



14 MARCH 2023

COSTAIN GROUP PLC
(“Costain”, the “Group”, or the “Company”)
RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2022

Strong financial performance in 2022

- Reported and adjusted¹ revenue growth in 2022 across the Group, up 25.2% and 20.6% respectively year-on-year.
- Reported operating profit of £34.9m (FY21: £9.5m loss) and adjusted operating profit¹ growth of 20.6% to £36.3m (FY21: £30.1m).
- Strong balance sheet:
 - Free cash flow² of £72.9m (FY21: £53.1m) mainly reflecting positive working capital.
 - Net cash at year³ end FY22 of £123.8m (FY21: £119.4m), ahead of market expectations.
- High quality secured workload reflecting five-year programme cycles:
 - Order book of £2.8bn (FY21: £3.4bn), and
 - Preferred bidder book of £1.6bn (FY21: £0.9bn).
- Margin milestones – adjusted operating margin run-rate of 3.5% during the course of FY24 and 4.5% during the course of FY25.

Financial summary

£m	FY22 adjusted ¹	FY22 adjustments ¹	FY22 reported	FY21 adjusted ¹	FY21 reported	Adjusted ¹ change
Revenue	1,421.4	-	1,421.4	1,178.6	1,135.2	20.6%
Operating profit	36.3	(1.4)	34.9	30.1	(9.5)	20.6%
Operating margin	2.6%	(0.1)%	2.5%	2.6%	(0.8)%	-
Profit before tax	34.2	(1.4)	32.8	26.3	(13.3)	30.0%
Basic EPS	9.9p	(0.5)p	9.4p	9.6p	(2.1)p	3.1%
Dividend per share	-	-	-	-	-	-
Adjusted free cash flow ²	72.9			53.1		37.3%
Net cash balance ³			123.8		119.4	

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

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

3. Net Cash balance is cash and cash equivalents in FY22 and is cash and cash equivalents less interest-bearing borrowings (excluding leases under IFRS16 and net of unamortised arrangement fees of £0.6m) in FY21.

Alex Vaughan, Chief Executive Officer, commented:

“Our performance in 2022 delivered strong growth in revenue and operating profits, with significant free cash flow, ending the year with a net cash position of £123.8m. I am pleased that we have grown our core complex programme delivery revenue and further strengthened our consultancy market position. Consequently, we are seeing good opportunities emerge in our chosen sectors, at margins we aspire to.

“Costain has effectively negotiated the challenges of material availability and inflation, as well as delays to some contract awards, delivering a robust operational performance. We expect to increase margins as we enact further operational improvements in the business during 2023 and beyond, and as we continue to grow the scale of our consultancy services.

“While we are mindful of the macro-economic backdrop, the quality and nature of our secured and preferred bidder work gives us good visibility on future revenue and we remain confident in the Group’s strategy and long-term prospects.”

FY 22 highlights

- **Adjusted¹ revenue up 20.6%** and reported revenue increase of 25.2%.
- **Growth in profitability** with adjusted operating profit¹ up 20.6% to £36.3m (FY21: £30.1m). Adjusted operating margin was unchanged at 2.6% (FY21: 2.6%), as volume increases and an improved mix and operational improvements were offset by inflationary impacts, targeted up-front investment in our consultancy capability, and increased bid activity on a series of major opportunities, primarily in Transportation. Our H2 22 adjusted operating margin was 3.0% (H2 21: 3.0%), an increase on 2.1% in H1 22 (H1 21: 2.1%).
- **Strong adjusted free cash flow² in FY22** of £72.9m reflected continued enhanced working capital management which benefitted from cash collection timings prior to year-end, and operating profit growth. The year-end net cash position of £123.8m includes the previously disclosed payment of £43.4m relating to the Peterborough & Huntingdon contract in February 2022.

Operating performance

- **Health & Safety performance.** Our people are our principal asset, and their safety remains our number one priority. As previously reported, in July, the Group experienced a fatality on one of its rail contracts, and following our investigation, to prevent a recurrence we are implementing a number of recommendations across our business including changes to current industry practice. Our LTIR rate was 0.09 (FY21: 0.15) with an Accident Frequency Rate of 0.05 (FY21: 0.05).
- **Transportation revenue** strong growth in FY22 in Road and Rail including HS2, with £746m of revenue secured for FY23, reflecting our major complex programme delivery contracts in Road, Rail, and Integrated Transport. In FY22 we were appointed as a delivery assurance partner for the A303 road upgrade, design partner to TfL on several schemes, solution partner to Heathrow, and construction partner on the A66 highway scheme.

- **Natural Resources significantly improved performance** reflecting growth in Water and in both consultancy-led markets of Energy and Defence. We saw strong margin uplift due mainly to operational improvements.
 - **Good visibility for FY23** with more than £1.0bn of revenue already secured³ for 2023 at year-end, representing around 80% of expected revenue, and a good pipeline of growth expected from secured and preferred bidder frameworks.
 - **High quality order and preferred bidder book³ position** total of £4.4bn (FY21: £4.3bn)
 - A high-quality order book of £2.8bn at end of FY22 (FY21: £3.4bn), reflecting mainly market cycles, risk management of contract bidding and the timing of major contract bids with awards expected in FY23.
 - Preferred bidder book of £1.6bn (FY21: £0.9bn), reflecting bids and contracts mainly in Road, Water and Integrated Transport, including Heathrow H7 and the A66.
1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.
 2. Free cash flow is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.
 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.

Additional business information

	FY22	FY21	Change
Business metrics			
Order book ¹ at 31 December (£bn)	2.8	3.4	-18%
Preferred order book ¹ at 31 December (£bn)	1.6	0.9	78%
Revenue secured ² for following year (£m)	1,004	1,034	-3%
Lost time injury rate (LTIR)	0.09	0.15	-40%
Absolute GHG emissions (scope 1-3) tCO ₂ e	36,283	42,722	-15%

1. See page 6 'Business model resilience and strategic positioning benefits' for order book and preferred book details and definitions.

Enquiries

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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 14 March 2023.

Please go to <https://stream.brrmedia.co.uk/broadcast/63ca6b44777efd4a8b512438> to register for the event.

Board changes

Tony Quinlan assumed the additional responsibilities of senior independent director on 12 January 2022 following Alison Wood stepping down from the Board on 28 January 2022. Jacqueline de Rojas became Remuneration Committee chair on an interim basis from 12 January 2022 to 5 May 2022 when Fiona MacAulay became chair of the Committee having joined the Board on 6 April 2022.

On 9 March 2022, Costain announced that Paul Golby had decided to step down as chair and non-executive director and, as announced on 27 September 2022, Kate Rock joined the Board as an independent non-executive director and chair designate on 1 November 2022. Kate succeeded Paul as chair of the Board and chair of the Nomination Committee on 1 December 2022 when Paul stepped down from the Board.

Use of alternative performance measures

Throughout this release we use a number of ‘adjusted’ measures to provide users with a clearer picture of the underlying performance of the business. To aid understanding of the underlying and overall performance of the Group, certain amounts that the Board considers to be material or non-recurring in size or nature, or related to the accounting treatment of acquisitions, are adjusted because they are not long term in nature and will not reflect the long-term performance of the Group. 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 26 to 36.

GROUP TRADING PERFORMANCE

A Strong Financial Performance

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

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

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

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

Adjustments to reported items

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

Cashflow and liquidity

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

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

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

Business model resilience

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

Our order book stood at £2.8bn at the end of FY22 (FY21: £3.4bn). This reduction reflected the timing of major contract bids, our customers' investment programmes, maintaining discipline in contract selection and the shorter lead time of consulting and digital work. The order book evolves as contracts progress and as new contracts are added at periods aligned to our customers' strategic procurement windows which are typically every five years, therefore it does not provide a complete picture of potential future revenue expectations.

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

We note that some of our framework and consulting revenue is not recorded in our order book, or preferred bidder book. We have more than £1bn of secured revenue for FY23 at year end, representing around 80% of revenue.

The Transport, Water, Energy and Defence markets continue to offer opportunities for the Group. For example, we expect Water investment to double during the next regulatory period. Headwinds are being experienced with delays to the timing of some contract awards. We have good momentum going into FY23 and are making improvements to our operational performance and strategic priorities and remain confident of managing these headwinds.

The assessment and management of risk and uncertainty is central to our culture, business processes and 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), and management oversight of forecasts, and cross-disciplinary contract review meetings on all projects.
- 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 year end FY22, our order book does not include any fixed-price construction contracts.

Capital allocation

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

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

Dividends

During the last two years, the Group has made very significant progress in its operating cash generation, demonstrated by our strong year end cash position and operating cash flow in FY22.

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

Outlook

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

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

We expect to increase our net cash position in FY23, building on what was a very positive year for cash in FY22. As a result of the successful implementation of our strategy and ongoing operational improvements, benefits from our Transformation programme and our revenue mix expectations, we expect to deliver an adjusted operating margin run-rate of 3.5% during the course of FY24 and 4.5% during the course of FY25; in line with our ambition to deliver margins in excess of 5%. We remain confident in the Group's strategy and longer-term prospects.

STRATEGY UPDATE

In order to meet the UK's key critical needs, there is more than £600bn of infrastructure investment planned by 2030, underpinned by legislative and regulatory commitments, as the government and private customers address today's mega trends. These include climate change/climate resilience and the net zero imperative; resource, environmental and economic resilience; addressing inequality and low levels of regional and national growth; and the need for infrastructure transformation to support affordability and investment growth plans.

We are strategically positioned in our four chosen markets of Transport, Water, Energy and Defence, where we believe long-term strategic investment will be prioritised and will provide for a diversified and resilient business. Our market focus, combined with our differentiated offering, positions the business strongly to benefit from our customers' long-term investment plans, providing significant opportunities for growth in profitability and margins.

We have specifically chosen to work with those customers who wish to partner with us to help them shape, create and deliver their business plan commitments and investment programmes, and navigate the challenges facing their businesses. Our unique expertise and focus on our key sectors enable us to understand the specific needs of our customers across their strategic, operational and asset creation requirements. With our broad service offering, we can service more of the market and are creating greater competitive advantage. We work as construction, consulting and digital infrastructure partners, solving problems and delivering innovative engineered solutions. Our vision is to create connected, sustainable infrastructure to help people and the planet thrive.

We are focused on three strategic priorities to drive our strategic ambition.

Performance

Key measures of our performance include:

- Strong financial performance.
- Business resilience.

Strong financial performance

During FY22, we continued to improve our capabilities and our strong risk management processes on contracts, delivering a robust operational performance. In addition, we have secured further opportunities with our customers, demonstrating our strategic progress.

Our strategy is delivering a transformation in the business in terms of assured delivery, lower risk contracts in our orderbook, and a broader business mix; and our ambition remains to deliver improving long-term operating margins.

Our pathway towards higher margins, as we exit H2 22 at 3.0% adjusted operating margin, is to deliver:

- An adjusted operating margin run-rate of 3.5% during the course of FY24, as we increase effectiveness within the business through the implementation of our Transformation plan, the implementation of our Operating Excellence Model (OEM), growth of consultancy services and increased effectiveness in procurement and ongoing control of operating costs.
- An adjusted operating margin run-rate of 4.5% during the course of FY25 to be reached by improving margins within complex programme delivery (construction contracts), further efficiencies from our Transformation plan, 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% and to play a role as a digital partner improving business performance, as investment in this area increases.

We expect that central costs will be held around 0.8% to 0.9% of revenue during FY23 to FY25 and we expect divisional margins to increase during the period to achieve our Group target. We continue to monitor the impact of inflationary pressures on FY23 revenue and costs.

Business Resilience

During FY22, we have:

- Continued to embed our risk controls in securing new business (contract selection, independent risk review and enhanced legal process). As a result, we have managed the risk and return criteria of contracts to meet our requirements and chose not to bid on a small number of opportunities during the year.
- Enhanced operational contract delivery via an OEM, comprehensive financial reviews, and senior management ownership.
- Further grown our delivery partner consultancy roles building on our current positions with AWE, Babcock, Cadent and National Highways, and Heathrow, which is a new customer, where we will work for Heathrow as solution delivery partner providing construction, consulting and digital capabilities over its next regulatory period.
- Grown our energy operations, including the award of the bp net zero project for carbon capture and storage, Industrial Cluster footprint growth, and new framework awards for other major energy customers.
- Broadened our design services, including the award of the TfL Piccadilly line improvements and water process solutions.
- Been appointed in a Costain/Mott MacDonald joint venture by National Highways as Delivery Assurance Partner for the A303 Stonehenge Improvements Scheme, our fifth delivery partner major consultancy commission.

People

Safety, diversity and inclusion, wellbeing and social impact are key concerns for the Group.

During FY22:

- Our Accident Frequency Rate in FY22 was 0.05 (FY21: 0.05) alongside a Lost Time Injury Frequency Rate of 0.09 (FY21: 0.15).
- In September 2022, we hosted our National Inclusion Week as we continue to develop a more inclusive culture.
- In 2022, we ran a Best Companies employee engagement survey, and we were recognised by Best Companies as a very good company to work for.
- We have also recognised that the cost of living is significantly affecting many of our people and have taken several actions to give as much support as possible, including one-off payments, an employee discount scheme, a money management app and a financial education programme. Our response to the cost-of-living crisis will be for the long-term and we are continuously reviewing the support we can offer.
- Through our Employee Forums and wider stakeholder network, we have refreshed our Values and linked them to core behaviours that will enhance the delivery of our strategy. Our core Values are Integrity, Customer Focus, Safety & Wellbeing and Environmental & Social Responsibility. Our core behaviours are to be curious, collaborative, courageous and caring.

Our people are our principal asset, and their safety remains our number one priority. It was deeply saddening to report in July that the company experienced a fatality on one of its rail contracts. Following our investigation, to prevent a recurrence we are implementing a number of recommendations across our business, including changes to current industry practice.

Planet

Delivering our climate change action plan remains our highest environmental priority, with the Group focused on reducing operational emissions in line with PAS 2080 and working with designers to increase to scale the use of transitional materials. These initiatives will be essential elements in Costain meeting our objective to be net zero carbon by 2035. In 2022 we submitted our climate change action plan to the Science Based Target initiative (SBTi) and we await the outcome of our application.

We continue to implement our climate change action plan, while also working with our customers on a wide range of projects to enable them to reach their Environmental, Social and Governance (ESG) targets, using a broad range of technologies. These include the drive towards using hydrogen and reducing the use of carbon in infrastructure.

During FY22:

- All relevant contracts now have a carbon baseline target and implementation plan on how they will achieve their target in line with PAS 2080.
- We continue to improve climate and carbon literacy of our broader leadership team, with colleagues completing our bespoke in-house training. We plan to increase training completion

to all our identified colleagues, ensuring we have the necessary skills and literacy to drive our journey to net zero carbon.

- In 2022, HS2's site Canterbury Road Vent Shaft in South Kilburn, became the first diesel-free site, while the Euston Approaches and Victoria Road Crossover Box sites also achieved diesel-free status. This led to the project being awarded the gold standard by the Supply Chain Sustainability School.
- We have trialled a hydrogen-powered generator on the Preston Western Distributor Road project's M55 compound. This trial is the first of its kind for Lancashire County Council, and together with hydrogen start-up Hydrologiq, we demonstrated carbon savings from onsite operations of between 70% and close to 100%, when powered by grey and green hydrogen respectively.
- Costain is working with Dwr Cymru Welsh Water, Wales and West Utilities, and food and drink manufacturer Princes Group on a feasibility study to produce hydrogen from biogas from the Cardiff East Wastewater Treatment Works that will fuel boilers to provide heat for fruit juice pasteurisation.

We have a commitment to environmental improvements such as Get Nature Positive, which drives biodiversity net gains. Our proactive position in our four chosen markets is a catalyst for change, with green energy solutions such as hydrogen and carbon capture, in the area of transport (rail and electric highways), and in new water technologies.

DIVISIONAL REVIEW

TRANSPORTATION

£m	FY22 adjusted ¹	FY22 reported	FY21 adjusted ¹	FY21 reported	Adjusted ¹ change
<i>Road</i>	498.7	498.7	426.3	426.3	17.0%
<i>Rail</i>	480.8	480.8	356.4	356.4	34.9%
<i>Integrated transport</i>	66.8	66.8	81.5	81.5	-18.1%
Total revenue	1,046.3	1,046.3	864.2	864.2	21.1%
Operating profit/(loss)	31.5	30.1	41.4	49.8	-23.9%
Operating margin	3.0%	2.9%	4.8%	5.8%	-1.8pp

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

- Reported and adjusted revenue of £1,046.3m was up 21.1% against prior year as a result of increased project volumes and inflation.
- Adjusted operating margin was 3.0%, down 1.8 percentage points compared to prior year, reflecting the impact of inflation, increased bid activity on a series of major opportunities during the year, and targeted up-front investment in our digital capability.
- Contract wins of £427.5m secured in the year. FY23 secured revenue is £746.0m.

Our revenue growth was driven mainly by complex scheme delivery for High Speed 2 (HS2) and National Highways, which currently represent the majority of Transportation revenue. In FY21, the division outperformed our expectations and in FY22, we have experienced more typical returns, with inflation having a distorting impact lowering margins on a small number of contracts.

Road reported and adjusted revenue increased by 17.0% in FY22 over the prior year driven by increased schemes delivery and the impact of inflation on delivery costs. As a strategic partner for National Highways, we support their key investment programmes through the Regional Delivery Partnerships (RDP) major projects framework, and the Smart Motorways Programme (SMP) Alliance delivering smart motorway upgrades.

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

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

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

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

December 2022 saw the Costain Skanska joint venture (JV) successfully complete its seven-year programme of enabling works for the HS2 route from Euston to West Ruislip. The follow-on contract with the Skanska Costain STRABAG JV to construct the same section of route in twin bore tunnel was fully mobilised during 2022 and launched the first two of seven tunnel boring machines (TBMs). The completion of rail heads at Willesden and at Northolt means the TBMs are fully serviced by rail, removing thousands of heavy lorry journeys from local roads. Our project-wide carbon reduction initiatives have set the path to reduce CO₂ emissions by around 40% and led to the first fully diesel-free sites on the HS2 programme.

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

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

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

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

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

During the year, we announced that we are a delivery partner to Heathrow Airport, providing construction, consulting and digital capabilities to help deliver its new investment programme. We will work with Heathrow throughout project lifecycles to shape, create and deliver asset renewal and construction projects through the Terminal Asset Renewal Partner and Major Project Partner lots of the H7 framework. The first commission is the design phase of the upgrade of baggage handling facilities and systems at Terminal 2, via the Major Project Partner lot. We also have secured work for ZEFI (zero emissions flight infrastructure) and with other aviation customers at Stansted, Gatwick and Manchester airports.

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

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

NATURAL RESOURCES

£m	FY22 adjusted ¹	FY22 reported	FY21 adjusted ¹	FY21 reported	Adjusted ¹ change
Water	238.2	238.2	200.0	200.0	19.1%
Energy	79.0	79.0	72.0	28.6	9.7%
Defence	57.9	57.9	42.4	42.4	36.6%
Total revenue	375.1	375.1	314.4	271.0	19.3%
Operating profit/(loss)	15.0	19.5	(2.6)	(50.6)	N/A
Operating margin	4.0%	5.2%	-0.8%	-18.7%	4.8pp

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

- Adjusted revenue was £375.1m, up 19.3% driven by increased activity levels in all three sectors and particularly across AMP7 water programmes.
- Adjusted operating profit was £15.0m, up £17.6m, and adjusted operating margin was 4.0%, 4.8 percentage points higher compared to prior year, due to an improved operational performance as well as revenue growth, in particular from new higher margin contracts within Energy, partially offset by targeted up-front investment in our consultancy and digital capabilities, and increased bid activity.
- Contract wins of £69.1m secured in the year. FY23 secured revenue is £257.0m.
- As reported in FY21, we recognised a provision in respect of one water contract. There was no adverse net impact to the income statement in FY22 and no material net impact is expected going forward. See note 2 for further details.

Water delivers a broad range of services to improve asset and operational resilience across the water sector, together with decarbonisation capabilities. Reported and adjusted revenue was up £38.2m, 19.1% on the prior year with good visibility across our five-year water AMP7 programmes through to 2025. We have made good progress in delivering on Tideway where, in a joint venture, we are responsible for the eastern section.

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

Alongside core AMP8 requirements, we continue to engage with customers to understand their potential needs for new value-added solutions for AMP8 to meet their ESG requirements and are in an

early stage of working with customers regarding the Strategic Water Resource Options programme, which will run alongside AMP8.

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

We have seen growth in project delivery and opportunities in supporting our long-standing petrochemical customers in decarbonising their midstream operations through large scale energy switching engineering projects, including hydrogen generation and transportation. As part of our regional focus, which includes the delivery of the South Wales Industrial Cluster, we won an energy transition project, H2Juice, with Dwr Cymru Welsh Water, Wales and West Utilities which uses hydrogen to decarbonise carbon-intensive industries and was funded by BEIS.

Defence supports several public and private sector organisations, in a variety of customer-side, delivery partnership roles, across the UK defence nuclear enterprise. Reported and adjusted revenue increased by £15.5m, 36.6% on the prior year, driven by a growth in demand for support within our current delivery partnership roles, with Babcock and the Atomic Weapons Establishment (AWE). In both contracts, we work alongside the customer, as a construction delivery partner, delivering major infrastructure projects, providing expertise in design and construction management, and the coordination of the work of several subcontractors.

We also provide ongoing support to the Defence Nuclear Organisation (DNO), helping it develop portfolio management capabilities and developing its programme definition for future infrastructure requirements. We provide customer-side support to BAE Systems, in the form of portfolio management expertise on the Dreadnought programme, to replace the Royal Navy's Trident missile Vanguard Submarines. We are currently well positioned across the defence nuclear enterprise, supporting the UK's Continuous at Sea Deterrent (CASD), and our ambition is to be the delivery partner of choice for the Ministry of Defence's (MoD) strategic infrastructure needs.

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

FINANCIAL REVIEW

Divisional adjusted to reported reconciliation

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

Adjusting items

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

Net financial expense

Net finance expense amounted to £2.1m (FY21: £3.8m). The interest payable on bank overdrafts, loans and other similar charges was £2.7m (FY21: £3.0m) and the interest income from bank deposits amounted to £0.5m (FY21: £0.1m). In addition, the net finance expense includes the interest income on the net assets of the pension scheme of £1.3m (FY21: £nil) and the interest expense on lease liabilities of £1.2m (FY21: £0.9m) under IFRS16.

Tax

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

remain close to the statutory tax rate of 19% until April 2023, and 25% subsequently, giving an FY23 effective tax rate of close to 23.5%.

Cashflow

The Group generated a £72.9m free cash inflow for the year (FY21: £53.1m).

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

The Group had a positive net cash balance of £123.8m as of 31 December 2022 (HY22: £95.9m, FY21: £119.4m) comprising Costain cash balances of £67.3m (HY22: £76.5m, FY21: £101.3m), cash held by joint operations of £56.5m (HY22: £55.4m, FY21: £58.1m) and borrowings of £nil (HY22: £36.0m excluding arrangement fees of £0.2m, FY21: £40.0m excluding arrangement fees of £0.6m). During the year, the Group's average month-end net cash balance was £99.2m (HY21: £91.9m, FY21: £107.0m).

£m	FY22	FY21
Cash and cash equivalents at the beginning of year	159.4	150.9
Net cash flow	(35.6)	8.5
Cash and cash equivalents at the end of year	123.8	159.4
Borrowings (excluding leases and unamortised arrangement fee of £0.6m in FY21)	-	(40.0)
Net cash	123.8	119.4

We remain in a positive net cash position, following the final settlement payment of £43.4m made during the first quarter of the financial year in respect of the Peterborough & Huntingdon contract.

Financial resources

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

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

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

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

Pensions

As at 31 December 2022, the Group’s pension scheme surplus in accordance with IAS 19, was £60.2m (HY22: £86.2m surplus, FY21: £67.1m surplus).

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

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

DIRECTORS REPORT

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2022, the directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group 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

14 March 2023

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 2022

£m	Note	2022	2021
Revenue	4	1,421.4	1,135.2
Cost of Sales		(1,328.7)	(1,095.0)
Gross profit		92.7	40.2
Administrative expenses		(57.8)	(49.7)
Operating profit/(loss)		34.9	(9.5)
Share of results of joint ventures and associates		-	-
Profit/(loss) from operations	4	34.9	(9.5)
Finance income	5	1.8	0.1
Finance expense	5	(3.9)	(3.9)
Net finance expense		(2.1)	(3.8)
Profit/(loss) before tax		32.8	(13.3)
Taxation	6	(6.9)	7.5
Profit/(loss) for the year attributable to equity holders of the parent		25.9	(5.8)
Earnings/(loss) per share			
Basic	7	9.4p	(2.1)p
Diluted	7	9.4p	(2.1)p

GROUP STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

For the year ended 31 December 2022

£m	2022	2021
Profit/(loss) for the year	25.9	(5.8)
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
Effective portion of changes in fair value during year	-	0.3
Total items that may be reclassified subsequently to profit or loss	-	0.3
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset	(18.7)	62.7
Tax recognised on remeasurement of retirement benefit asset	3.9	(15.6)
Total items that will not be reclassified to profit or loss	(14.8)	47.1
Other comprehensive (expense)/income for the year	(14.8)	47.4
Total comprehensive income for the year attributable to equity holders of the parent	11.1	41.6

GROUP BALANCE SHEET

As at 31 December 2022

£m	Note	2022	2021
Assets			
Non-current assets			
Intangible assets	9	52.2	52.5
Property, plant and equipment	10	26.6	32.0
Equity accounted investments		0.4	0.4
Retirement benefit asset		60.2	67.1
Trade and other receivables		3.5	5.5
Insurance recovery asset		4.0	-
Deferred tax		14.5	15.4
Total non-current assets		161.4	172.9
Current assets			
Inventories		0.2	0.3
Trade and other receivables		187.4	199.6
Insurance recovery asset		9.4	-
Taxation		-	0.2
Cash and cash equivalents	11	123.8	159.4
Total current assets		320.8	359.5
Total assets		482.2	532.4
Liabilities			
Non-current liabilities			
Other payables		1.1	1.8
Interest bearing loans and borrowings		-	32.0
Lease liabilities		15.0	18.2
Provisions for other liabilities and charges		3.7	-
Total non-current liabilities		19.8	52.0
Current liabilities			
Trade and other payables		232.5	215.1
Taxation		0.2	-
Interest bearing loans and borrowings		-	7.4
Lease liabilities		9.1	8.6
Provisions for other liabilities and charges		9.4	50.3
Total current liabilities		251.2	281.4
Total liabilities		271.0	333.4
Net assets		211.2	199.0
Equity			
Share capital	13	137.5	137.5
Share premium		16.4	16.4
Translation reserve		0.6	0.6
Hedging reserve		-	-
Retained earnings		56.7	44.5
Total equity		211.2	199.0

GROUP STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

£m	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total equity
At 1 January 2021	137.5	16.4	0.6	(0.3)	2.3	156.5
Loss for the year	-	-	-	-	(5.8)	(5.8)
Other comprehensive income	-	-	-	0.3	47.1	47.4
Shares purchased to satisfy employee share schemes	-	-	-	-	(0.2)	(0.2)
Equity-settled share-based payments	-	-	-	-	1.1	1.1
At 31 December 2021	137.5	16.4	0.6	-	44.5	199.0
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

GROUP CASH FLOW STATEMENT

For the year ended 31 December 2022

£m	Note	2022	2021
Cash flows from/(used by) operating activities			
Profit/(loss) for the year		25.9	(5.8)
Adjustments for:			
Share of results of joint ventures and associates		-	-
Finance income	5	(1.8)	(0.1)
Finance expense	5	3.9	3.9
Taxation	6	6.9	(7.5)
Profit on disposals of property, plant and equipment		(1.8)	-
Impairment of investment in joint venture		6.5	-
Depreciation of property, plant and equipment	10	11.3	12.9
Amortisation and impairment of intangible assets	9	0.6	1.1
Shares purchased to satisfy employee share schemes		-	(0.2)
Share-based payments expense		1.1	1.1
Cash from operations before changes in working capital and provisions		52.6	5.4
Decrease in inventories		0.1	0.3
(Increase)/decrease in receivables		(2.9)	17.7
Increase/(decrease) in payables		15.9	(29.9)
Movement in provisions and employee benefits		(49.0)	39.7
Cash from operations		16.7	33.2
Interest received		1.8	0.1
Interest paid		(3.9)	(3.9)
Taxation (paid)/received		(0.5)	0.1
Net cash from operating activities		14.1	29.5
Cash flows from/(used by) investing activities			
Additions to property, plant and equipment		(0.2)	(0.7)
Additions to intangible assets		(0.3)	(1.5)
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		(1.3)	(2.2)
Cash flows from/(used by) financing activities			
Repayments of lease liabilities		(8.4)	(10.8)
Repayment of loans		(40.0)	(8.0)
Net cash used by financing activities		(48.4)	(18.8)
Net (decrease)/increase in cash and cash equivalents		(35.6)	8.5
Cash and cash equivalents at beginning of the year	11	159.4	150.9
Cash and cash equivalents at end of the year	11	123.8	159.4

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 2022 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. In preparing the financial statements of the Group we performed an assessment of the impact of climate change, with reference to the disclosures made in the Strategic report. There has been no material impact on the financial statements for the current year from the Group's assessment of the impact of climate change, including estimates and judgements made, specifically in relation to long-term contract accounting.

A duly appointed and authorised committee of the Board of directors approved the preliminary announcement on 14 March 2023. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2022 and 2021 but is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered in due course.

The auditor has reported on these accounts. Their report for 2022 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 2021 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 November 2022, the Group successfully concluded its negotiations with its bank and surety facility providers to secure a one year "amend and extend" of its borrowing facilities. These borrowing facilities give the Group access to an RCF cash drawdown component of £125.0m with a maturity date of 24 September 2024.

These facilities have a leverage covenant of net debt/EBITDA ≤ 1.5 times, an interest covenant of 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 £50.0m. These financial covenants are tested quarterly. As at 31 December 2022, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 16.1 times. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its £30m 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 2022, the directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group and the Company have adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis in the preparation of the financial statements.

In assessing the going concern assumption, the Board reviewed the Group's base case plans for the period to 30 June 2024, being the first covenant deadline more than 12 months after the approval of the financial statements. The directors have assumed that the current RCF remains in place with the same covenant requirements through to its current expiry date, which is beyond the end of the period reviewed for Going Concern purposes. The directors have assessed that the Group will either renew the facility thereafter or agree an alternative source of finance for the subsequent period. The base case assumes delivery of the Board approved strategic and financial plans. As part of the assessment, the Board also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, higher working capital requirements and adverse contract settlements.

Both the base case and severe but plausible forecasts show significant headroom and indicate that the Group will be able to operate within its available banking facilities and covenants throughout this period. Covenants are calculated on a rolling 12-month basis each quarter and therefore for all quarters until Q4 of FY23, and Q1 of FY24, a portion of the EBITDA/EBITA has already been earned, reducing the risk of a potential breach. Taking this into account along with the forecasts reviewed, it is considered that the EBITA/net interest covenant for the rolling 12 months to Q4 of FY23 and Q1 to Q2 of FY24 is the potential limiting factor, given the Group's strong net cash position. The Board concluded that there is sufficient liquidity headroom in the severe but plausible downside scenario, as well as headroom on the committed facilities and on the associated financial covenants.

Alternative performance measures

Income statement presentation - Adjusting items

To aid understanding of the underlying and overall performance of the Group, certain amounts that the Board considers to be material or non-recurring in size or nature or related to the accounting treatment of acquisitions are adjusted because they are not long-term in nature and will not reflect the long-term performance of the Group. Presenting results on this adjusted basis is consistent with the internal reporting presented to the Board.

The directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the directors give consideration, both individually and collectively, as to an item's size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items.

The separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items. The tax impact of the above is shown in note 3 to the financial statements on the taxation line.

Consequently, the Group is disclosing as supplementary information 'Adjusted revenue, Adjusted profit and Adjusted earnings per share' alternative performance measurements. These are reconciled to statutory numbers in note 3 and reported in the presentation of segmental reporting in note 4.

The Group also presents net cash/bank debt as an alternative performance measure. The directors consider that this provides useful information about the Group's liquidity position.

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', the carrying value of goodwill, the assumptions used in the accounting for defined benefit pension schemes under IAS 19 'Employee benefits', the recognition of deferred tax assets in relation to tax losses and the items classified as other items and contract adjustments.

Long-term contracts

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

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

There are four material contracts where management has been required to make significant accounting estimates and, which result in estimate uncertainty, as at 31 December 2022. In relation to these contracts, the Group has included estimated recoveries with a combined value of £12.2m, on the basis that these are considered highly probable not to reverse. However, there are a range of factors which will affect the ultimate outcome once these contracts are finalised. Management considers that the estimation uncertainty in relation to these four contracts ranges from a potential upside of £22.6m to a downside of £12.2m.

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

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

While management believes it has recorded positions that are highly probable not to reverse on the basis of existing facts and circumstances, there are uncertain factors which will impact the final contract outcome and could give rise to material adjustments within the next financial year. Given the inherent complexity and pervasive impact of the various judgements and estimates impacting revenue, cost of

sales and related balance sheet amounts, it is not considered plausible to quantify the impact of taking alternative assessments on each of these judgements.

Rectification provision: Contract in the water sector

In 2021, Costain recognised a provision of £6.2m in respect of the estimated future costs of expected rectification works required at a customer's water treatment facility where the Group had been prime contractor. During 2022, working with designers, insurers and the customer, there is now greater clarity as to the scope and cost of rectification work required, albeit a final solution has yet to be formally agreed with all relevant parties.

As at 31 December 2022, the Group's best estimate of the cost of the single most likely rectification solution is £17.0m, of which costs of £4.8m have been incurred. Accordingly, a provision of £12.2m has been included in the statement of financial position and disclosed in note 20. The work is expected to be concluded in 2024.

Whilst the cost of rectification work is capable of being estimated, a number of assumptions have had to be made in arriving at the cost estimate. This, combined with the fact that the final design solution has not been finalised, results in there being inherent estimation uncertainty in determining the ultimate cost and associated provision. Management considers that the ultimate cost will fall within a range of $\pm 30\%$ of the estimated total cost of £17m.

Costain has engaged with its insurers and received confirmation that insurance cover is available and that all reasonable costs of rectification work that are validly incurred will be met by insurers. Consistent with this, insurers made an interim payment on account during 2022. On this basis, management has made a judgement that the costs of rectification, after deduction of insurers' excess and amounts already received from insurers, will be recovered. Accordingly, an insurance receivable of £13.4m has been recognised in the statement of financial position in accordance with IAS 37 on the basis that recovery is considered virtually certain. There is a cap on insurance but the cap is significantly in excess of the cost estimate. As at 31 December 2021, discussions with insurers were at an early stage and the expected recovery from insurers was not recognised as a receivable on the basis that it could not be considered virtually certain.

Peterborough & Huntingdon

On 24 February 2022, Costain announced that it had reached a final settlement with National Grid regarding the Peterborough & Huntingdon contract. The settlement agreement brought an end to the dispute after the contract was mutually terminated in June 2020 and prevents any further claims under the contract. In 2022, Costain made a full and final payment of £43.4m to National Grid (which was fully provided for in 2021) and recognised a £5.2m insurance recovery. Also see note 3.

Carrying value of goodwill

Assessing the recoverability of the carrying value of goodwill recognised on acquisition requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. These assessments involve estimation and judgement, principally, in respect of the levels of operating margins, growth rates and future cash flows of the cash generating units and also include consideration of the impact of potential sensitivities in respect of those assumptions. The discount rates used to calculate present values and related sensitivities are set out in note 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 and set out in note 3.

3. RECONCILIATION OF REPORTED REVENUE AND OPERATING PROFIT/(LOSS) TO ADJUSTED REVENUE AND OPERATING PROFIT

Adjusted revenue, operating profit and earnings per share are presented as non-GAAP alternative performance measurements. The Board considers the adjusted measures better reflect the underlying trading performance of the Group for the reasons described in note 2.

The profit adjustments represent amounts included in the income statement. The revenue adjustments represent the reversal of the contract asset recorded in the statement of financial position immediately prior to the initial write down and any subsequent adjustment to overall contract revenue.

Peterborough & Huntingdon

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

In 2021, a £43.4m provision was recognised in relation to the full and final settlement agreed with National Grid. Costain made a full and final payment of £43.4m to National Grid in the first quarter of 2022. Related legal and other costs of £4.2m were also incurred and expensed during the period ended 31 December 2021. These costs were recognised as adjusting items and therefore the related credit has also been treated as such.

Other items

During the year, Costain has embarked on a Transformation programme to deliver operational efficiencies. In 2022, the Group incurred £5.0m (2021: £nil) of restructuring costs and £0.7m (2021: £nil) of reorganisation costs.

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

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

In 2022, the Group incurred £nil (2021: £0.4m) amortisation on acquired intangibles as these are now carried at net book value £nil.

In 2021, the Group also recognised a profit of £8.4m on the A465 Heads of the Valley Road contract as a result of lower costs to complete than forecast at the end of 2020 when a write down to the contract asset was recognised.

Year ended 31 December 2022	Adjusted	P&H	Other items	Total
	£m	£m	£m	£m
Revenue before contract adjustments	1,421.4	-	-	1,421.4
Contract adjustments	-	-	-	-
Revenue	1,421.4	-	-	1,421.4
Cost of sales	(1,328.7)	-	-	(1,328.7)
Gross profit	92.7	-	-	92.7
Administrative expenses before other items	(56.4)	-	-	(56.4)
Other items	-	5.2	(6.6)	(1.4)
Administrative expenses	(56.4)	5.2	(6.6)	(57.8)
Operating profit/(loss)	36.3	5.2	(6.6)	34.9
Share of results of joint ventures and associates	-	-	-	-
Profit/(loss) from operations	36.3	5.2	(6.6)	34.9
Net finance expense	(2.1)	-	-	(2.1)
Profit/(loss) before tax	34.2	5.2	(6.6)	32.8
Taxation	(7.0)	(1.0)	1.1	(6.9)
Profit/(loss) for the year attributable to equity holders of the parent	27.2	4.2	(5.5)	25.9
Basic earnings per share	9.9p			9.4p

Year ended 31 December 2021	Adjusted	P&H	A465	Other items	Total
	£m	£m	£m	£m	£m
Revenue before contract adjustments	1,178.6	-	-	-	1,178.6
Contract adjustments	-	(43.4)	-	-	(43.4)
Revenue	1,178.6	(43.4)	-	-	1,135.2
Cost of sales	(1,099.2)	(4.2)	8.4	-	(1,095.0)
Gross profit/(loss)	79.4	(47.6)	8.4	-	40.2
Administrative expenses before other items	(49.3)	-	-	-	(49.3)
Other items	-	-	-	(0.4)	(0.4)
Administrative expenses	(49.3)	-	-	(0.4)	(49.7)
Operating profit/(loss)	30.1	(47.6)	8.4	(0.4)	(9.5)
Share of results of joint ventures and associates	-	-	-	-	-
Profit/(loss) from operations	30.1	(47.6)	8.4	(0.4)	(9.5)
Net finance expense	(3.8)	-	-	-	(3.8)
Profit/(loss) before tax	26.3	(47.6)	8.4	(0.4)	(13.3)
Taxation	0.1	9.0	(1.6)	-	7.5
Profit/(loss) for the year attributable to equity holders of the parent	26.4	(38.6)	6.8	(0.4)	(5.8)
Basic earnings/(loss) per share	9.6p				(2.1)p

4. OPERATING SEGMENTS

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

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

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

2021	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Adjusted revenue	314.4	864.2	-	1,178.6
Contract adjustments	(43.4)	-	-	(43.4)
Total revenue	271.0	864.2	-	1,135.2
Segment profit/(loss)				
Adjusted operating profit	(2.6)	41.4	(8.7)	30.1
Contract adjustments	(47.6)	8.4	-	(39.2)
Operating loss before other items	(50.2)	49.8	(8.7)	(9.1)
Share of results of joint ventures and associates	-	-	-	-
Profit/(loss) from operations before other items	(50.2)	49.8	(8.7)	(9.1)
Other items:				
Amortisation of acquired intangible assets	(0.4)	-	-	(0.4)
Profit/(loss) from operations	(50.6)	49.8	(8.7)	(9.5)
Net finance expense				(3.8)
Loss before tax				(13.3)

5. NET FINANCE EXPENSE

£m	2022	2021
Interest income from bank deposits	0.5	0.1
Interest income on the net assets of the defined benefit pension scheme	1.3	-
Finance income	1.8	0.1
Interest payable on interest bearing bank loans, borrowings and other similar charges	(2.7)	(3.0)
Interest expense on lease liabilities	(1.2)	(0.9)
Finance expense	(3.9)	(3.9)
Net finance expense	(2.1)	(3.8)

Other similar charges includes arrangement and commitment fees payable.

6. TAXATION

£m	2022	2021
On profit/(loss) for the year		
UK corporation tax at 19.0% (2021: 19.0%)	(4.6)	-
Adjustment in respect of prior years	0.3	0.1
Current tax (charge)/credit for the year	(4.3)	0.1
Deferred tax (charge)/credit for the current year	(2.5)	8.4
Adjustment in respect of prior years	(0.1)	(1.0)
Deferred tax (charge)/credit for the year	(2.6)	7.4
Tax (charge)/credit in the consolidated income statement	(6.9)	7.5

£m	2022	2021
Tax reconciliation		
Profit/(loss) before tax	32.8	(13.3)
Taxation at 19.0% (2021: 19.0%)	(6.2)	2.5
Amounts qualifying for tax relief and disallowed expenses	(1.0)	(0.3)
Rate adjustment relating to deferred taxation and overseas profits and losses	0.1	6.2
Adjustments in respect of prior years	0.2	(0.9)
Tax (charge)/credit in the consolidated income statement	(6.9)	7.5

7. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on profit of £25.9m (2021: loss of £5.8m) and the number of shares set out below.

	2022 Number (millions)	2021 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	275.0	274.9
Dilutive potential ordinary shares arising from employee share schemes	1.7	5.1
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	276.7	280.0

8. DIVIDENDS

No dividends were paid or proposed in respect of the year ended 31 December 2022.

9. INTANGIBLE ASSETS

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2021	54.1	15.4	9.7	14.4	93.6
Additions	-	-	-	1.5	1.5
At 31 December 2021	54.1	15.4	9.7	15.9	95.1
At 1 January 2022	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
Accumulated amortisation					
At 1 January 2021	9.0	15.0	9.7	7.8	41.5
Charge in year	-	0.4	-	0.7	1.1
At 31 December 2021	9.0	15.4	9.7	8.5	42.6
At 1 January 2022	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
Net book value					
At 31 December 2022	45.1	-	-	7.1	52.2
At 31 December 2021	45.1	-	-	7.4	52.5
At 1 January 2021	54.1	0.4	-	6.6	52.1

Goodwill has been allocated to the applicable cash generating units of the Transportation segment (£15.5m (2021: £15.5m)) and the Natural Resources segment (£29.6m (2021: £29.6m)).

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

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The rate used to discount the forecast cash flows for both the Transportation and Natural Resources CGUs was 15.5%. In 2021, the discount rates used for the two CGUs were Transportation 13.2% and Natural Resources 14.3%.

The value in use calculations use the Group's four-year cash flow forecasts, which are based on the expected revenues and profitability of each CGU, taking into account the current level of secured and anticipated orders, extrapolated for future years by the expected growth applicable to each CGU, as follows:

	2022	2022	2021	2021
	Transportation	Natural Resources	Transportation	Natural Resources
	%	%	%	%
Growth Rates				
Year 5	1.5	1.5	1.9	1.9
Long-term average	1.5	1.5	1.9	1.9

At 31 December 2022, based on the internal value in use calculations, management concluded that the recoverable value of the Transportation cash generating unit exceeded its carrying amount with substantial headroom.

At 31 December 2022, based on the internal value in use calculations, which included a sensitivity aligned to a 30% reduction in absolute business unit operating profit, management concluded that the recoverable amount of the Natural Resources cash generating unit exceeded its carrying amount, with headroom of £32.1m. The recoverable amount of the Natural Resources goodwill therefore continues to be subject to further sensitivities and changes in the value in use assessment assumptions would have resulted in the following changes:

- An increase in the discount rate of 1.0% (from 15.5% to 16.5% pre-tax), reduces headroom by £7.9m;
- A decrease in the long-term growth rate of 1.0% (from 1.5% to 0.5%), reduces headroom by £5.8m; and
- A further reduction in CGU operating profit by an additional 20%, on top of the 30% reduction already modelled, reduces headroom by £19.3m.

Based on the above sensitivities the directors consider that there is no reasonable possible change in any key assumption that, in isolation, would result in an impairment of goodwill. However, if the sensitivities modelled above were to occur in combination, this would give rise to an impairment.

10. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings £m	Plant & Equipment £m	Right-of-use assets		Total £m
			Land & Buildings £m	Vehicles, plant & equipment £m	
Cost					
At 1 January 2021	0.6	27.0	20.5	30.3	78.4
Additions	-	0.7	1.0	17.0	18.7
Disposals	-	(0.7)	(7.4)	(17.9)	(26.0)
At 31 December 2021	0.6	27.0	14.1	29.4	71.1
At 1 January 2022	0.6	27.0	14.1	29.4	71.1
Additions	-	0.2	0.7	16.1	17.0
Disposals	(0.6)	(2.6)	(1.4)	(14.2)	(18.8)
At 31 December 2022	-	24.6	13.4	31.3	69.3
Accumulated depreciation and impairment					
At 1 January 2021	0.6	19.8	8.4	9.7	38.5
Charge in year	-	2.5	3.3	7.1	12.9
Disposals	-	(0.7)	(5.6)	(6.0)	(12.3)
At 31 December 2021	0.6	21.6	6.1	10.8	39.1
At 1 January 2022	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
Net book value					
At 31 December 2022	-	1.3	5.8	19.5	26.6
At 31 December 2021	-	5.4	8.0	18.6	32.0
At 1 January 2021	-	7.2	12.1	20.6	39.9

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 £56.5m (2021: £58.1m).

	2022 £m	2021 £m
Cash and cash equivalents	123.8	159.4
Borrowings – current	-	(7.4)
Borrowings – non-current	-	(32.0)
Net cash (excluding unamortised arrangement fees)	123.8	120.0
Unamortised arrangement fees	-	(0.6)
Net cash	123.8	119.4

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 £11.9m comprising £13.2m included in operating costs less £1.3m interest income included in net finance expense (2021: £11.7m, comprising £11.7m in operating costs and £nil interest income included in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2022 and this was updated to 31 December 2022 by a qualified independent actuary. At 31 December 2022, there were 2,867 retirees and 2,529 deferred members (2021: 2,875 retirees and 2,629 deferred members). The weighted average duration of the obligations is 11.9 years (2021: 16.3 years).

	2022 £m	2021 £m	2020 £m
Present value of defined benefit obligations	(527.1)	(837.5)	(886.5)
Fair value of scheme assets	587.3	904.6	880.9
Recognised asset/(liability) for defined benefit obligations	60.2	67.1	(5.6)

Movements in present value of defined benefit obligations

	2022 £m	2021 £m
At 1 January	837.5	886.5
Interest cost	14.8	11.7
Remeasurements – demographic assumptions	(0.3)	(5.4)
Remeasurements – financial assumptions	(321.4)	(16.1)
Remeasurements – experience adjustments	29.7	(6.5)
Benefits paid	(33.2)	(32.7)
At 31 December	527.1	837.5

Movements in fair value of scheme assets

	2022 £m	2021 £m
At 1 January	904.6	880.9
Interest income	16.1	11.7
Remeasurements – return on assets	(310.7)	34.6
Contributions by employer	10.8	10.4
Administrative expenses	(0.3)	(0.3)
Benefits paid	(33.2)	(32.7)
At 31 December	587.3	904.6

Expense recognised in the income statement

	2022	2021
	£m	£m
Administrative expenses paid by the pension scheme	(0.3)	(0.3)
Administrative expenses paid directly by the Group	(1.2)	(1.0)
Interest income on the net assets of the defined benefit pension scheme	1.3	-
	(0.2)	(1.3)

Fair value of scheme assets

	2022	2021
	£m	£m
Global equities	109.8	137.2
Multi-asset growth funds	56.1	133.7
Multi-credit fund	110.9	118.1
LDI plus collateral	307.2	494.6
Property	-	4.4
Cash	3.3	16.6
	587.3	904.6

Principal actuarial assumption (expressed as weighted averages)

	2022	2021
	%	%
Discount rate	5.00	1.80
Future pension increases	2.90	3.25
Inflation assumption	3.10	3.40

Weighted average life expectancies from age 65 as per mortality tables used to determine benefits at 31 December 2022 and 31 December 2021 are:

	2022		2021	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	21.9	23.9	22.1	24.0
Non-retirees currently aged 45	22.9	25.1	23.1	25.3

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

	Pension liability	Pension cost
	£m	£m
Increasing the discount rate by 0.25%, decreases pension liability and increases pension income/reduces pension cost by	15.4	0.8
Decreasing inflation by 0.25% (which decreases pensions increases), decreases pension liability and increases pension income/reduces pension cost by	13.5	0.7
Increasing life expectancy by one year, increases pension liability and reduces pension income/increases pension cost by	17.9	0.9

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

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme as at 31 March 2022 was started in 2022. Discussions around the results of the review are currently in progress and the Trustee/Company have until 30 June 2023 to complete the review. The last triennial actuarial review was completed in March 2020 and the valuation and updated deficit recovery plan were agreed with the Scheme Trustee resulting in cash contributions of £10.2m for each year commencing 1 April 2020 (increasing annually with inflation) until the deficit is cleared, which would be in 2029 on the basis of the assumptions made in the 2019 valuation and agreed recovery plan.

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

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

Defined contribution schemes

Two defined contribution pensions are operated. The total expense relating to these plans was £11.7m (2021: £10.4m).

13. SHARE CAPITAL

	2022		2021	
	Number (millions)	Nominal value £m	Number (millions)	Nominal value £m
Issued share capital				
Shares in issue at beginning of year - ordinary shares of 50p each, fully paid	275.0	137.5	275.0	137.5
Issued in year (see below)	0.1	-	-	-
Shares in issue at end of year - ordinary shares of 50p each, fully paid	275.1	137.5	275.0	137.5

The Company's issued share capital comprised 275,084,741 ordinary shares of 50 pence each as at 31 December 2022.

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

14. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date.