot shares

10. To resolve that the directors be and are hereby authorised generally and unconditionally to exercise all the powers of the Company to allot relevant securities (as defined in section 551 of the Companies Act 2006) up to a nominal amount of £16,699,156 and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or laws of, any territory or any matter.

The authorities conferred on the directors to allot securities under this resolution will expire on the date of the AGM of the Company to be held in 2015 or on 7 August 2015 whichever is sooner, unless previously revoked or varied by the Company, and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

Approval of the Costain Group 2014 Long Term Incentive Plan

11. To approve the rules of the Costain Group 2014 Long Term Incentive Plan (the "LTIP") produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman of the meeting, and to authorise the directors to:
 - (a) make such modifications to the LTIP as they may consider appropriate to take account of the requirements of best practice and for the implementation of the LTIP and to adopt the LTIP as so modified and to do all such other acts and things as they may consider appropriate to implement the LTIP; and
 - (b) establish further plans based on the LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the LTIP.

Approval of the Costain Group 2014 Share Deferral Plan

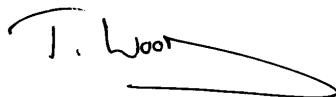
12. To approve the rules of the Costain Group 2014 Share Deferral Plan (the "SDP") produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman of the meeting, and to authorise the directors to:
 - (a) make such modifications to the SDP as they may consider appropriate to take account of the requirements of best practice and for the implementation of the SDP and to adopt the SDP as so modified and to do all such other acts and things as they may consider appropriate to implement the SDP; and
 - (b) establish further plans based on the SDP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the SDP.

Special Resolution

Notice periods for General Meetings (other than Annual General Meetings)

13. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

By order of the Board



Tracey Wood
Company Secretary

21 March 2014

Registered Office:

Costain House
Vanwall Business Park
Maidenhead
Berkshire
SL6 4UB
Registered in England and Wales No. 01393773

Part 2 continued

Costain Group PLC (the 'Company') Notice of Annual General Meeting continued

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's registrars, Equiniti on 0871 384 2250 (overseas callers should call +44 121 415 7047). Calls to this number cost 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding UK bank holidays. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
2. In order to be valid, a completed proxy form or other instrument appointing a proxy must be returned to Equiniti by one of the following methods:
 - (i) in hard copy form by post or (during normal business hours only) by hand to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA;
 - (ii) in electronic form (a) by logging onto the website www.sharevote.co.uk and entering your Voting ID, Task ID and Shareholder Reference Number shown on your form of proxy, or (b) if you have already registered with Equiniti's online portfolio service, Shareview, by submitting your form of proxy at www.shareview.co.uk. Full instructions are given on both websites;
 - (iii) in the case of CREST members, by utilising the CREST electronic proxy appointment service (as described in note 12 below),
- and in each case must be received by Equiniti by no later than 10.30am on Friday 2 May 2014. Please note that any electronic communication that is found to contain a computer virus will not be accepted. If two or more valid but differing proxy appointments are received in respect of the same share for use at the AGM, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
3. The return of a completed proxy form or other instrument (whether in hard copy form, electronically or by utilising the CREST electronic proxy service), will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.
4. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
5. If a member appoints more than one proxy and the proxy forms appointing those proxies would give those proxies the apparent right to exercise votes on behalf of the member at the AGM over more shares than are held by the member, each of those proxy forms will be invalid and none of the proxies so appointed will be entitled to attend, speak or vote at the AGM.
6. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
8. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
9. The statement of the rights of shareholders in relation to the appointment of proxies in notes 1 and 2 above does not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders of the Company. Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investment in the Company.
10. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00pm on 2 May 2014 (or, in the event of any adjournment, by 6.00pm on the day which is two working days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
11. As at 20 March 2014 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 100,194,936 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 20 March 2014 are 100,194,936. The Company does not hold any shares in Treasury.
12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
13. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com). The message, regardless of

whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 10.30am on Friday 2 May 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

14. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
15. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.
16. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
17. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
18. Members have the right, under section 338 of the Companies Act 2006, to require the Company to give its members notice of a resolution which the members wish to be moved at an AGM of the Company. Additionally, members have the right under section 338A of the Companies Act 2006 to require the Company to include a matter (other than a proposed resolution) in the business to be dealt with at the AGM. The Company is required to give such notice of a resolution or include such matter once it has received requests from members representing at least 5 per cent. of the total voting rights of all the members who have a right to vote at the AGM or from at least 100 members with the same right to vote who hold shares in the Company on which there has been paid up an average sum per shareholder of at least £100. This request must be received by the Company not later than six weeks before the AGM (or, if later, the time at which notice is given of the AGM).

In the case of a request relating to section 338A of the Companies Act 2006, the request must be accompanied by a statement setting out the grounds for the request.

19. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:
 - (i) to do so would interfere unduly with the preparation for the meeting; or
 - (ii) involve the disclosure of confidential information; or
 - (iii) the answer has already been given on a website in the form of an answer to a question; or
 - (iv) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
20. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at www.costain.com.
21. Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
 - (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
 - (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006.
- The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
22. Except as provided above, members who have general queries about the AGM should use the following means of communication (no other methods of communication will be accepted):
 - By contacting the Company's registrars Equiniti in writing addressed to Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or by telephoning their shareholder helpline on 0871 384 2250 (overseas callers should use +44 121 415 7047). Calls to this number cost 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding UK bank holidays.
 - By contacting the Company Secretary in writing addressed to Costain House, Vanwall Business Park, Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB or by telephoning 01628 842444 or by emailing info@costain.com.

Part 2 continued

Costain Group PLC (the 'Company') Notice of Annual General Meeting continued

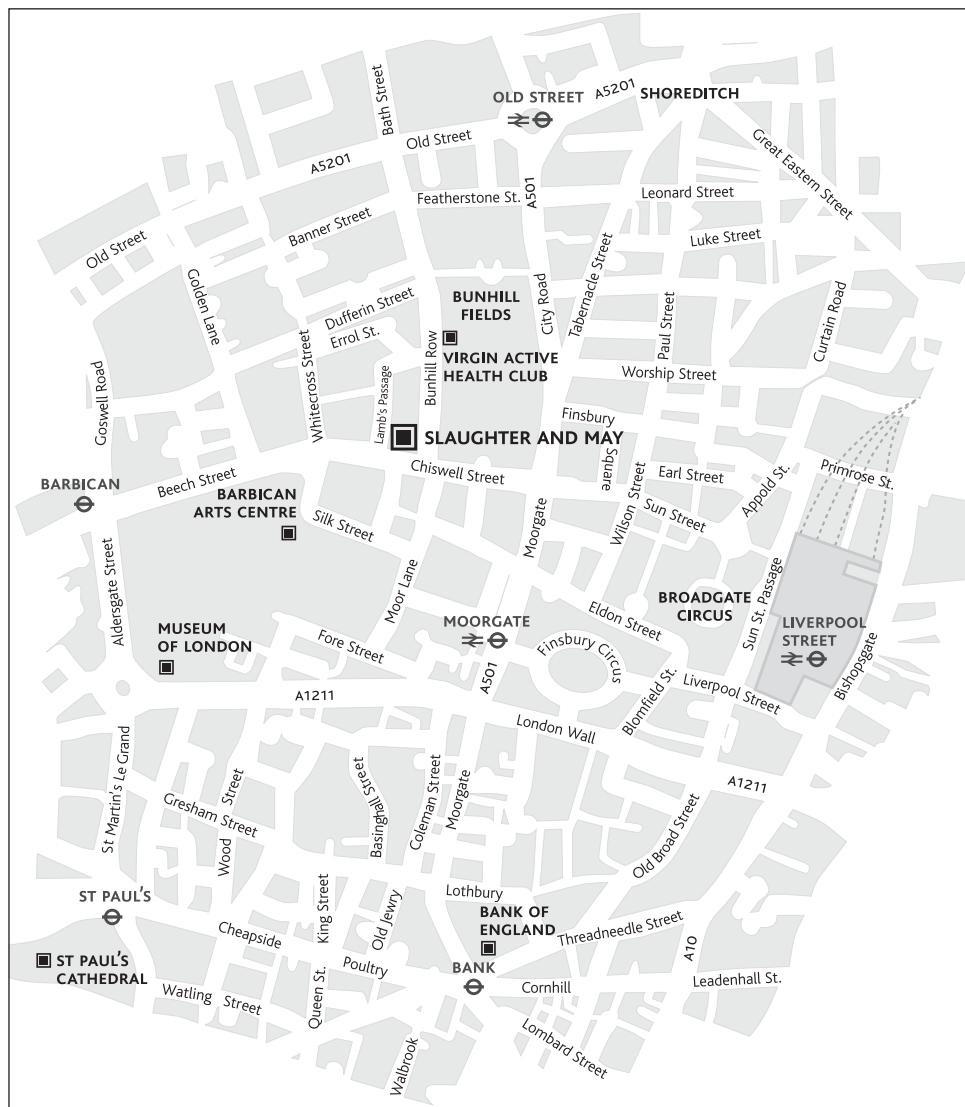
Please note that shareholders may not use any electronic address provided in either this document or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

23. The following documents will be available for inspection at the registered office of the Company, Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB, from the date of this Notice during normal business hours, until the time of the AGM and at Slaughter and May, One Bunhill Row, London EC1Y 8YY from 15 minutes before the AGM until the end of the AGM:

- Copies of the executive directors' service contracts;
- Copies of the letters of appointment of the non-executive directors; and
- Copies of the rules of the Costain Group 2014 Long Term Incentive Plan and the Costain Group 2014 Share Deferral Plan.

Copies of the rules of the Costain Group 2014 Long Term Incentive Plan and the Costain Group 2014 Share Deferral Plan will also be available for inspection at Slaughter and May, One Bunhill Row, London EC1Y 8YY, from the date of this Notice during normal business hours until the close of the AGM.

24. The location of Slaughter and May, One Bunhill Row, London EC1Y 8YY is indicated on the map below:



Nearest Underground

Moorgate and Barbican (5 minute walk)
Old Street (10 minute walk)
Liverpool Street and St Paul's (15 minute walk)
Cannon Street, Mansion House and Bank (20 minute walk)

Nearest Overground

Moorgate (5 minute walk)
Old Street (10 minute walk)
Liverpool Street (15 minute walk)
Cannon Street (20 minute walk)

Explanatory notes to the Notice of Annual General Meeting

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 12 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 13 is proposed as special resolution. This means that for this resolution to be passed, at least three-quarters of the votes cast must be in favour of it.

Resolution 1: Annual Reports and Accounts

The Annual Report and Accounts for the year ended 31 December 2013 are available on the Company's website at www.costain.com and have been sent to those shareholders who have elected to receive a hard copy.

Resolution 2: Directors' Remuneration Report

Resolution 2 continues the practice of a shareholder vote to approve an annual report detailing the remuneration of the directors and a statement by the chairman of the Remuneration Committee (together, the 'Directors' Remuneration Report'). The Company is required to seek shareholders' approval in respect of the contents of this report on an annual basis (excluding the part containing the Directors' Remuneration Policy, which is dealt with in Resolution 3). The vote is an advisory one.

You can find the Directors' Remuneration Report on pages 59 to 76 of the Annual Report and Accounts (but excluding the part containing the Directors' Remuneration Policy).

Resolution 3: Directors' Remuneration Policy

Resolution 3 is a new resolution and has been introduced following changes to the Companies Act 2006, which came into effect on 1 October 2013. Under these changes, the Company is now separately required to present the Directors' Remuneration Policy (the 'Directors' Remuneration Policy') to shareholders for approval at the AGM. This is the Company's forward-looking policy on Directors' remuneration and is set out in the Directors' Remuneration Report on pages 60 to 64 of the Annual Report and Accounts. This vote is a binding one. If approved by shareholders, the Directors' Remuneration Policy will take effect immediately after the end of the AGM and will apply until replaced by a new or amended policy. Once the policy is effective, the Company will not be able to make remuneration payments to a director, or loss of office payments to a current or past director, unless the payment is consistent with the approved policy or has been otherwise approved by shareholders.

If the Directors' Remuneration Policy is not approved by the shareholders for any reason, the Company will, if and to the extent permitted to do so under the Companies Act 2006, continue to make payments to directors in accordance with the Company's existing policy on directors' remuneration and will seek shareholder approval for a revised policy as soon as practicable.

Resolution 4: Re-election of Mr Ahmed A Samy as a director

Ahmed Samy was elected to the Board in November 2013. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, Ahmed Samy is required to stand for re-election at the AGM, having been appointed by the Board since the last AGM. Further information about Ahmed Samy is given on page 49 of our Annual Report and Accounts and on page 4 of this document.

Resolution 5: Re-election of Mrs Alison J Wood as a director

Alison Wood was elected to the Board in February 2014 and will be appointed as Chair of the Remuneration Committee at the beginning of April 2014. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, Alison Wood is required to stand for re-election at the AGM, having been appointed by the Board since the last AGM. Further information about Alison Wood is given on page 49 of our Annual Report and Accounts and on page 4 of this document.

Resolution 6: Re-election of Mr David P Allvey as a director

David Allvey was first elected to the Board in November 2001 and became Chairman in January 2008. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, David Allvey is required to stand for re-election at the AGM, having served on the Board for more than nine years. Further information about David Allvey is given on page 48 of our Annual Report and Accounts and on page 4 of this document.

Resolution 7: Re-election of Mr James Morley as a director

James Morley was first elected to the Board in January 2008, acting as Chairman of the Audit Committee until October 2012 and appointed as the Senior Independent Director in January 2013. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, James Morley is required to stand for re-election at the AGM, having held office at the time of the two preceding annual general meetings and not having retired at either of them. Further information about James Morley is given on page 48 of the Annual Report and Accounts and on page 4 of this document.

Part 2 continued

Explanatory notes to the Notice of Annual General Meeting continued

Resolution 8: Appointment of auditors

KPMG Audit Plc have informed the Company that they have initiated an orderly wind down of their business and, as such, they will not seek re-appointment as the Company's external auditors. Consequently, the Audit Committee has recommended, and the Board has approved, a resolution to appoint KPMG LLP as the auditors of the Company.

The Company is required to send you a copy of the statement of the circumstances connected with KPMG Audit Plc's decision not to seek re-appointment. A copy of the statement is attached at Appendix 1 to this Notice.

Resolution 9: Auditors' remuneration

This resolution gives the directors authority to determine the remuneration of the auditors.

Resolution 10: Renewal of the powers of the Board to allot shares

The Association of British Insurers (ABI) permits companies to propose a resolution at their AGM seeking a general authority to allot new shares up to one-third of the existing issued ordinary share capital of the Company. This resolution will give the directors authority to allot up to 33,398,312 shares in the Company (being approximately 33.33 per cent. of the Company's existing share capital as at 20 March 2014, being the latest practicable date prior to the date of this document) in addition to all existing authorities. There are no current plans to allot new shares pursuant to this authority other than to fulfil the Company's obligations under its executive and employee share plans, together with the issue of shares under the Company's scrip dividend scheme.

Resolutions 11 and 12: Costain Group 2014 Long Term Incentive Plan and the Costain Group 2014 Share Deferral Plan

The Remuneration Committee of the Board has recently undertaken a review of the Company's remuneration policy. Whilst the Remuneration Committee concluded that the current structures and policy were broadly fit for purpose, it agreed on a number of changes to the incentive arrangements which it believes result in a simplified remuneration structure at Costain, thereby improving the line of sight between performance and reward without increasing quantum.

As a result of this review, the Remuneration Committee has determined that two new plans should be established in 2014 to replace the existing 2012 Long Term Incentive Plan and the Costain Deferred Share Bonus Plan. The Remuneration Committee believes that the new incentive plans will ensure that the level of reward for senior executives is strongly tied to the performance and delivery of the Company's medium-term strategy, and that the new plans will create an appropriate balance between stretching targets and the management of risk and maintenance of stability and strategic progress.

These resolutions therefore seek approval to introduce the new share incentive plans. The new plans will retain many of the features of the 2012 Long Term Incentive Plan and the Deferred Share Bonus Plan (as relevant) but have been updated to reflect current legislation, best practice and corporate governance requirements.

The principal terms of the new plans are summarised in Appendix 2 to this Notice.

Resolution 13: Notice periods for General Meetings

This resolution renews the authority that was given at the Company's last AGM. The notice period required by the Companies Act 2006 for general meetings of the Company is 21 clear days unless shareholders approve a shorter notice period, which cannot be less than 14 clear days. AGMs must always be held on at least 21 clear days' notice. At the Company's last AGM, shareholders authorised the calling of general meetings other than an AGM on not less than 14 clear days' notice, and it is proposed that this authority be renewed. The authority granted by resolution 13, if passed, will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

Appendix 1



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Private & confidential

The Directors
Costain Group PLC
Costain House
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Berkshire
SL6 4UB

10 March 2014

Dear Sirs

**Statement to Costain Group PLC (no. 1393773) on ceasing to hold office as auditor
pursuant to section 519 of the Companies Act 2006**

The circumstances connected with our ceasing to hold office are that our company, KPMG Audit Plc, has instigated an orderly wind down of business. KPMG LLP, an intermediate parent, will immediately be seeking appointment as statutory auditor, subject to the passing of the necessary resolution at the Costain Group PLC annual general meeting on 7 May 2014.

We request that any correspondence in relation to this statement be sent to our registered office 15 Canada Square, London, E14 5GL marked for the attention of the Audit Regulation Department.

Yours faithfully,

KPMG Audit Plc

KPMG Audit Plc, a UK public limited company, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Regis.
Regis.

Appendix 2

Summary of the principal terms of the Costain Group 2014 Long Term Incentive Plan (the “LTIP”) and the Costain Group 2014 Share Deferral Plan (the “SDP”) (together, the “Plans”)

This Appendix describes the unique features of each Plan and then describes those features which are common to both Plans.

1. Principal terms of the LTIP

Grant of awards

The remuneration committee of the Board (the “**Committee**”) may grant awards to acquire ordinary shares in the Company (“**Shares**”) within six weeks following the Company’s announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the LTIP or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards. It is intended that the first awards will be made shortly following adoption of the LTIP.

The Committee may grant awards as conditional shares or as nil (or nominal) cost options. An award structured as an option will remain exercisable up until the tenth anniversary of grant unless it lapses earlier.

The Committee may decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

Individual limit

An employee may not receive awards in any financial year over Shares having a market value in excess of 150 per cent. of his annual base salary in that financial year. In exceptional circumstances, such as recruitment or retention, this limit is increased to 200 per cent. of an employee’s annual base salary.

It is the Committee’s current intention that, in line with current policy, executive directors will receive awards of 100 per cent. of salary and that other senior executives will receive awards of up to 40 per cent. of salary.

Performance conditions

The vesting of awards will be subject to performance conditions set by the Committee.

The initial awards made to executive directors and senior managers in 2014 will be subject to a performance condition based on aggregate earnings per share (“**EPS**”) targets over a period of three financial years ending with the 2016 financial year. For the purpose of the performance condition, EPS is calculated before pension interest.

The extent to which an initial award vests will be determined by applying the following sliding scale of aggregate EPS targets¹:

Aggregate EPS targets over the 2014 – 2016 financial years	Percentage of vesting of an initial award
Below 113.2 pence	0%
113.2 pence	15%
126.7 pence or more	100%
Between 113.2 pence and 126.7 pence	Between 15% and 100% vesting on a straight-line basis

The Committee can set different performance conditions for executive directors and senior managers from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are set within the parameters of the Directors’ Remuneration Policy in force at that time.

The Committee may set different performance conditions for participants who are not executive directors or senior managers.

The Committee may also, in exceptional circumstances, vary any performance conditions applying to existing awards if the Committee considers it appropriate to do so and provided the Committee acts fairly and reasonably in making the alteration.

¹ As explained below, the Committee has the discretionary power to vary these EPS targets.

Vesting of awards

Awards granted under the LTIP may vest on one or more vesting dates. On or before the grant date, the Committee will determine the vesting date or dates of an award and the proportions in which the award (or, if there is more than one vesting date, each tranche of the award) will vest. It is currently anticipated that, for employees who are not executive directors, awards (or tranches) will normally vest three years after grant. Awards (or tranches) will vest to the extent that any applicable performance conditions have been satisfied and provided the participant is still employed in the Company's group.

The initial awards made to executive directors in 2014 will vest as set out below, subject to the satisfaction of the EPS performance condition (described above) over a three financial year performance period:

- one-half of the initial award will vest three years after grant; and
- the remaining one-half of the initial award will vest on the fifth anniversary of the grant date.

On vesting, awards in the form of nil (or nominal) options will normally be exercisable up to the tenth anniversary of grant unless they lapse earlier.

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or director in certain circumstances, then he may be entitled to keep his award, as described below.

In the event of the participant's injury or disability, his award will normally vest on the date when it would have vested if the employee had not ceased employment or office.

The extent to which an award will vest in these situations will depend upon two factors:

- (i) the extent to which any performance conditions have been satisfied on the normal vesting date (i.e. at the time they would have been assessed had the participant not ceased employment or office); and
- (ii) the pro-rating of the award to reflect the reduced period of time between its grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

In the case of the participant's death, his award will vest on the date of cessation, subject to any applicable performance conditions measured at that time and pro-rating by reference to the time of cessation as described above.

The Committee also has the discretion to allow an award to vest in any other circumstances. If the Committee exercises its discretion in the participant's favour, then the award will vest on the normal vesting date, subject to the applicable performance conditions measured at that time and time pro-rating as described above.

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation), all awards will vest early subject to: (i) the extent that the performance conditions have been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation, awards will be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

Appendix 2 continued

2. Principal terms of the SDP

Grant of awards

The Committee may grant awards to acquire Shares within the period of six weeks following the Company's announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the Plan or the date of determination of bonuses or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards.

The Committee may grant awards as conditional shares or as nil cost options. An award structured as an option will remain exercisable up until the tenth anniversary of grant unless it lapses earlier.

In order to participate in the SDP, an employee must receive a discretionary bonus relating to all or part of the immediately preceding financial year. It is currently intended that the first awards will be made in 2015, subject to eligible employees receiving a bonus in respect of the 2014 financial year.

The Committee may decide to satisfy share-based awards in cash, although it does not currently intend to do so.

Individual limit

An employee may not receive awards in any financial year over Shares with a market value exceeding 150 per cent of his salary.

Vesting of awards

Awards will normally vest two years after grant, provided the participant is still employed in the Company's group. Awards will not be subject to performance conditions.

On vesting, awards in the form of nil (or nominal) options will normally be exercisable up to the tenth anniversary of grant unless they lapse earlier.

Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the Company's group. However, if a participant ceases to be an employee or director in certain circumstances, then he may be entitled to keep his award, as described below.

- In the event of the participant's injury or disability, his award will normally vest in full on the date when it would have vested if the employee had not ceased employment or office.
- In the case of the participant's death, his award will vest in full on the date of cessation.
- The Committee also has the discretion to allow an award to vest in any other circumstances. If the Committee exercises its discretion in the participant's favour, then the award will vest in full on the normal vesting date.

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation), awards will vest early and in full.

In the event of an internal corporate reorganisation awards will be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

3. Principal terms common to the Plans

Operation

The Committee will supervise the operation of the Plans.

Eligibility

Any employee (including an executive director) of the Company and its subsidiaries will be eligible to participate in the Plans at the discretion of the Committee.

Grant of awards

An award may not be granted more than ten years after shareholder approval of the Plans.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or Shares) on or shortly following the settlement of their awards, of an amount equivalent to the dividends that would have been paid on those Shares between the time when the awards were granted and the time when they vest. This amount may assume the reinvestment of dividends. Alternatively, participants may have their awards increased as if dividends were paid on the Shares subject to their award and then reinvested in further Shares.

Clawback

Awards may be subject to clawback if the Committee determines that there has been a material misstatement of the Company's financial results, an error in assessing any applicable performance conditions or if the participant's employment is terminated for gross misconduct. The Committee may require the satisfaction of the clawback by way of a reduction in the amount of any future bonus, the vesting of any subsisting or future awards, the number of shares under any vested but unexercised option granted under certain share incentive plans and/or a requirement to make a cash payment.

Participants' rights

Awards of conditional shares and options will not confer any shareholder rights until the awards have vested or the options have been exercised and the participants have received their Shares.

Rights attaching to Shares

Any Shares allotted when an award vests or is exercised under the Plans will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Plan limits

The Plans may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

- (a) 10 per cent. of the issued ordinary share capital of the Company under the Plans and any other employee share plan adopted by the Company; and
- (b) 5 per cent. of the issued ordinary share capital of the Company under the Plans and any other executive share plan adopted by the Company.

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count.

Alterations to the Plans

The Committee may, at any time, amend the provisions of the Plans in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the maximum entitlement for any one participant, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plans, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group.

Shareholder approval will also not be required for any amendment to any performance conditions applying to an award granted under the LTIP.

Overseas Plans

The shareholder resolutions to approve the Plans will allow the Board to establish further plans for overseas territories, any such plan to be similar to the relevant Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the relevant Plan.



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