12 MARCH 2024

COSTAIN GROUP PLC

("Costain", the "Group", or the "Company")

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023 ("FY 23")

Continued strong performance in 2023, ahead of market estimates, with increased net cash balance

- **Adjusted operating profit[1] up 10.5% to £40.1m (FY 22: £36.3m)** reflecting mainly increasing volumes and margin in Natural Resources and resilient performance in Transportation. Reported operating profit of £26.8m (FY 22: £34.9m), after costs of repositioning digital services in H1 23 and our Transformation programme.
- **Net cash[2] balance increase of £40.6m to £164.4m (FY 22: £123.8m),** with adjusted free cash flow[3] of £72.0m (FY 22: £72.9m).
- **Adjusted operating margin of 3.0% for FY 23 (FY 22: 2.6%),** with H2 23 adjusted operating margin of 3.8% (H2 22: 2.9%). On track to meet margin targets during FY 24 and FY 25 of 3.5% and 4.5%.
- **Adjusted EPS up 23.2% to 12.2p (FY 22: 9.9p)** driven by net cash position and adjusted operating profit increase, with reported EPS of 8.1p (FY 22: 9.4p) reflecting adjusting items.
- **High quality forward work[4] position of around three times FY 23 revenue.**
- **Proposed final dividend per share of 0.8p making a full year dividend of 1.2p (FY 22: 0.0p).**

Financial summary

£m	FY 23 adjusted[1]	FY 23 adjustments[1]	FY 23 reported	FY 22 adjusted[1]	FY 22 reported	Adjusted[1] change
Revenue	1,332.0	-	1,332.0	1,421.4	1,421.4	-6.3%
Operating profit	40.1	(13.3)	26.8	36.3	34.9	10.5%
Operating margin	3.0%	-	2.0%	2.6%	2.5%	40bps
Profit before tax	44.2	(13.3)	30.9	34.2	32.8	29.2%
Basic EPS	12.2p	(4.2)p	8.1p	9.9p	9.4p	23.2%
Dividend per share	-	-	1.2p	-	-	-
Adjusted free cash flow[3]	72.0			72.9		-1.2%
Net cash balance			164.4		123.8	32.8%

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.
2. Net cash balance is cash and cash equivalents.
3. Adjusted free cash flow is defined as cash generated from operations, excluding cash flows relating to adjusting items and pension deficit contributions, less taxation and capital expenditure.
4. See pages 5 and 6 for further details of definitions of order book and preferred bidder book.

Alex Vaughan, chief executive officer, commented:

"We had good momentum in the business in 2023, delivering strong growth in adjusted operating profit and a 23% increase in adjusted earnings per share, together with significant net cash flow, ending the year with a net cash balance of £164.4m. We saw growth and improved margins in Natural Resources and a consistent adjusted margin performance in Transportation. Adjusted operating margin increased as expected to 3.0%, and with a 3.8% operating margin in the second half, we are in line to deliver our margin targets for FY 24 and FY 25.

"We have an excellent pipeline of opportunities and are driving high levels of tendering activity. Contract margins are in our target range and at the right risk level. We expect significant growth in Water and Energy over the next few years. Good progress has been made in rebalancing our customer base with a broader range of exclusively Tier 1 clients. This puts us in a positive position to take advantage of the medium and long-term growth opportunities in UK infrastructure. Our Transformation programme continues to improve our structure, operational procedures and skillsets.

"The quality and balance of our forward work across our two divisions gives us good visibility on future revenue and margin. We have more than 80% of expected revenue secured for 2024 and our forward work stands at around three times 2023 revenue. We see continuing momentum in the business and remain confident in the Group's growth prospects."

FY 23 highlights

- **Reported and adjusted[1] revenue of £1,332.0m** (FY 22: £1,421.4m), reflecting growth in Natural Resources and a resilient operating performance in Transportation, with a reduction in volumes due to the rephasing and rescoping of certain projects in the division.
- **Growth in adjusted operating profit[1]** up 10.5% to £40.1m (FY 22: £36.3m) reflecting growth and increased margin in Natural Resources, benefits from our Transformation programme, with a consistent margin performance in Transportation.
- **Strong adjusted free cash flow[2] in FY 23** of £72.0m (FY 22: £72.9m) reflecting increased operating cashflow and financial income, together with positive working capital movements in FY 23, resulting in an increased FY 23 net cash position to £164.4m (FY 22: £123.8m).
- **On track to meet our margin targets for FY 24 (run-rate 3.5%) and FY 25 (run-rate 4.5%),** having delivered 3.0% adjusted operating margin for FY 23 and 3.8% in H2 23.
- **Continuing to secure key contracts:**
    - Programme extensions including AMP8 water contracts with Severn Trent, Thames Water and United Utilities.
    - Appointed by NRS Ltd (previously known as Magnox) to deliver its decommissioning programme.
    - Further framework contracts with National Highways.
    - Framework consultancy commissions wins including with DfT, EDF, Yorkshire Water and Greater Manchester Combined Authority (GMCA).

    - Post year-end we secured a new framework agreement with Northumbrian Water Group, and separate design and construction contracts with Transport for London (TfL).
- **On track for FY 24** with in excess of £1bn of revenue secured[3] for 2024 at year-end, representing more than 80% of expected revenue, and a good pipeline of expected growth.
- **High quality order and preferred bidder books[3] position** of around three times FY 23 revenue at £3.9bn (FY 22: £4.4bn):
    - Order book of £2.1bn (FY 22: £2.8bn), reflecting the procurement periods in our chosen markets (RIS, CP7, AMP8), continued disciplined approach to contract bidding and the rephased timing of certain major contract tenders.
    - Preferred bidder book increased to £1.8bn (FY 23: £1.6bn), reflecting increasing activity in Water and Integrated Transport. We have grown our consultancy positions with AWE, Babcock, bp, Cadent, EDF, Heathrow, National Highways and Yorkshire Water.

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

Outlook

Our expectations for further progress in 2024 remain unchanged. As a result of our continued strategic and operational development, we remain on track to deliver an adjusted operating margin run-rate of 3.5% during the course of FY 24 and 4.5% during the course of FY 25, in line with our ambition to deliver margins in excess of 5.0%.

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

We remain confident in the Group’s strategy and longer-term prospects.

Board changes

Steve Mogford and Amanda Fisher joined the Board as independent non-executive directors on 1 November 2023 and 1 December 2023 respectively. Steve and Amanda are members of the Company's Audit and Risk, Nomination and Remuneration Committees. As part of these changes, Neil Crockett and Jacqueline de Rojas, non-executive directors, stepped down from the Board on 31 October 2023.

As announced separately today, Bishoy Azmy has also decided to step down from the Board with effect from 31 March 2024.

Use of alternative performance measures

Throughout this release we use a number of 'adjusted' measures to provide users with a clearer picture of the performance of the business. To aid understanding of the overall performance of the Group, certain amounts that the Board considers to be material or non-recurring in size or nature, or related to the accounting treatment of acquisitions, are adjusted because they are not long term in nature and will not reflect the long-term performance of the Group. This is in line with how management monitors and manages the business on a day-to-day basis. These adjustments are discussed in further detail in notes 1 to 4 on pages 27 to 36.

Additional business information

	FY 23	FY 22	Change
Business metrics			
Revenue secured[1] for following year (£m)	1,025	1,004	2.1%
Lost time injury rate (LTIR)	0.12	0.09	33%
Absolute GHG emissions (Scope 1-3) tCO_2e	319,232	355,580	-10.2%

1. See page 6 for order book and preferred book details and definitions.

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Analyst & investor presentation

A live webcast of our results by Alex Vaughan (CEO) and Helen Willis (CFO) will be at 9am on 12 March 2024. Please go to https://stream.brrmedia.co.uk/broadcast/65b2747ac1cc5da56f54d462 to register for the event.

We will also host a live presentation relating to results via Investor Meet Company at 10am on 13 March 2024. Investors can sign up to Investor Meet Company for free and add to meet Costain Group PLC via: https://www.investormeetcompany.com/costain-group-plc/register-investor

GROUP TRADING PERFORMANCE

A positive financial performance

We report both our statutory results, 'reported', and results excluding adjusting items, 'adjusted'. Key adjusting items for FY 23 include the impact of our Transformation programme and restructuring, and an impairment of an intangible asset.

Reported and adjusted revenue was £1,332.0m in FY 23 (FY 22: £1,421.4m), an expected reduction on the prior period. We saw increased Natural Resources revenue in Defence and Nuclear Energy, and Water. In Transportation, we saw continued growth in Rail and growing activity on our Heathrow H7 contract, new contracts with TfL, and the rephasing and rescoping of certain contracts in Road.

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

Reported operating profit decreased to £26.8m (FY 22: £34.9m), due to the previously announced impairment of an intangible asset as we reposition our digital portfolio towards services and the Group's transformation and restructuring programme.

Net finance income amounted to £4.1m (FY 22: £2.1m expense), driven by higher interest income from bank deposits, higher interest income on the net assets of the pension scheme, and lower interest payable on bank overdrafts, loans, borrowings and other similar charges. As a result, adjusted profit before tax increased 29.2% to £44.2m (FY 22: £34.2m), with adjusted basic earnings per share (EPS) up by 23.2% at 12.2p (FY 22: 9.9p). Reported profit before tax was down 5.8% at £30.9m (FY 22: £32.8m) and reported basic earnings per share (EPS) was also down 13.8% at 8.1p (FY 22: 9.4p).

Adjustments to reported items

We incurred £8.0m (FY 22: £5.7m) on transformation and restructuring costs, and £5.3m (FY 22: £nil) on the impairment of an intangible asset relating to the repositioning of digital services. In FY 22 we incurred £1.4m of aged tunnel boring machine write-off costs, and recognised an insurance receipt of £5.2m relating to the Peterborough & Huntingdon contract, as well as a profit of £0.5m on the sale of a non-core asset. We expect reduced transformation and restructuring costs of around £5.0m in FY 24 and thereafter such costs to be minimal and not to be separately disclosed as adjusting items.

Cashflow and liquidity

During FY 23 we completed the March 2022 review of our defined benefit pension scheme, and the refinancing of our bank and bonding facilities, with the positive outcomes of both increasing our ability to generate cash for the Group.

Cash generated from operations in FY 23 was £55.5m (FY 22: £16.7m). The FY 22 comparison was impacted by the settlement of the Peterborough & Huntingdon contract of £43.4m in February 2022 and a related, partially offsetting insurance receipt of £5.2m.

Adjusted free cash flow in FY 23 of £72.0m reflected growth in adjusted operating profit, increased financial income and positive working capital movements, albeit at a lower level than seen in the prior year, resulting in a strong net cash position at the end of FY 23 of £164.4m (FY 22: £123.8m). We expect our FY 24 year-end net cash position to be broadly similar to that at the end of FY 23, as the net cash flow from the business is likely to be offset by the unwinding of cumulative working capital timing benefits of around £25.0m at the end of FY 23.

During FY 23 we paid more than 98% of invoices within 60 days (FY 22: more than 98%). In January 2024, Costain was re-confirmed as one of the top fastest-paying lead contractors in construction on an average days-to-pay basis following the submissions to the Government's Duty to Report on Payment Practices and Performance.

Strength of business model

As a result of our strategy, the Group has continued to make good progress in building a stronger business. We are:

- Focused on meeting the UK's strategic national needs, as set out in the second National Infrastructure Assessment and in the National Infrastructure and Construction Pipeline 2023; with more than £700bn of investment expected during the next ten years.
- Building and expanding a broader Tier 1 customer base, with both new customers and existing customers increasing their scale of activities with us:
    - Benefitting from the significant increase in regulatory investment in Water and Energy.
    - Positioned for the significant public and private sector Transportation and Defence investment.
    - Continuing to build our leading expertise as a solution provider to address growing energy transition investment plans.
    - Increasing our focus on growing our share of Devolved Government spending.
- Providing a broad expert-led service mix to meet our customers' ecosystem needs, helping them by shaping, creating, and delivering pioneering infrastructure solutions to meet their needs, leveraging our core contracting expertise in managing major infrastructure programmes.
- Maintaining a strong balance sheet with good levels of positive cash generation, a strong risk management culture, financing capacity and minimal pension costs.

Costain enjoys good forward visibility with our combined order book and preferred bidder book representing around three times our FY 23 annual revenues, at £3.9bn (FY 22: £4.4bn). We anticipate a shift towards the preferred bidder book away from the order book as we continue to secure long-term (5-to-10-year) framework positions with our customers, providing a reliable and long-term stream of future work.

Our order book stood at £2.1bn at the end of FY 23 (FY 22: £2.8bn). This reflected the timing of certain major contract bids, our customers' five-year investment programmes, maintaining discipline in contract selection and the shorter lead time of consulting and digital work. The order book evolves as contracts progress and as new contracts are added at periods aligned to our customers' strategic procurement windows which are typically every five years. The order book does not therefore provide a complete picture of the Group's potential future revenue expectations.

The preferred bidder book comprises awards for which we have been selected as the preferred partner and are in the final stages prior to commencing the contract, or exclusive frameworks where a further works order is required. The preferred bidder book increased to £1.8bn at the end of FY 23 (FY 22: £1.6bn), with contracts in Road, Water and Integrated Transport, including Heathrow.

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

We had in excess of £1bn of secured Group revenue for FY 24 at the end of FY 23, representing more than 80% of forecast revenue for the period. Awards have yet to be made on a significant number of bids undertaken since H1 22 and we currently expect awards on these bids to be made during FY 24 and FY 25.

The Transport, Water, Energy and Defence markets continue to offer significant long-term opportunities for the Group. We expect Water investment to at least double during the next regulatory period to its highest level for decades, and we are well placed to capitalise on these opportunities. In addition, our Integrated Transport business has seen strategic wins with Heathrow, Manchester Airports Group, TfL, and a number of local councils.

Our Transformation programme, which simplifies and increases efficiencies within the business and is expected to be largely complete during FY 24, is progressing well, having delivered profit and operating margin uplift during FY 23, as well as enabling investment in business improvement activities. As previously announced, during H1 23 we reorganised our digital activities to increase our growth focus on service capabilities.

The accurate assessment and management of risk and uncertainty is central to our strategy. This is achieved through rigorous risk management and commercial control throughout our operations in three key areas:

- A disciplined approach to contract selection, which includes robust commercial and legal reviews, proactive shaping of procurement approaches with our customers, and a rigorous multi-stage gating process.
- Commercial and operational assurance, which includes project level controls, our Operational Excellence Model (OEM), management oversight of forecasts, and cross-disciplinary contract review meetings.
- Strategic supply chain partners, with application of robust supply chain management processes.

As a result of the implementation of our strategy and risk management processes, at the end of FY 23, our order book does not include any single stage design and build fixed-price construction contracts.

We continue to monitor the impact of inflationary pressures on FY 24 revenue and costs and have effectively negotiated the challenges of material availability and inflation during FY 23.

Capital allocation

Our capital allocation policy is:

1. Investing for growth – disciplined investment in key areas such as digital that accelerate our business transformation.

2. Progressive dividend – the Board recognises the importance of dividends for shareholders and expects to target dividend cover of around three times adjusted earnings. This will take into account the cash flow generated in the period, and the potential impact of the "dividend parity" arrangement relating to the defined benefit pension scheme, which continues until 31 March 2027.

Under the "dividend parity" arrangement, an additional matching contribution (the excess of the total dividend above the Scheme contribution) to the Costain Pension Scheme will be made when the total of the interim and final dividends for a financial year paid to the shareholders of Costain are greater than the contributions paid into the Scheme in the previous Scheme financial year, which runs from 1 April to 31 March. In addition, if the funding level is above 101% as at 31 March each year, then no Scheme contributions will be payable in respect of dividend parity for the following year.

3. Selective M&A – retaining optionality to pursue strategic investments in technology, skills and capabilities to enhance our ability to support customers.

4. Returning surplus capital – after ensuring a strong balance sheet and cash position, identified surplus capital is returned to shareholders through share buy backs or special dividends.

Dividends

Dividend payments were resumed in FY 23 with an interim dividend of 0.4p per share for the six months ended 30 June 2023. The Board is proposing a final dividend of 0.8p per share which, if approved, will be paid on 28 May 2024 to shareholders on the register at the close of business on 19 April 2024. We expect that dividends will typically be paid 1/3 as interim and 2/3 as final dividends.

Payment of the final dividend will be both as a cash dividend and scrip dividend alternative. Shareholders wishing to join the scrip dividend scheme should return a completed mandate form to the Registrar, Equiniti, by 3 May 2024. The scrip dividend reference price will be announced on 25 April 2024.

While the dividend parity arrangements remain in place, the Board aims to pay a minimum annual dividend to match broadly the £3.3m per year plus inflation (CPI) payment to the defined pension scheme. Potential increased dividends above this level may be considered by the Board depending upon the Group's net cash flow generation and the pension scheme funding level (and any associated dividend parity requirement) in line with the Group's policy of a target dividend cover of around three times adjusted earnings.

DIVISIONAL REVIEW

TRANSPORTATION

£m	FY 23 adjusted[1]	FY 23 reported	FY 22 adjusted[1]	FY 22 reported	Adjusted[1] change
Road	*399.5*	*399.5*	*498.7*	*498.7*	*-19.9%*
Rail	*500.2*	*500.2*	*480.8*	*480.8*	*4.0%*
Integrated Transport	*43.4*	*43.4*	*66.8*	*66.8*	*-35.0%*
Total revenue	**943.1**	**943.1**	**1,046.3**	**1,046.3**	**-9.9%**
Operating profit	28.0	20.9	31.5	30.1	-11.1%
Operating margin	3.0%	2.2%[2]	3.0%	2.9%	0.0pp

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.
2. See page 17 for further information.

- Reported and adjusted revenue of £943.1m was down 9.9% against FY 22, reflecting growth in Rail, lower volumes in Road due to the impact of the rephasing and rescoping of some contracts, and a reduction in Integrated Transport as the Preston Western road completed, prior to ramp up of our work with Heathrow.
- Adjusted operating margin was 3.0%, consistent with the prior year, as overall operating performance offset inflation and cost pressures impacting margins in Road.
- Revenue secured for FY 24 is £687m for Transportation as at 31 December 2023.
- Jonathan Willcock will join Costain in April 2024 as the new managing director of the Transportation division.

Our revenue in 2023 was mainly from a number of complex project delivery schemes for High Speed 2 (HS2) and National Highways, which currently represents the majority of Transportation activities. The mix of our revenue is now transitioning towards a better-balanced portfolio, benefitting from activities in Rail, Aviation, Ports and Local Government, together with continuing activities with HS2 and National Highways.

Road revenue declined by 19.9% in FY 23 compared with the prior year, as expected, driven by a reduction in schemes revenue as they near completion, and the impact of previously announced rephasing and rescoping of projects. As a strategic partner for National Highways, we support their key investment programmes through the Regional Delivery Partnerships (RDP) major projects frameworks, and the Smart Motorways Programme (SMP) Alliance.

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

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

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

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

Rail revenue increased by 4.0% in FY 23, principally as a result of the volume of work in delivering HS2. The Skanska Costain STRABAG JV contract to construct the southern section of route for HS2 which has a twin bore tunnel now has three (of seven) tunnel boring machines (TBMs) fully in operation. We are working closely with HS2 Ltd to optimise our delivery schedule to best progress the project delivery within the introduced near-term financial constraints.

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

We also have several live tenders being progressed in Rail.

Integrated Transport provides a mix of consulting and complex project delivery to sub-national bodies, Central Government, and to customers in aviation and ports. Revenue decreased by 35.0% in FY 23 on the prior year, reflecting the timing of complex schemes delivery. During the year we successfully completed the Edith Rigby Way (Preston Western distributor scheme) which links the M55 with the A583 and we expect that design phase work we have undertaken during 2023 will deliver revenue growth for this sector during 2024.

During FY 23, we continued work for TfL with design and feasibility work for Gallows Corner and the A40, design work on the Piccadilly Line and continued support for TfL's CCTV service. In January 2024, we were awarded the Gallows Corner Flyover Detailed Design & Build contract by TfL and the design phase for Brent Cross. We have successfully expanded services to a range of local authorities.

During FY 23, we increased the volume of our work at Heathrow to shape, create and deliver asset renewal and construction projects through the Terminal Asset Renewal Partner and Major Project Partner lots of the H7 framework. We continue to support other aviation customers at East Midlands, Gatwick, Manchester and Stansted airports.

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

NATURAL RESOURCES

£m	FY 23 adjusted[1]	FY 23 reported	FY 22 adjusted[1]	FY 22 reported	Adjusted[1] change
Water	*245.3*	*245.3*	*238.2*	*238.2*	*2.9%*
Energy	*45.6*	*45.6*	*52.6*	*52.6*	*-13.6%*
Defence and Nuclear Energy [2]	*98.0*	*98.0*	*84.3*	*84.3*	*16.3%*
Total revenue	**388.9**	**388.9**	**375.1**	**375.1**	**3.7%**
Operating profit	21.8	21.7	15.0	19.5	45.3%
Operating margin	5.6%	5.6%	4.0%	5.2%	+1.6pp

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.
2 Defence and Nuclear Energy includes nuclear-related revenue previously included in Energy, following the Natural Resources reorganisation.

- Adjusted revenue was £388.9m, up 3.7% driven by Defence and Nuclear Energy, and Water.
- Adjusted operating profit was £21.8m, up £6.8m, and adjusted operating margin was 5.6%, 1.6 percentage points higher compared to prior year, due to an improved operational performance as well as revenue growth.
- Revenue secured for FY 24 is £338m for Natural Resources as at 31 December 2023.

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

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

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

Energy revenue decreased by 13.6% in FY 23 on the prior year, with nuclear-related revenue now included within the Defence and Nuclear Energy sector. We expect significant growth in this sector given the requirement for energy infrastructure investment to support economic growth, tackle climate change and enhance the natural environment, as outlined in the National Infrastructure Commission's recent Second National Infrastructure Assessment (SNIA). We provide our customers in this sector with a range of services including engineering design, managed services and programme management, solving our customers' complex energy challenges through excellence in engineering and delivery.

Our strategic focus areas are energy transition (hydrogen and carbon capture), energy resilience (brownfield modifications for enhanced longevity and performance, energy storage and carbon reduction) and energy connectivity (gas and electricity networks). We continue with our contract with Cadent, managing the mains replacement across the East of England. We continue to build our position in energy transition and through FY 23 we have strengthened our core strategy to support the development of the industrial clusters across the UK. Having completed delivery of the FEED (Front end engineering design) for bp on the track 1 net zero contract at Teesside (part of the East Coast cluster), we continue to support bp as it progresses the wider de-carbonisation of the local energy supply and pursues innovative carbon capture and storage solutions.

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

Defence and Nuclear Energy supports several public and private sector organisations, in a variety of customer-side, delivery partnership roles, across the UK Defence Nuclear Enterprise. Defence and Nuclear Energy includes nuclear-related revenue previously included in Energy, following the reorganising of the Natural Resources division. Reported and adjusted revenue increased by £13.7m, 16.3% on the prior year, driven by a growth in demand for support within our current delivery partnership roles, with Babcock and the Atomic Weapons Establishment (AWE). In both contracts, we work as a construction delivery partner, delivering major infrastructure projects, and providing expertise in design and construction management and do not carry out any construction work.

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

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

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

STRATEGY UPDATE

The Group operates in the UK infrastructure market, focused on providing infrastructure solutions that safeguard the future of our planet and transform the performance of the UK's infrastructure ecosystem, aligned to our purpose of 'Improving People's Lives'.

In line with the priorities of the National Infrastructure Commission's Second National Infrastructure Assessment, we are strategically well positioned in our four chosen markets of Transport, Water, Energy and Defence. These markets benefit from significant, and increasing, long-term strategic investment to meet the UK's critical national needs. Our leading service expertise, strong customer focus, and differentiated broader offering positions the business to benefit from our customers' long-term investment plans, providing significant opportunities for growth. With our customers, we are focused on meeting the UK's strategic national needs and enabling economic growth, positive social change, addressing climate change and safeguarding our environment. While the National Infrastructure and Construction Pipeline 2023 sets out more than £700bn of investment in the next ten years, we recognise the short-term constraints on government funding.

Our business is differentiated in seeking to meet our customers' broader business needs, and not just their new capital infrastructure needs. This includes asset maintenance, extending the life of and optimising the performance of existing assets, advising on long term asset planning, and overseeing development programmes. We achieve this by working with our customers as construction, consulting and digital infrastructure partners. This has seen us win work with significant new customers such as Northumbrian Water, as well as existing customers choosing to expand or extend their relationships with us such as bp, TfL and United Utilities.

People

Our people strategy is focused on six key areas:

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

Our aim is to eliminate harm across all of our activities, and to be a continuously learning organisation. We track safety performance through our lost time injury rate (LTIR) of 0.12 in FY 23 (FY 22: 0.09), which is below our target level of 0.15. In early 2023 we did experience a rise in Lost Time Injuries which was addressed with action plans across both divisions. Costain's new approach to lifting following the fatality on our Gatwick Station project in July 2022 is changing industry practice, with significant interest from customers and peers who are also adopting the new approach.

We were delighted to be accredited as a Best Companies 'A Very Good Company To Work For' in 2023 and increased our overall engagement score compared with 2022, demonstrating our commitment to making Costain a great place to work.

We are maintaining progress towards our goal of having a workforce representative of society and when comparing ourselves against industry benchmarks believe we are 'industry-leading', however, we have more to do. Our overall gender and ethnic diversity have both increased, 28.8% female (FY 22: 27.5%) and 15.7% ethnic minority (FY 22: 14.5%). Costain for the second year has voluntarily disclosed its ethnicity pay gap, forming part of an integrated pay report alongside the statutory gender pay gap disclosure. We continue to proactively address our gender pay gap and in 2023 we launched a pilot programme to support women in progressing in their careers building on the feedback of our employee networks. Following the success of the programme, Costain will be rolling out a second intake in Q1 24.

Costain plays a significant role in enhancing the prosperity of local communities by channelling our spending with small and medium-sized businesses (SMEs). In 2023 Costain spent £650m with SMEs, representing 38% of Costain's total spend, exceeding the UK Government target of 33%, and consistent with the FY 22 performance of 38%.

Planet

During 2023, we have progressed and updated our climate change action plan, our ESG programme, developed nature positive initiatives which increase biodiversity, and continued our development of low carbon and energy transition solutions.

Driving an orderly transition to net zero is critical to both Costain and our customers, all the while adapting to overcome the climate risks that impact infrastructure. We have worked with the Science Based Targets initiative (SBTi) to validate Costain's near and long-term net zero targets and we are pleased to report these were approved in February 2024. For Costain's long-term SBTi, we commit to reaching net-zero greenhouse gas emissions across the value chain by 2050. Work is underway to develop a carbon transition plan, as the next phase of Costain's climate change action plan, working towards our 2035 net zero ambition.

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

While our Scope 1 and 3 emissions decreased year-on-year, there was a 36% increase in Scope 2 emissions. This was due to two factors: an increase in projects using mains-supplied electricity rather than generators (supporting the Scope 1 emission reduction); and major tunnelling operations occurring on our HS2 contract.

We developed and implemented an ESG programme to accelerate our approach to enhancing the sustainability performance of Costain and our customers. We have positioned ourselves to support customers in reaching their ESG objectives through our unique service mix and skills.

In 2023, we signed the Nature Positive Business Pledge, which is a commitment to halt and reverse impacts on nature in ways that work together with our net zero carbon ambitions. In 2024, Costain will be introducing our Nature Positive plan which will set out how we will meet our Nature Positive goal by 2030. The plan will also align with the Taskforce for Nature-related Financial Disclosures (TNFD) which Costain will begin voluntarily disclosing in our 2023 ESG report, to be fully compliant at the earliest opportunity.

Performance

Key measures of our performance are:

- Financial performance on growth and margins.
- New customer wins and expansions of existing customer relationships, further diversifying our revenue base.

Financial performance

Our risk management processes on contracts continues to ensure a robust operational performance. In addition, we have secured further opportunities with our customers, demonstrating our strategic progress.

Our strategy provides for assured delivery, lower risk contracts in our orderbook, together with a broader business mix, and our ambition remains to deliver improving long-term operating margins.

We remain in line to deliver on our operational milestones, outlined in March 2023:

- An adjusted operating margin run-rate of 3.5% during the course of FY 24, as we increase effectiveness within the business through the implementation of our Transformation programme and our OEM, the growth of our consultancy services, the increased effectiveness in procurement and ongoing control of operating costs.
- An adjusted operating margin run-rate of 4.5% during the course of FY 25 to be reached by improving margins within complex programme delivery (construction contracts), further efficiencies from our Transformation programme, our OEM and an increasing mix of higher-margin contracts.
- We continue to have an ambition for an adjusted operating margin in excess of 5.0%.
- We expect that central costs will be held around 0.8% to 0.9% of revenue during FY 24 to FY 25 and we expect divisional margins to increase during the period to achieve our Group target. We continue to monitor and manage the impact of inflationary pressures on FY 24 revenue and costs.

Customer growth

During FY 23, we have:

- Expanded our presence in the water sector with our first AMP8 win and been appointed by United Utilities in July to extend our work as its Managed Service Provider for a further two years. We have also agreed to extend our AMP7 contracts into AMP8 with Severn Trent and Thames Water. Post year-end we began a new relationship with Northumbrian Water Group when they appointed us to their AMP8 framework.
- Been appointed by NRS Ltd (previously known as Magnox) to deliver its decommissioning programme, supporting the company across 11 sites and ensuring the safe and secure closure of locations through to 2029.

- Further grown our delivery partner consultancy roles building on our current positions with AWE, Babcock, Cadent and National Highways. We are also increasing our activity at Heathrow, where we will work as a solution delivery partner providing construction, consulting and digital capabilities during its next regulatory period.
- Secured further strategic wins to provide consultancy advice and support to bp and Yorkshire Water, and post year-end with Transport for London (TfL).

FINANCIAL REVIEW

Divisional adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	FY 23	FY 22	Change	**FY 23**	FY 22	Change	**FY 23**	FY 22	Change
Revenue £m									
Adjusted	**943.1**	1,046.3	-9.9%	**388.9**	375.1	3.7%	**1,332.0**	1,421.4	-6.3%
Adjusting items	**-**	-	-	**-**	-	-	**-**	-	
Reported	**943.1**	1,046.3	-9.9%	**388.9**	375.1	3.7%	**1,332.0**	1,421.4	-6.3%
Operating profit £m									
Adjusted	**28.0**	31.5	-11.1%	**21.8**	15.0	45.3%	**40.1**	36.3	10.5%
Adjusting items	**(7.1)**	(1.4)		**(0.1)**	4.5		**(13.3)**	(1.4)	
Reported	**20.9**	30.1	-30.6%	**21.7**	19.5	11.3%	**26.8**	34.9	-23.2%

Central costs

We incurred central costs of £9.7m (FY 22: £10.2m) on an adjusted basis and £15.8m (FY 22: £ 14.7m) on a reported basis.

Adjusting items

We incurred £8.0m (FY 22: £5.7m) on transformation and restructuring costs, and £5.3m (FY 22: £nil) on the impairment of an intangible asset relating to the repositioning of digital services. In FY 22 we incurred £1.4m of aged tunnel boring machine write-off costs, and recognised an insurance receipt of £5.2m relating to the Peterborough & Huntingdon contract, as well as a profit of £0.5m on the sale of a non-core asset. We expect further transformation costs of £5.0m in FY 24 and thereafter such costs to be minimal and not to be separately disclosed as adjusting items.

Administrative costs

The Group incurred administrative expenses of £78.0m in FY 23, an increase of £20.2m on the same period last year (FY 22: £57.8m). £5.3m of the increase relates to the impairment of an intangible asset in FY 23. £5.2m of the increase is driven by the recognition of an insurance receipt relating to the Peterborough & Huntingdon contract in FY 22. £1.4m of the increase has resulted from higher transformation and restructuring costs driven by the repositioning of digital services in FY 23, partially offset by asset write-off costs seen in FY 22. £7.3m of the increase has resulted from a reclassification of costs previously shown within cost of sales, now reflected in administrative expenses, as we have improved alignment, ownership and understanding of our cost base across the Group as part of our Transformation programme. The £1.0m balance of the increase has been driven by cost and wage inflation as well as the timing of incremental investment that will facilitate further net benefits from our Transformation programme into FY 24, partially offset by the year-on-year benefit of cost management actions taken during FY 23 and in H2 22.

Net financial income/(expense)

Net finance income amounted to £4.1m (FY 22: £2.1m expense). The interest payable on bank overdrafts, loans and other similar charges was £2.3m (FY 22: £2.7m) and the interest income from bank deposits amounted to £4.8m (FY 22: £0.5m). In addition, the net finance income / (expense) includes the interest income on the net assets of the pension scheme of £3.2m (FY 22: £1.3m), the interest expense on lease liabilities of £1.5m (FY 22: £1.2m) under IFRS 16, and other interest expense of £0.1m (FY 22: £nil).

Tax

The Group has a tax charge of £8.8m (FY 22: £6.9m) which is an effective tax rate of 28.5% (FY 22: 21.0%). The rate is higher than the blended statutory tax rate of 23.5% due to permanent differences which include intangible impairments. The adjusted effective tax rate is 24.2% (FY 22: 20.5%). We expect the effective tax rate to remain close to the statutory tax rate of 25% from 2024.

Cashflow

The Group generated a £72.0m adjusted free cash inflow for the year (FY 22: £72.9m).

£m	**FY 23**	**FY 22**
Cash generated from operations	55.5	16.7
Add back adjusting items	9.2	46.4
Add back pension deficit contributions	8.1	10.8
Less taxation	(0.7)	(0.5)
Less capital expenditure	(0.1)	(0.5)
Adjusted free cash flow	**72.0**	**72.9**

The Group had a positive net cash balance of £164.4m as of 31 December 2023 (H1 23: £132.1m, FY 22: £123.8m) comprising Costain cash balances of £105.2m (H1 23: £77.6m, FY 22: £67.3m), cash held by joint operations of £59.2m (H1 23: £54.5m, FY 22: £56.5m) and borrowings of £nil (H1 23: £nil, FY 22: £nil). The average month-end net cash balance during the year was £141.4m (FY 22: £101.9m) and the average week-end net cash balance during the year was £141.0m (FY 22: £94.5m). Utilisation of the total bonding facilities as of 31 December 2023 was £69.9m (H1 23: £78.9m; FY 22: £88.8m).

£m	FY 23	FY 22
Cash and cash equivalents at the beginning of year	123.8	159.4
Net cash flow	40.6	(35.6)
Cash and cash equivalents at the end of year	164.4	123.8
Borrowings	-	-
Net cash	**164.4**	**123.8**

Financial resources

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

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

Pensions

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

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

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

As at 31 December 2023, the Group's pension scheme was in surplus in accordance with IAS 19 at £53.5m (H1 23: £58.7m surplus, FY 22: £60.2m surplus).

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

Cash contributions made to the scheme during the year amounted to £8.1m (FY 23: £10.8m) and the charge to operating profit in respect of the administration cost of the UK Pension Scheme in the year was £0.2m (FY 22: £0.3m).

DIRECTORS REPORT

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2023, the directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements. Please see note 1 for more details.

For and on behalf of the Board

Alex Vaughan
Chief Executive Officer
11 March 2024

Helen Willis
Chief Financial Officer

Cautionary statement

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

Shareholder information

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

GROUP INCOME STATEMENT

For the year ended 31 December 2023

£m	Note	2023	2022
Revenue	4	**1,332.0**	1,421.4
Cost of Sales		**(1,227.2)**	(1,328.7)
Gross profit		**104.8**	92.7
Administrative expenses		**(78.0)**	(57.8)
Operating profit		**26.8**	34.9
Finance income	5	**8.0**	1.8
Finance expense	5	**(3.9)**	(3.9)
Net finance income/(expense)		**4.1**	(2.1)
Profit before tax		**30.9**	32.8
Taxation	6	**(8.8)**	(6.9)
Profit for the year attributable to equity holders of the parent		**22.1**	**25.9**
Earnings per share			
Basic	7	**8.1p**	9.4p
Diluted	7	**7.8p**	9.4p

GROUP STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

For the year ended 31 December 2023

£m	**2023**	**2022**
Profit for the year	**22.1**	25.9
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset	**(17.9)**	(18.7)
Tax recognised on remeasurement of retirement benefit asset	**4.3**	3.9
Total items that will not be reclassified to profit or loss	**(13.6)**	(14.8)
Other comprehensive expense for the year	**(13.6)**	(14.8)
Total comprehensive income for the year attributable to equity holders of the parent	**8.5**	**11.1**

GROUP BALANCE SHEET

As at 31 December 2023

£m	Note	**2023**	**2022** (as restated)*
Assets			
Non-current assets			
Intangible assets	9	**45.7**	52.2
Property, plant and equipment	10	**26.8**	32.0
Equity accounted investments		**0.4**	0.4
Retirement benefit asset		**53.5**	60.2
Trade and other receivables		**4.2**	3.5
Insurance recovery asset		**1.7**	4.0
Deferred tax		**11.8**	14.5
Total non-current assets		**144.1**	166.8
Current assets			
Inventories		**-**	0.2
Trade and other receivables		**149.1**	187.4
Insurance recovery asset		**11.0**	9.4
Cash and cash equivalents	11	**164.4**	123.8
Total current assets		**324.5**	320.8
Total assets		**468.6**	487.6
Liabilities			
Non-current liabilities			
Other payables		**2.2**	1.1
Lease liabilities		**14.0**	18.5
Provisions for other liabilities and charges		**-**	3.7
Total non-current liabilities		**16.2**	23.3
Current liabilities			
Trade and other payables		**207.8**	232.5
Taxation		**0.6**	0.2
Lease liabilities		**10.3**	11.0
Provisions for other liabilities and charges		**14.3**	9.4
Total current liabilities		**233.0**	253.1
Total liabilities		**249.2**	276.4
Net assets		**219.4**	**211.2**
Equity			
Share capital	13	**138.3**	137.5
Share premium		**16.4**	16.4
Translation reserve		**0.6**	0.6
Treasury shares		**(1.9)**	-
Retained earnings		**66.0**	56.7
Total equity		**219.4**	**211.2**

*See note 14 for more information on restatement.

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

£m	Share capital	Share premium	Translation reserve	Treasury shares	Retained earnings	Total equity
At 1 January 2022	137.5	16.4	0.6	-	44.5	199.0
Profit for the year	-	-	-	-	25.9	25.9
Other comprehensive expense	-	-	-	-	(14.8)	(14.8)
Equity-settled share-based payments	-	-	-	-	1.1	1.1
At 31 December 2022	137.5	16.4	0.6	-	56.7	211.2
At 1 January 2023	**137.5**	**16.4**	**0.6**	**-**	**56.7**	**211.2**
Profit for the year	**-**	**-**	**-**	**-**	**22.1**	**22.1**
Other comprehensive expense	-	-	-	-	**(13.6)**	**(13.6)**
Issue of ordinary shares under employee share option plans	**0.8**	**-**	**-**	**(0.6)**	**(0.2)**	**-**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	-	**(0.1)**	**(0.1)**
Equity-settled share-based payments	**-**	**-**	**-**	-	**2.2**	**2.2**
Acquisition of treasury shares	**-**	**-**	**-**	**(1.3)**	**-**	**(1.3)**
Dividends paid	**-**	**-**	**-**	**-**	**(1.1)**	**(1.1)**
At 31 December 2023	**138.3**	**16.4**	**0.6**	**(1.9)**	**66.0**	**219.4**

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2023

£m	Note	2023	2022
Cash flows generated from/(used by) operating activities			
Profit for the year		**22.1**	25.9
Adjustments for:			
Finance income	5	**(8.0)**	(1.8)
Finance expense	5	**3.9**	3.9
Taxation	6	**8.8**	6.9
Profit on disposals of property, plant and equipment		**(2.2)**	(1.8)
Impairment of investment in joint venture		**-**	6.5
Depreciation of property, plant and equipment	10	**14.8**	11.3
Impairment of intangible assets	9	**5.3**	-
Amortisation of intangible assets	9	**1.3**	0.6
Shares purchased to satisfy employee share schemes		**(0.1)**	-
Share-based payments expense		**2.2**	1.1
Cash generated from operations before changes in working capital and provisions		**48.1**	52.6
Decrease in inventories		**0.2**	0.1
Decrease/(increase) in receivables		**37.6**	(2.9)
(Decrease)/increase in payables		**(23.6)**	15.9
Movement in provisions and employee benefits		**(6.8)**	(49.0)
Cash generated from operations		**55.5**	16.7
Interest received		**4.0**	1.8
Interest paid		**(3.1)**	(3.9)
Taxation paid		**(0.7)**	(0.5)
Net cash generated from operating activities		**55.7**	14.1
Cash flows generated from/(used by) investing activities			
Additions to owned property, plant and equipment		**-**	(0.2)
Additions to intangible assets		**(0.1)**	(0.3)
Proceeds on disposals of property, plant and equipment		**-**	2.6
Addition to cost of investment in joint venture		**-**	(3.4)
Net cash used by investing activities		**(0.1)**	(1.3)
Cash flows generated from/(used by) financing activities			
Ordinary dividends paid		**(1.1)**	-
Acquisition of treasury shares		**(1.3)**	-
Repayments of lease liabilities - principal		**(12.6)**	(8.4)
Repayment of loans		**-**	(40.0)
Net cash used by financing activities		**(15.0)**	(48.4)
Net increase/(decrease) in cash and cash equivalents		**40.6**	(35.6)
Cash and cash equivalents at beginning of the year	11	**123.8**	159.4
Cash and cash equivalents at end of the year	11	**164.4**	**123.8**

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Costain Group PLC ("the Company") is a public limited company domiciled in England and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 31 December 2023 comprise the Group and the Group's interests in associates, joint ventures and joint operations and have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. A duly appointed and authorised committee of the Board of directors approved the preliminary announcement on 11 March 2024. The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2023 and 2022 but is derived from those financial statements. Statutory financial statements for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered in due course.

The auditor has reported on these financial statements. Their report for 2023 was (i) unqualified and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Their report for the accounts of 2022 was (i) unqualified, and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with UK-adopted international accounting standards, this announcement does not itself contain sufficient information to fully comply with UK-adopted international accounting standards.

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

Going concern

The Group's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities.

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

These facilities have a leverage covenant of net debt/adjusted EBITDA ≤1.5 times, an interest covenant of adjusted EBITA/net interest payable covenant of ≥4.0 times and a liquidity covenant whereby the aggregate of, without double counting, any cash and cash equivalent investments and the available commitment under the facility does not fall below £50m. These financial covenants are tested quarterly. As at 31 December 2023, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 10.3 times. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its £20m bank bonding and £250m surety company bonding facilities.

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2023, the directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the financial statements. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group and the Company have adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis in the preparation of the financial statements.

In assessing the going concern assumption, the Board reviewed the Group's base case plans for the period to 30 June 2025, being the first covenant deadline after March 2025. The directors have assumed that the current RCF remains in place with the same covenant requirements through to its current expiry date, which is beyond the end of the period reviewed for going concern purposes. The base case assumes delivery of the Board approved strategic and financial plans. As part of the assessment, the Board also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, higher working capital requirements and adverse contract settlements.

Both the base case and severe but plausible forecasts show significant headroom and indicate that the Group and the Company will be able to operate within available banking facilities and covenants throughout this period.

Alternative performance measures

Income statement presentation - adjusting items

The Group discloses alternative performance measures, in addition to statutory disclosures, to provide investors with supplementary information which may be relevant to the Group's future performance. 'Adjusted profit' excludes 'adjusting items', which are significant items of income and expenditure that the Board considers do not reflect the long-term performance of the Group. These adjusted measures are reconciled to statutory disclosures, with the tax impact given, in note 3, and disclosed in the segmental reporting in note 4. Presenting results on this basis is consistent with internal reporting to the Board. Alternative performance measures do not have standardised meanings and, therefore, they may not be comparable between companies.

The directors exercise judgement in determining classification as an 'adjusting item' using quantitative and qualitative factors. Consideration is given, both individually and collectively, to the circumstances giving rise to the item, its materiality and whether it's expected to recur.

'Adjusted profit' may exclude income and expenditure related to acquisitions, discontinued operations, restructuring costs, litigation, and impairments, where the impairment is the result of an isolated, non-recurring event. 'Adjusted earnings per share' is calculated using 'adjusted profit'.

The Group has also historically disclosed ‘Adjusted revenue’. ‘Adjusted revenue’ excludes the impact of a reversal of any contract asset recorded immediately prior to the initial write down on a contract and any subsequent adjustment to overall contract revenue.

The Group also presents net cash/bank debt and adjusted free cash flow as alternative performance measures in the front of the annual report. Net cash/bank debt is defined as cash and cash equivalents less interest-bearing borrowings (excluding leases under IFRS 16 and net of unamortised arrangement fees). Adjusted free cash flow is defined as cash generated from operations, excluding ‘adjusting items’ and pension deficit contributions, less taxation and capital expenditure. The directors consider that these measures provide useful information about the Group’s liquidity position.

2. SIGNIFICANT AREAS OF JUDGEMENT AND ESTIMATION

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

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

Long-term contracts

The majority of the Group’s activities are undertaken via long-term contracts and IFRS 15 requires the identification and separation of individual, distinct performance obligations, which are then accounted for individually. The most common type of contracts undertaken by the Group with multiple performance obligations are framework contracts. In most cases, the obligations are satisfied over time and estimates are made of the total contract costs and revenues. In many cases, these obligations span more than one financial year. Both cost and revenue forecasts may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved. Cost forecasts take into account the expectations of work to be undertaken on the contract. Revenue forecasts take into account compensation events, variations and claims and assessments of, for example, the impact of pain/gain arrangements and disallowed or withheld costs, to the extent that the amounts the Group expects to recover can be reliably estimated and are highly probable not to reverse.

Management bases its estimates of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information. This includes detailed contract valuations, progress on discussions over compensation events, variations and claims with customers, progress against the latest programme for completing the works, forecasts of the costs to complete and, in certain cases, assessments of recoveries from insurers, suppliers and contractors, where these are considered virtually certain. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered in management's judgement highly probable to be agreed.

There are a small number of material contracts where management has been required to make significant accounting estimates and, which result in estimation uncertainty, as at 31 December 2023. In relation to these contracts, the Group has included estimated recoveries with a combined value of £11.9m, on the basis that these are considered highly probable not to reverse. However, there are a range of factors which will affect the ultimate outcome once these contracts are finalised. Management considers that the estimation uncertainty in relation to these contracts ranges from a potential upside of £29.7m to a downside of £11.9m.

The ultimate financial impact of this estimation uncertainty will depend, inter alia, on the terms of the contract and the interaction with incentive arrangements, such as pain/gain mechanisms and bonus or KPI arrangements, as well as final conclusions regarding claims and compensation events and assessments of, for example, costs disallowed under the contract.

The estimates of the forecast contract outcome and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates both positive and negative is then reflected in the financial statements.

While management believes it has recorded positions that are highly probable not to reverse on the basis of existing facts and circumstances, there are uncertain factors which will impact the final contract outcome and could give rise to material adjustments within the next financial year. Given the inherent complexity and pervasive impact of the various judgements and estimates impacting revenue, cost of sales and related balance sheet amounts, it is not considered plausible to quantify the impact of taking alternative assessments on each of these judgements.

Rectification provision: Contract in the Water sector

In 2021, the Group recognised a provision in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where Costain had been prime contractor.

As at 31 December 2022, after working with designers, insurers and the customer, there was greater clarity as to the scope and cost of rectification work required and the Group's best estimate of the cost of the single most likely rectification solution at this time was £17.0m. Costs of £4.8m had been incurred at the end of 2022, and accordingly, a provision of £12.2m was included in the statement of financial position. A number of assumptions were made in arriving at the cost estimate and management considered that the ultimate cost would fall within a range of ±30% of the estimated total.

During 2023, progress in design and procurement has enabled management to validate the assessed programme and narrow estimation uncertainty to a range of -8%/+13% on the revised estimated total cost of £19.3m. Costs of £7.7m have been incurred to date and therefore the provision recognised in the statement of financial position at 31 December 2023 is £11.6m. The work is still expected to be concluded in 2024.

As reported in 2022, Costain has engaged with its insurers and received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers continued to make interim payments on account during 2023. On this basis, management has made a judgement that the costs of rectification, after deduction of insurers' excess and amounts already received from insurers, will be recovered. Accordingly, an insurance receivable of £12.7m is recognised in the statement of financial position in accordance with IAS 37 on the basis that recovery is considered virtually certain. There is a cap on insurance but the cap is significantly in excess of the cost estimate. As at 31 December 2022, £13.4m had been recognised as an insurance receivable.

Carrying value of goodwill

Assessing the recoverability of the carrying value of goodwill recognised on acquisition requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. These assessments involve estimation and judgement, principally in respect of the levels of operating margins, growth rates and future cash flows, including those related to work to be secured, of the cash generating units and also include consideration of the impact of potential sensitivities in respect of those assumptions. The discount rates used to calculate present values and related sensitivities are set out in note 9.

Defined benefit pension schemes

Defined benefit pension schemes require significant estimates in relation to the assumptions for the discount rate, inflation and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in note 12.

Deferred tax

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

Adjusting items

As described in note 1, management has used judgement to determine the items classified as adjusting items as set out in note 3.

3. RECONCILIATION OF REPORTED OPERATING PROFIT TO ADJUSTED OPERATING PROFIT

During the year, the Group restructured its digital hardware activities to focus on service capabilities. As a result, the capitalised development costs of products being developed under the Group's manufacturing capabilities were impaired by £5.3m to £nil as the Group has exited this manufacturing.

Other costs in relation to the restructuring of £1.8m, including in relation to rent and rates on a property used for the Group's digital activities, which was vacated before the break clause in the lease, were also recognised.

The Board considers these items 'adjusting' on the basis of their magnitude and that they arise from a one-off pivot in business strategy away from digital manufacturing that will not recur in the future.

£6.2m was incurred on the Group's Transformation programme in 2023 (FY 22 : £5.7m). Costs incurred were in-line with the programme budget and include the cost of people and advisors supporting our Transformation initiatives, as well as the one-off cost of actions to support operating model changes required.

The programme, which began in 2022 and concludes in 2024, is bringing simplicity, clarity and focus to how we work, by driving improved efficiency and effectiveness across the business. This critically includes improving how we manage customer projects in a more efficient, safe and green way, enabling us to deliver greater value to both our customers and stakeholders.

While the primary objective of the programme was to transform the organisation to accelerate our strategic ambition, efficiency and cost saving actions have allowed us to start to deliver savings through 2023. Savings from the programme are expected to exceed our cost of delivery within the next few years.

The Board considers the costs of the transformation programme are 'adjusting' on the basis of their magnitude and that it is a one-off programme, which is not in the ordinary course of business and therefore is not reflective of the type of costs to be incurred on a recurring basis in future.

In 2022, a £5.2m insurance receipt was recognised in relation to the Peterborough & Huntingdon contract outcome.

In 2022, the Group sold a minor stake in a hotel company for £0.5m. The investment was impaired to nil in 2020 reflecting the significant impact of COVID 19 in that sector, so the profit realised in 2022 was also £0.5m. This cost was recognised as an adjusting item and therefore the related profit was also treated as such.

In 2022, the Group fully impaired tunnel boring machines held at net book value of £1.4m which were outmoded and no longer core to operations.

Year ended 31 December 2023	Adjusted	Intangible impairment	Other items	Total
	£m	£m	£m	£m
Revenue	**1,332.0**	**-**	**-**	**1,332.0**
Cost of sales	**(1,227.2)**	**-**	**-**	**(1,227.2)**
Gross profit	**104.8**	**-**	**-**	**104.8**
Administrative expenses before adjusting items	**(64.7)**	**-**	**-**	**(64.7)**
Adjusting items:				
Restructuring costs	**-**	**-**	**(1.8)**	**(1.8)**
Transformation costs	**-**	**-**	**(6.2)**	**(6.2)**
Impairment of intangible asset	**-**	**(5.3)**	**-**	**(5.3)**
Administrative expenses	**(64.7)**	**(5.3)**	**(8.0)**	**(78.0)**
Operating profit/(loss)	**40.1**	**(5.3)**	**(8.0)**	**26.8**
Net finance income	**4.1**	**-**	**-**	**4.1**
Profit/(loss) before tax	**44.2**	**(5.3)**	**(8.0)**	**30.9**
Taxation	**(10.7)**	**-**	**1.9**	**(8.8)**
Profit/(loss) for the year attributable to equity holders of the parent	**33.5**	**(5.3)**	**(6.1)**	**22.1**
Basic earnings per share	**12.2p**			**8.1p**

Year ended 31 December 2022	Adjusted	P&H	Other items	Total
	£m	£m	£m	£m
Revenue	**1,421.4**	**-**	**-**	**1,421.4**
Cost of sales	**(1,328.7)**	**-**	**-**	**(1,328.7)**
Gross profit	**92.7**	**-**	**-**	**92.7**
Administrative expenses before adjusting items	**(56.4)**	**-**	**-**	**(56.4)**
Adjusting items:				
P&H insurance recovery	**-**	**5.2**	**-**	**5.2**
Transformation costs	**-**	**-**	**(5.7)**	**(5.7)**
Tunnel boring machines impairment	**-**	**-**	**(1.4)**	**(1.4)**
Profit on disposal of other investment	**-**	**-**	**0.5**	**0.5**
Administrative expenses	**(56.4)**	**5.2**	**(6.6)**	**(57.8)**
Operating profit/(loss)	**36.3**	**5.2**	**(6.6)**	**34.9**
Net finance expense	**(2.1)**	**-**	**-**	**(2.1)**
Profit/(loss) before tax	**34.2**	**5.2**	**(6.6)**	**32.8**
Taxation	**(7.0)**	**(1.0)**	**1.1**	**(6.9)**
Profit/(loss) for the year attributable to equity holders of the parent	**27.2**	**4.2**	**(5.5)**	**25.9**
Basic earnings per share	**9.9p**			**9.4p**

4. OPERATING SEGMENTS

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

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

2023	**Natural Resources**	**Transportation**	**Central costs**	**Total**
	£m	**£m**	**£m**	**£m**
Segment revenue				
Revenue	**388.9**	**943.1**	**-**	**1,332.0**
Segment profit/(loss)				
Operating profit/(loss) before adjusting items	**21.8**	**28.0**	**(9.7)**	**40.1**
Adjusting items:				
Restructuring costs	**-**	**(1.8)**	**-**	**(1.8)**
Transformation costs	**(0.1)**	**-**	**(6.1)**	**(6.2)**
Impairment of intangible asset	**-**	**(5.3)**	**-**	**(5.3)**
Profit/(loss) from operations	**21.7**	**20.9**	**(15.8)**	**26.8**
Net finance income				**4.1**
Profit before tax				**30.9**

2022	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Revenue	**375.1**	**1,046.3**	**-**	**1,421.4**
Segment profit/(loss)				
Operating profit/(loss) before adjusting items	**15.0**	**31.5**	**(10.2)**	**36.3**
Adjusting items:				
P&H insurance recovery	**5.2**	**-**	**-**	**5.2**
Transformation costs	**(0.7)**	**-**	**(5.0)**	**(5.7)**
Tunnel boring machines impairment	**-**	**(1.4)**	**-**	**(1.4)**
Profit on disposal of other investment	**-**	**-**	**0.5**	**0.5**
Profit/(loss) from operations	**19.5**	**30.1**	**(14.7)**	**34.9**
Net finance expense				**(2.1)**
Profit before tax				**32.8**

5. FINANCE INCOME/(EXPENSE)

£m	**2023**	**2022**
Interest income from bank deposits	**4.8**	0.5
Interest income on the net assets of the defined benefit pension scheme	**3.2**	1.3
Finance income	**8.0**	**1.8**
Interest payable on interest bearing bank loans, borrowings and other similar charges	**(2.3)**	(2.7)
Interest expense on lease liabilities	**(1.5)**	(1.2)
Other interest	**(0.1)**	-
Finance expense	**(3.9)**	**(3.9)**
Net finance income/(expense)	**4.1**	**(2.1)**

Other similar charges includes arrangement and commitment fees payable.

6. TAXATION

£m	2023	2022
On profit for the year		
UK corporation tax at blended rate of 23.5% (2022: statutory rate of 19%)	**(5.4)**	(4.6)
Adjustment in respect of prior years	**1.0**	0.3
Current tax charge for the year	**(4.4)**	**(4.3)**
Deferred tax charge for the current year	**(3.2)**	(2.5)
Adjustment in respect of prior years	**(1.2)**	(0.1)
Deferred tax charge for the year	**(4.4)**	**(2.6)**
Tax charge in the consolidated income statement	**(8.8)**	**(6.9)**

£m	2023	2022
Tax reconciliation		
Profit before tax	**30.9**	**32.8**
Taxation at 23.5% (2022: 19.0%)	**(7.2)**	(6.2)
Amounts qualifying for tax relief and disallowed expenses	**(1.4)**	(1.0)
Rate adjustment relating to deferred taxation and overseas profits and losses	**-**	0.1
Adjustments in respect of prior years	**(0.2)**	0.2
Tax charge in the consolidated income statement	**(8.8)**	**(6.9)**

7. EARNINGS PER SHARE

The calculation of earnings per share is based on profit of £22.1m (2022: £25.9m) and the number of shares set out below.

	2023 Number (millions)	2022 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**273.6**	275.0
Dilutive potential ordinary shares arising from employee share schemes	**8.5**	1.7
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**282.1**	**276.7**

8. DIVIDENDS

Dividend payments were resumed in 2023 with an interim dividend of 0.4p per share for the six months ended 30 June 2023. The Board is proposing a final dividend of 0.8p per share.

9. INTANGIBLE ASSETS

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2022	54.1	15.4	9.7	15.9	95.1
Additions	-	-	-	0.3	0.3
At 31 December 2022	54.1	15.4	9.7	16.2	95.4
At 1 January 2023	**54.1**	**15.4**	**9.7**	**16.2**	**95.4**
Additions	**-**	**-**	**-**	**0.1**	**0.1**
Disposal	**-**	**-**	**-**	**(0.1)**	**(0.1)**
At 31 December 2023	**54.1**	**15.4**	**9.7**	**16.2**	**95.4**
Accumulated amortisation and impairment					
At 1 January 2022	9.0	15.4	9.7	8.5	42.6
Charge in year	-	-	-	0.6	0.6
At 31 December 2022	9.0	15.4	9.7	9.1	43.2
At 1 January 2023	**9.0**	**15.4**	**9.7**	**9.1**	**43.2**
Charge in year	**-**	**-**	**-**	**1.3**	**1.3**
Impairment in year	**-**	**-**	**-**	**5.3**	**5.3**
Disposals	**-**	**-**	**-**	**(0.1)**	**(0.1)**
At 31 December 2023	**9.0**	**15.4**	**9.7**	**15.6**	**49.7**
Net book value					
At 31 December 2023	**45.1**	**-**	**-**	**0.6**	**45.7**
At 31 December 2022	45.1	-	-	7.1	52.2
At 1 January 2022	45.1	-	-	7.4	52.5

Goodwill has been allocated to the applicable cash generating units of the Transportation segment (£15.5m (2022: £15.5m)) and the Natural Resources segment (£29.6m (2022: £29.6m)).

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

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The rates used to discount the forecast cash flows for the Transportation and Natural Resources CGUs were 15.8% and 15.7% respectively. In 2022, the discount rates used for both the Transportation and Natural Resources CGUs were 15.5%.

The value in use calculations use the Group's four-year cash flow forecasts, which are based on the expected revenues and profitability of each CGU, taking into account the current level of secured and anticipated orders, extrapolated for future years by the expected growth rate applicable to each CGU, 2.0% for both Transportation and Natural Resources (2022: 1.5% for both Transportation and Natural Resources).

At 31 December 2023, based on the internal value in use calculations, management concluded that the recoverable value of both the Natural Resources and the Transportation cash generating units exceeded their respective carrying amounts with substantial headroom.

The directors consider that there is no reasonable possible change in assumptions that would give rise to an impairment, for example, a 30.0% reduction in absolute business unit operating profit, a 1.0% decrease in growth rate and a 1.0% increase in discount rate in combination would not result in an impairment.

10. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings £m	Plant & Equipment £m	Right-of-use assets Land & Buildings £m	Right-of-use assets Vehicles, plant & equipment £m	Total £m
Cost					
At 1 January 2022	0.6	27.0	14.1	29.4	71.1
Additions (as restated)*	-	0.2	9.1	13.1	22.4
Disposals	(0.6)	(2.6)	(1.4)	(14.2)	(18.8)
At 31 December 2022 (as restated)*	-	24.6	21.8	28.3	74.7
At 1 January 2023	**-**	**24.6**	**21.8**	**28.3**	**74.7**
Additions	**-**	**-**	**0.5**	**9.7**	**10.2**
Disposals	**-**	**(9.6)**	**(2.8)**	**(5.3)**	**(17.7)**
At 31 December 2023	**-**	**15.0**	**19.5**	**32.7**	**67.2**
Accumulated depreciation and impairment					
At 1 January 2022	0.6	21.6	6.1	10.8	39.1
Charge in year	-	2.9	2.1	4.9	9.9
Impairment in year	-	1.4	-	-	1.4
Disposals	(0.6)	(2.6)	(0.6)	(3.9)	(7.7)
At 31 December 2022	-	23.3	7.6	11.8	42.7
At 1 January 2023	**-**	**23.3**	**7.6**	**11.8**	**42.7**
Charge in year	**-**	**0.9**	**4.8**	**9.1**	**14.8**
Disposals	**-**	**(9.6)**	**(2.6)**	**(4.9)**	**(17.1)**
At 31 December 2023	**-**	**14.6**	**9.8**	**16.0**	**40.4**
Net book value					
At 31 December 2023	**-**	**0.4**	**9.7**	**16.7**	**26.8**
At 31 December 2022 (as restated)	-	1.3	14.2	16.5	32.0
At 1 January 2022	-	5.4	8.0	18.6	32.0

*See note 14 for more information on restatement.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed below and include the Group's share of cash held by joint operations of £59.2m (2022: £56.5m).

	2023 £m	2022 £m
Cash and cash equivalents	**164.4**	123.8
Net cash	**164.4**	123.8

12. PENSIONS

The Group operates a defined benefit pension scheme in the UK; contributions are paid by subsidiary undertakings. There are also two defined contribution pension schemes in place in the UK and contributions are made both by subsidiary undertakings and employees. The total pension charge in the income statement is £11.4m comprising £14.6m included in operating costs less £3.2m interest income included in net finance income (2022: £11.9m, comprising £13.2m in operating costs less £1.3m interest income included in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006, future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2022 and this was updated to 31 December 2023 by a qualified independent actuary. At 31 December 2023, there were 2,885 retirees and 2,412 deferred members (2022: 2,867 retirees and 2,529 deferred members). The weighted average duration of the obligations is 11.9 years (2022: 11.9 years).

	2023 £m	2022 £m	2021 £m
Present value of defined benefit obligations	**(542.6)**	(527.1)	(837.5)
Fair value of scheme assets	**596.1**	587.3	904.6
Recognised asset for defined benefit obligations	**53.5**	60.2	67.1

Movements in present value of defined benefit obligations

	2023 £m	2022 £m
At 1 January	**527.1**	837.5
Interest cost	**25.5**	14.8
Remeasurements – demographic assumptions	**(1.0)**	(0.3)
Remeasurements – financial assumptions	**14.8**	(321.4)
Remeasurements – experience adjustments	**10.5**	29.7
Benefits paid	**(34.3)**	(33.2)
At 31 December	**542.6**	**527.1**

Movements in fair value of scheme assets

	2023 £m	2022 £m
At 1 January	**587.3**	904.6
Interest income	**28.7**	16.1
Remeasurements – return on assets	**6.5**	(310.7)
Contributions by employer	**8.1**	10.8
Administrative expenses	**(0.2)**	(0.3)
Benefits paid	**(34.3)**	(33.2)
At 31 December	**596.1**	**587.3**

Expense recognised in the income statement

	2023 £m	2022 £m
Administrative expenses paid by the pension scheme	**(0.2)**	(0.3)
Administrative expenses paid directly by the Group	**(1.8)**	(1.2)
Interest income on the net assets of the defined benefit pension scheme	**3.2**	1.3
	1.2	**(0.2)**

Fair value of scheme assets

	2023 £m	2022 £m
Global equities	**99.5**	109.8
Multi-asset growth funds	**65.9**	56.1
Multi-credit fund	**96.6**	110.9
LDI plus collateral	**323.8**	307.2
Cash	**10.3**	3.3
	596.1	**587.3**

Principal actuarial assumptions (expressed as weighted averages)

	2023 %	2022 %
Discount rate	**4.75**	5.00
Future pension increases	**2.90**	2.90
Inflation assumption	**3.05**	3.10

Weighted average life expectancies from age 65 as per mortality tables used to determine benefits at 31 December 2023 and 31 December 2022 are:

	2023		2022	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	**22.0**	**23.8**	21.9	23.9
Non-retirees currently aged 45	**22.9**	**25.1**	22.9	25.1

The discount rate, inflation and pension increase and mortality assumptions have a significant effect on the amounts reported. Changes in these assumptions would have the following effects on the defined benefit scheme:

	Pension liability £m	Pension cost £m
Increasing the discount rate by 0.25%, decreases pension liability and increases pension income/reduces pension cost by	**15.8**	**0.8**
Decreasing inflation by 0.25% (which decreases pensions increases), decreases pension liability and increases pension income/reduces pension cost by	**14.0**	**0.7**
Increasing life expectancy by one year, increases pension liability and reduces pension income/increases pension cost by	**19.2**	**0.9**

As highlighted in the table above, the defined benefit scheme exposes the Group to actuarial risks such as longevity, interest rate, inflation and investment risks. The LDI portfolio is designed to respond to changes in gilt yields in a similar way to a fixed proportion of the liabilities. With the LDI portfolio, if gilt yields fall, the value of the investments will rise to help partially match the increase in the trustee valuation of the liabilities arising from a fall in the gilt yield based discount rate. Similarly, if gilt yields rise, the value of the matching asset portfolio will fall, as will the valuation of the liabilities because of an increase in the discount rate. The leverage within the LDI portfolio means the equivalent of 95% of the value of the assets is sensitive to changes in interest rates and inflation and this mitigates the equivalent movement in the liabilities of the scheme as a whole. In 2022, long-term government bond yields increased significantly which meant that the value of the LDI portfolio fell but the value of the liabilities also fell by a similar amount.

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2022. In June 2023, the valuation and updated deficit recovery plan were agreed with the Scheme Trustee resulting in cash contributions of £3.3m for each year commencing 1 July 2023 (increasing annually with inflation) until the deficit is cleared, which would be in 2027, on the basis of the assumptions made in the 2022 valuation and agreed recovery plan. This replaces the previous contribution plan to the Scheme, which from April 2023 had increased to an annual payment of £11.98m paid in monthly instalments.

In addition, as previously implemented, the Group will continue to make an additional contribution so that the total deficit contributions match the total dividend amount paid by the Company each year. Any additional payments in this regard would have the effect of reducing the recovery period in the agreed plan. The Group will also pay the expenses of administration in the next financial year.

Any surplus of deficit contributions to the Costain Pension Scheme would be recoverable by way of a refund, as the Group has the unconditional right to any surplus once all the obligations of the Scheme have been settled. Accordingly, the Group does not expect to have to make provision for these additional contributions arising from this agreement in future financial statements.

In June 2023, the High Court judged in the Virgin Media vs NTL Pension Trustee case that certain amendments made to the NTL Pension Plan were invalid because the scheme’s actuary had not provided the necessary confirmations ('Section 37 Certificates'). If upheld, the High Court’s decision could have wider ranging implications, affecting other schemes (such as the Costain Pension Scheme) that were contracted-out on a salary-related basis, and made amendments between April 1997 and April 2016.

There is still further uncertainty with a Court of Appeal hearing for the case set for June 2024 as well as the potential for overriding government legislation to be introduced. As a result the Company and the Trustee of the Costain Pension Scheme cannot at this stage be certain of the potential implications (if any). The Company and the Trustee of the Costain Pension Scheme will continue to seek legal advice on the matter and act accordingly as the situation evolves.

Defined contribution schemes

Two defined contribution pensions are operated. The total expense relating to these plans was £12.6m (FY 22: £11.7m).

13. SHARE CAPITAL

	2023		2022	
	Number (millions)	**Nominal value £m**	**Number (millions)**	**Nominal value £m**
Issued share capital				
Shares in issue at beginning of year - ordinary shares of 50p each, fully paid	**275.1**	**137.5**	275.0	137.5
Issued in year (see below)	**1.6**	**0.8**	0.1	-
Shares in issue at end of year - ordinary shares of 50p each, fully paid	**276.7**	**138.3**	**275.1**	**137.5**

The Company's issued share capital comprised 276,718,885 ordinary shares of 50 pence each as at 31 December 2023 (2022: 275,084,741 ordinary shares).

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

14. PRIOR PERIOD RESTATEMENT

IFRS 16 – leases

Due to a mathematical error in the model used to calculate the IFRS 16 right-of-use assets' cost and lease liabilities on initial recognition, the cost of right-of-use assets and the lease liabilities reported at 31 December 2022 as reported in the 2022 annual report and accounts were both understated by £5.4m. There is no material impact on the profit and loss account or the statement of cash flows from this error and the impact of the restatement is as shown in the table below. There was also no material impact at the opening balance sheet date of the earliest period presented, being 1 January 2022.

	As reported 2022 £m	**As restated 2022 £m**
Right-of-use assets	**25.3**	30.7
Lease liabilities – current	**9.1**	11.0
Lease liabilities – non-current	**15.0**	18.5

15. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date.