

Our business model

We are committed to growing our business in a controlled manner across all our target markets. We deliver this through our business model which enables us to deliver innovative engineering solutions for our clients and their customers.

Our strategy and business model are underpinned by strong leadership and robust processes across finance, risk management and operations, strong governance and very high standards of responsibility.

This approach delivers sustainable growth, allowing us to meet our business goal of delivering value to all our stakeholders.

Our vision...

is to be one of the UK's top engineering solutions providers. We must be the best for technical, innovative and sustainable solutions.

Behaviour...

we are committed to operating our business both sustainably and responsibly. We are focused on one simple but powerful message – 'Costain Cares'. This is not a slogan: it is an attitude of mind. It is integral to everything we do and a touchstone against which we can evaluate and measure our performance. Costain Cares about relationships, our environment and the future.

Operations...

we focus on intelligent solutions to meet national needs. As a Tier One engineering solutions provider, we provide front-end engineering consultancy, construction and ongoing care and maintenance services across market sectors. We have two core operating and reporting divisions within our business, Infrastructure and Natural Resources.

Infrastructure

Rail
 Highways
 Power
 Airports

Natural Resources

Water
 Nuclear Process
 Waste
 Oil & Gas

Services

Advisory and concept development
 Specialist design
 Programme management
 Complex project delivery
 Technology integration
 Asset optimisation and support

Delivering value to all our stakeholders

Delivering a sustainable business through the development of a strong and profitable forward order book.

The Costain difference

01 Creating value through our customer focused strategy

Our strategy...

Engineering Tomorrow...

is our strategic commitment to identifying, developing and implementing innovative and sustainable solutions to meet major national needs.



Additional information can be found online:
www.costain.com/engineering-tomorrow

02 Focusing on six strategic priorities

Our strategic focus is to enhance our growth and market position by providing innovative and sustainable solutions to increasingly complex and large-scale national needs. The Group has been transformed in recent times to meet our customers' continuously evolving requirements. Our *Engineering Tomorrow* strategy will ensure we remain competitive and continue to deliver shareholder value.



1: Operate safely, efficiently and responsibly

The Health and Safety of our people and everyone who is involved with Costain remains our highest priority. We demand that safety must be adhered to at all times to ensure that we operate in an environment which is free from harm.

We concentrate on solutions that deliver best value for customers. This requires an unrelenting focus on our customers' costs and our own operating procedures.

We believe that responsible business is integral to delivering greater value to our customers and all our stakeholders. Our commitment to delivering services responsibly and sustainably is vitally important to the Group. We are focused on building a long-term sustainable business that creates economic, environmental and social value.

2013 performance and KPIs

Accident Frequency Rate ('AFR') (KPI)

Target: To continually improve safety performance with a zero tolerance approach.

0.12

2013	2012	2011
0.12	0.09	0.11

Within the Company, there is both a corporate and an individual responsibility to ensure that operations are managed in a safe, healthy and environmentally controlled manner. The common measure in the construction sector for measuring safety performance is the AFR which measures the number of serious workplace accidents reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 per 100,000 hours worked. The Group's AFR increased in 2013 compared to 2012. We are continuing to work to reduce the AFR in line with our aspiration towards zero accidents.

CO₂ equivalent emissions (KPI)

Target: To reduce our measure emissions.

14,365 tonnes CO₂e

	Total	Scope 1	Scope 2	Emission intensity
CO ₂ equivalent emissions (tonnes)	14,365	10,474	3,891	
CO ₂ equivalent emissions (tonnes/£million)				14.85

In accordance with the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013, the Group has adjusted its carbon reporting boundaries. Emissions under this regulation cover scope 1 and 2 emissions for all Costain Group activities, including overseas interests and joint ventures, in which the Company has a 50% or greater financial stake. In 2014, we will continue to expand our scope of reporting to ensure that we incorporate all scope 1 and 2 emissions where Costain has a financial interest.

Underlying operating profit (KPI)

Target: In line with business plan.

£27.4m

2013	2012	2011
£27.4m	£24.5m	£24.1m

The level of underlying operating profit is a key measure of performance for the Group. The measure represents the results of the operating elements of the Group's performance and excludes sales of assets and joint ventures. The Group's underlying operating profit in 2012 and 2013 increased as a result of the strong performance in the Group during each year. The increased profitability reflects the Group's continued focus on higher margin work.

The Costain difference

02 Focusing on six strategic priorities continued

1: Operate safely, efficiently and responsibly continued

<p>Net cash balance </p> <p>Target: Maintain a net cash balance at an appropriate level to suit the business requirements.</p> <h1>£57.7m</h1> <table border="1"> <thead> <tr> <th>2013</th> <th>2012</th> <th>2011</th> </tr> </thead> <tbody> <tr> <td>£57.7m</td> <td>£105.7m</td> <td>£140.1m</td> </tr> </tbody> </table> <p>The Group has a positive net cash balance and close monitoring and measurement of cash resources is carried out as part of the performance measurement process. The reduced positive position reflects a transition to over 90% of the order book being a lower risk, target-cost form of contract, an increase in support services activities and a delayed contract completion.</p>	2013	2012	2011	£57.7m	£105.7m	£140.1m	<p>Costain Way of working. The Costain Way is faster, easier to access, easier to search and is simplified to tell you what you must do and how to do it, with guidance and tools. This improvement will help manage and reduce risk and drive efficiencies across the business.</p>	
2013	2012	2011						
£57.7m	£105.7m	£140.1m						
<p>Health and Safety Awards </p> <p>Our strong Health and Safety performance was recognised by the achievement of 35 RoSPA Awards, including two Orders of Distinction, one President's Award, four Gold Medals and 16 Gold Awards.</p>	<p>2014 focus</p> <ul style="list-style-type: none"> • Continue to reduce the Group AFR and the All Accident Frequency Rate ('AAFR') towards our goal of zero harm: AFR 0.08, AAFR 2.1 • Reduce measured carbon emissions intensity by 55% by 2020 (against 2009 baseline) • Launch our 2020 Costain Cares (Corporate Responsibility) Strategy • Reduce non-operating and operating costs 							
<p>The Costain Way</p> <p>The Costain Way is Costain Group's Business Assurance System, a risk-based, integrated management system that provides instructions and advice on how to promote best practice across the Group. The Costain Way updates and builds on the strength and success of its predecessor, Implementing Best Practice ('IBP'), providing a new innovative approach. It contains the required standards, guidance, best practices and standard forms for all the activities undertaken by everyone across the Costain Group – the</p>	<p>Risks</p> <ul style="list-style-type: none"> • Health and Safety • Operational delivery • Failure of IT system <p> Additional information relating to the principal risks and uncertainties can be found on pages 24 and 25.</p>							

2: Continue to enhance customer insight

The ability to understand the challenges facing our customers is crucial if we are to strengthen and evolve our relationships with them. Continuing to enhance our customer insight is one of our top priorities and it is by building strategic, long-term, collaborative partnerships that we are best positioned to deliver innovative solutions to these customers.

Additional value is delivered to both customers and end users by operating efficiently with a strong focus on speed and agility and an uncompromising attitude to safety. We recognise that talented, integrated and accountable project teams are fundamental to maximising the opportunities presented by unique customer insights.

2013 performance and KPIs

Repeat business

Target: In line with business plan. 

+90%

2013	2012	2011
+90%	+90%	+90%

The Group's strategy **Engineering Tomorrow** is focused on providing innovative and cost-effective solutions to customers who are increasingly seeking more strategic longer-term contracts in order to meet their complex requirements. Repeat business is, therefore, an essential measure for the business. With over 90% repeat business, Costain has maintained a strong pipeline of business development opportunities and we continue to demonstrate the quality of our customer insight and relationship.

Customer satisfaction

84%

2013	2012	2011
84%	84%	81%

Customer innovation evening

In September, the Darwin Centre at London's Natural History Museum was host venue for a Customer Innovations Evening, showcasing exciting products and developments that the Group has brought to fruition over the past year.


The audience consisted of over 60 customers and key stakeholders, who were able to talk to the Costain personnel behind the innovations, discovering the benefits of individual innovations and how they could improve the performance of their business.

2014 focus

- Continue to build strategic relationships with our customers, gaining deeper insight into their business challenges
- Continue to strengthen our thought leadership position by ensuring we become the influential 'voice of the industry' in terms of sustainable infrastructure development

Risks

- Economic conditions
- Winning new work
- Operational delivery

 Additional information relating to the principal risks and uncertainties can be found on pages 24 and 25.

 The Group's divisional performance can be found on pages 26 and 27.

The Costain difference

02 Focusing on six strategic priorities continued

3: Grow by broadening and integrating our services

We continue to deliver engineering services across the full asset life-cycle, from advisory and design to operations and maintenance.

In 2013, we continued to broaden and enhance our service offering. We have developed our value proposition across six core service lines in an increasingly integrated offering to customers: advisory and concept development, specialist design, programme management, complex project delivery, technology integration, asset optimisation and support.

2013 performance and KPIs

Order book

Target: To build a strong order book in line with strategy.



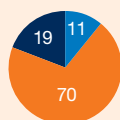
£3.0bn

2013	2012	2011
£3.0bn	£2.4bn	£2.5bn

The level of secured orders on which work is to be carried out is a key measure for achieving continued profitability and growth. The order book has increased compared to 2012 due to the Group securing over £1.5 billion of new contracts and extensions.

Revenue

Target: In line with business plan.



2013

- 11% Advisory and design
- 70% Programme delivery
- 19% Operations and maintenance

Costain delivers engineering solutions across our customers' full asset life-cycle, from advisory and design, programme delivery to operations and maintenance. The increasing range of skills and services across these activities has enabled the Group to continue to increase the revenue derived from this broader range of services.

Acquisition of EPC Offshore


In August, Costain acquired EPC Offshore, a specialist oil and gas project management services company. EPC Offshore, a field development and project management specialist providing client-side services to North Sea oil and gas companies, complements the acquisition of ClerkMaxwell in 2011. These acquisitions strengthen our strategy, broadening our range of capabilities in response to requirements of major customers, increasing the scale of the Group's services in the growing, high-value North Sea upstream oil and gas market.

2014 focus

- Increase revenue and order book across our six core service lines
- Organic growth and growth through acquisition

Risks

- Economic conditions
- Winning new work
- Operational delivery
- Acquisitions

 Additional information relating to the principal risks and uncertainties can be found on pages 24 and 25.

4: Develop best-in-class team

Attracting, retaining and developing the best people for Costain is key to our success.

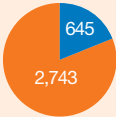
We continue to grow and enhance our capability in line with our customers' needs for the relevant skills for today and tomorrow. By investing in a diverse, knowledgeable and highly capable workforce, with transferable skills, we can be sure that we have a pipeline of talent throughout the business.

Diversity and inclusion (KPI)
Target: To value diversity and inclusion in the workforce.

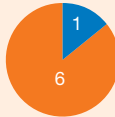
19.0%
7.2%

female
BAME

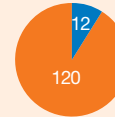
2013	2012	2011
19.0% female	19.4% female	22.2% female
7.2% BAME	8.0% BAME	6.6% BAME



UK employees



Board



Senior management

UK employees: 3,388, 645 are female
Board: one female out of seven
Senior management: 12 females out of 132
(Figures as at 31 December 2013)

Investment in training and development

£3.0m

over 10,000 training days
2012: 7,988 training days

Big Infrastructure Conversation
In September Costain, in conjunction with Business in the Community, hosted the Big Infrastructure Conversation, at London's City Hall.

On the day, students, ambassadors, apprentices and trainees met business leaders and discussed their own apprenticeship experiences, the importance of inspirational work experience and skills.

For the industry leaders, there was also an opportunity to share best practice about how businesses can tackle youth unemployment and to listen to young people about their needs, hopes and ambitions for the future, particularly in relation to securing valuable career advice.

2013 performance and KPIs

Staff turnover (KPI)
Target: To provide initiatives and working conditions in order to retain key staff.

8.5%

2013	2012	2011
8.5%	7.4%	7.0%

The retention of staff is fundamental to delivering a quality service to customers. The Group undertakes a number of important initiatives to retain key staff, including actively facilitating their career development. Clear action plans are in place to address issues such as Health and Safety, reward, training and development and job satisfaction. The Group uses a 'voluntary leavers' turnover rate to monitor staff retention. In 2013, our staff turnover increased slightly to 8.5%, but it continues to compare favourably to the industry average.


Costain is an inclusive employer and promotes equality and inclusion from recruitment and selection, through training and development, to promotion, reward, recognition and retirement. The Group values the differences that a diverse workforce brings to the organisation. The Group has monitored the diversity profile of its employees, as a total population, over the last six years, which shows a fairly consistent profile of female and Black, Asian and Minority Ethnic ('BAME') employees. In 2013, there has been a slight decrease in the number of female employees to 19.0% and a decrease in BAME employees to 7.2% (employees who declared their ethnicity). In 2013, the Group has expanded reporting to include women in senior positions within the Company.

2014 focus

- Broaden graduate, apprentice and sponsorship pipelines to new disciplines
- Continue to develop transferrable skills across sectors
- Talent management
- Unconscious bias training

Risks



- People

 Additional information relating to the principal risks and uncertainties can be found on pages 24 and 25.

The Costain difference

02 Focusing on six strategic priorities continued

5: Create and deliver innovative sustainable solutions

<p>We are focused on creating intelligent, sustainable solutions that improve the performance of our customers' businesses. We invest significantly in research, innovation and emerging technology to provide customers with new services that reduce impact on the communities we serve. By aligning our pipeline of innovation to our customer challenge, we are able to work closely with them through every stage of development.</p>	<p>Innovation Awards</p> <p>In December, Costain was recognised at the prestigious NEF (The Innovation Institute) Innovation Awards, receiving high commendations in the Most Innovative Business Process and Most Inspiring Business Leader categories.</p> <p>The innovations included a science, technology, engineering and maths ('STEM') game app aimed at raising young people's awareness of the construction and engineering industry and the different career options available using a smartphone or tablet device, and COpath, an innovative passenger monitoring and measurement technology for use in the travel and transport industries.</p> <p>Both innovations earned Costain a runner-up award from the judging panel, which included the award sponsors EMC, BASF: The Chemical Company, National Grid and EDF Energy.</p>	<p>Risks</p> <ul style="list-style-type: none"> • People <p> Additional information relating to the principal risks and uncertainties can be found on pages 24 and 25.</p> <p> Examples of Innovation can be found in the section titled Engineering Tomorrow... 'in action' on pages 6, 8-9, 12-23, 28-33, 35, 40 and 42.</p>				
<p>2013 performance and KPIs</p>						
<p>Number of patents and patents pending</p>						
<p>31 patents</p>						
<table border="1"> <tr> <td>2013</td> <td>2012</td> </tr> <tr> <td>31 patents (14 granted, 17 in application phase)</td> <td>36 patents</td> </tr> </table>	2013	2012	31 patents (14 granted, 17 in application phase)	36 patents		
2013	2012					
31 patents (14 granted, 17 in application phase)	36 patents					
<p>The Group has realigned its patent portfolio to reflect the business' focus.</p>						
<p>2014 focus</p>						
<ul style="list-style-type: none"> • Enhance relationships with our partners to identify, develop and implement innovation through our current contracts and provide new services to our customers • Identify funding and, through 'open innovation', transfer innovation from other sectors to create new business opportunities • Use advanced technology to create insights about the performance of our customer asset • Rethink contract delivery with our customers to deliver better outcomes 						

6: Working in collaboration



<p>Partnering and collaboration form a central part of our approach. Both are essential in delivering complex engineering and services. In a market where collaboration continues to deliver value, Costain focuses on developing strategic partnerships to support the development of broader services and technology.</p>	<p>In 2013, the average key supplier performance score continued to improve. The number of suppliers achieving Costain Blue standard (80% or above) in a single quarterly review increased to 255 from 171 in 2012, a 49% increase.</p>						
<p>2013 performance and KPIs</p>	<p>+90% of contracts are lower risk cost-reimbursable</p>						
<p>Supply chain performance  Target: Average key supplier performance score of greater than 50%.</p> <p>70%</p>	<p>Collaborative Business Relationships: BS11000 Costain has developed a best practice process in which relationships can be formed and developed between organisations of any size, for mutual additional benefit. The process is accredited to BS11000 (Collaborative Business Relationships) which is a procedural framework introduced in 2010 by the British Standards Institute.</p> <p>Costain is a foundation member of the Institute of Collaborative Working.</p>						
<table border="1"> <thead> <tr> <th>2013</th> <th>2012</th> <th>2011</th> </tr> </thead> <tbody> <tr> <td>70%</td> <td>69%</td> <td>65%</td> </tr> </tbody> </table> <p>The Group has a number of key suppliers and is reliant on their performance in carrying out its business. Consequently, an internal performance measurement tool is used to assess the performance of key suppliers on a regular basis against a number of indicators including Health and Safety, programme, commercial and quality performance. The result of the assessment is shown as a percentage score which allows comparison against previous scores and other suppliers. The assessment and results are then used as a basis for discussion with each strategic and preferred supplier of their performance and to put in place, where necessary, actions to improve performance or, if appropriate, reduce the amount of work performed by a supplier.</p>	2013		2012	2011	70%	69%	65%
2013	2012	2011					
70%	69%	65%					

The Costain difference

03 Our market focus

The sectors in which the Costain Group is active have, in total, a targeted investment spend of more than **£70 billion per annum for the immediate future.** Below is a summary of activity in those Costain sectors:

<p>Water</p> <p>£11bn total</p> <table border="1"> <tr> <td>Potential £4.6 billion</td> <td>Addressable £2.6 billion</td> </tr> </table>	Potential £4.6 billion	Addressable £2.6 billion	<p>The Airports Commission's shortlisted alternatives vary in cost from £13 billion to £112 billion. Despite these challenges, the UK has more seats available and serves more destinations on a daily basis than any other European country. The debate is no longer whether we need new runways and infrastructure, but when and where.</p>	<p>Power</p> <p>£3.9bn total</p> <table border="1"> <tr> <td>Potential £1.8 billion</td> <td>Addressable £700 million</td> </tr> </table>	Potential £1.8 billion	Addressable £700 million
Potential £4.6 billion	Addressable £2.6 billion					
Potential £1.8 billion	Addressable £700 million					
<p>The recent submission of water company business plans to OfWat for the sixth asset management cycle reflects a continued commitment to spend in the sector. The regulator's focus on total expenditure ('totex') provides the opportunity to grow into higher value services.</p>	<p>Highways</p> <p>£6.3bn total</p> <table border="1"> <tr> <td>Potential £3.2 billion</td> <td>Addressable £2 billion</td> </tr> </table>	Potential £3.2 billion	Addressable £2 billion	<p>The UK's challenge is to secure a sustainable energy future whilst at the same time replacing power generation capacity and ageing infrastructure. For energy to be truly sustainable, solutions must ensure that they meet carbon reduction targets and minimise the impact of rising consumer prices. In 2012, private sector investment in energy rose to £11.6 billion, representing around 10% of the UK's capital investment, or equivalent to building 20 Olympic stadiums.¹ This level of investment is expected to continue and will include renewables, new technologies, smarter networks and demand-side controls. Around £110 billion of investment is anticipated by 2020.</p> <p><small>¹ Source: Powering the UK – Investing in future growth, EY 2013.</small></p>		
Potential £3.2 billion	Addressable £2 billion					
<p>Airports</p> <p>£3.2bn total</p> <table border="1"> <tr> <td>Potential £1 billion</td> </tr> </table>	Potential £1 billion	<p>In June 2013, the Chancellor promised the biggest programme of road building in over 50 years. The Government will invest over £28 billion in enhancements to and maintenance of national and local roads to: add extra lanes to the busiest motorways, identify and fund solutions to tackle some of the most notorious and longstanding road hotspots in the country, upgrade the national non-motorway network; repair the national and local road network; and transform the Highways Agency into a publicly-owned corporation.</p>				
Potential £1 billion						
<p>Aviation investment continues to be an area of intense public debate with the Airports Commission Interim report, published on 17 December 2013, supporting the need for further investment in developing capacity in the sector and suggesting that without this it will cost users and providers of airport infrastructure £18-£20 billion and the wider economy £30-£45 billion. Existing investment remains high to support the intensity of use on our existing infrastructure which sees Heathrow at capacity and London Gatwick expected to reach the same point by 2020.</p>						

Nuclear Process £6bn <small>total</small>		Rail £17.4bn <small>total</small>	
Potential £2.8 billion	Addressable £1.5 billion	Potential £9.5 billion	Addressable £5.4 billion
<p>With all but one of the UK's current reactors retiring over the next ten years, there remains significant decommissioning opportunities from the £49.5 billion investment pledged by the Nuclear Decommissioning Authority for the clean-up of its sites. This goes hand-in-hand with the Government's aim to deliver 16GW of new nuclear capacity by 2030, presenting further opportunities for Costain's already mature and established position in the UK market.</p>		<p>Rail investment in the UK continues to be robust as outlined in the National Infrastructure Plan 2013. This remains a priority area of investment for Government to stimulate economic growth, with a 14% increase in demand for rail travel estimated for the next five years. To address this, £38 billion has been allocated for national rail networks in areas including electrification, track and network upgrades and the proposed High Speed 2.</p>	
Oil & Gas £27bn <small>total</small>		 Information concerning the Group's activities in these sectors are described on pages 26 and 27. Additional information together with examples of our work can be viewed on our website: www.costain.com/engineering-tomorrow	
Potential £1.8 billion	Addressable £600 million		
<p>Sustained activity and growth in the UK market are set to continue. In 2020, we will still rely on oil and gas for 70% of our energy requirements as a nation. With an enhanced market need for asset maintenance and decommissioning, Costain also has opportunity to convert successes in Front End Engineering and Design ('FEED') activity into engineering, procurement and construction management contracts. The launch of Costain Upstream highlights the Group's commitment to capitalise on the substantial growth in the UK market, with a two-fold increase in the number of exploration wells expected in the next two years. Costain Upstream will leverage its already established market position to become a trusted supplier of choice across whole-life services.</p>			

The Costain difference

04 Our business divisions

We have two core operating and reporting divisions within our business:

Infrastructure

The Infrastructure division delivers engineering solutions for principal infrastructure providers in:

Rail

A leading provider of multi-disciplinary projects for Network Rail, Crossrail and LUL. Currently delivering major projects principally focused on transportation hubs, most recently at London Bridge, Reading and Bond Street.

Highways

Delivering major programmes for the Highways Agency, Welsh Government and local authorities. Maintenance under the current MAC contracts and Early Contractor Involvement works.

Power

Focusing on thermal generation, new nuclear, offshore wind, transmission and distribution. Currently delivering major tunnelling works for National Grid.

Airports

Delivering programmes of work across airport assets at Heathrow, Gatwick and Manchester.

 Additional information relating to the Infrastructure division can be found on page 26.

Natural Resources

The Natural Resources division delivers engineering solutions in:

Water

A leading provider of capital framework and maintenance framework programmes under the current AMP5 arrangements. Providing water services to commercial and industrial customers.

Nuclear Process

Major frameworks and capital schemes delivered across a number of the UK's strategic assets.

Waste

Delivering major waste schemes in the UK.

Oil & Gas

Developing and implementing solutions for the upstream and downstream oil and gas and chemical sectors in the UK and Middle East.

 Additional information relating to the Natural Resources division can be found on pages 26-27.

 Costain regularly announces key stakeholder information in the 'News' section of its website: www.costain.com/news

05 Our service lines

To reflect our value proposition and as we continue to broaden our services and enhance our product range, we have evolved our business architecture to meet the changing needs of our major blue-chip customers. We deliver integrated solutions across six service lines.

Advisory and concept development

The development of solutions and options for our customers' most pressing problems.

Specialist design

Complex and niche engineering solutions.

Programme management

The operational and commercial management of programmes of complex inter-related projects.

Complex project delivery

The engineering and management of the delivery of large complex infrastructure projects.

Technology integration

Providing a service through technology to manage, connect and transform infrastructure assets.

Asset optimisation and support

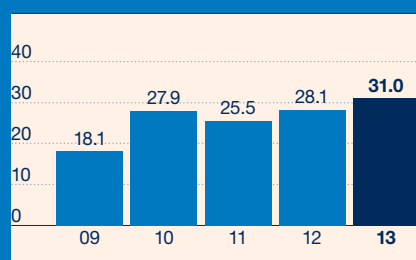
Long-term contracts to operate and maintain physical infrastructure assets.

06 Delivering shareholder value

Adjusted profit before tax £m

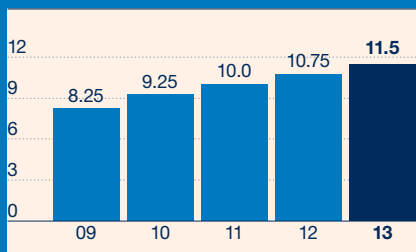
Target: In line with business plan.

KPI



Adjusted profit before tax is a key measure for the Group and incorporates interest, including the IAS 19 pension interest. The adjusted profit before tax in 2013 increased due to a strong underlying performance in the Group.

Dividend per share pence



Costain has delivered another strong performance in 2013 and our confidence in the Group's future is reflected in the Board's decision to increase the final dividend for the seventh consecutive year.

Together with our strong order book and increase in profits, we are continuing to deliver shareholder value.