

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant, or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares in Costain Group PLC (the 'Company'), please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.



# Costain Group PLC

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

## Notice of Annual General Meeting and Explanatory Circular to Shareholders

Your attention is drawn to the letter from the Chairman of the Company which is set out on page 2 of this document and which recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting. Notice of the Annual General Meeting of the Company to be held in The More Suite, 2nd Floor, Dexter House, No 2 Royal Mint Court, Tower Hill, London, EC3N 4QN on Wednesday 9 May 2012 at 11.00 a.m. is set out on pages 3 to 4 of this document.

If you are unable to attend the Annual General Meeting, please complete and submit the form of proxy enclosed with this document in accordance with the instructions printed on the proxy form. Completion and return of a proxy form will not preclude shareholders from attending and voting at the Annual General Meeting should they choose to do so. The proxy form must be received by the Company's registrars, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by no later than 11.00 a.m. on Monday, 7 May 2012, being 48 hours before the time appointed for the Annual General Meeting. Further instructions relating to the proxy form are set out on page 5 of this document.

# Part I

## Costain Group PLC

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



### Registered Office

Costain House  
Vanwall Business Park  
Maidenhead  
Berkshire  
SL6 4UB

30 March 2012

### Notice of Annual General Meeting

Dear Shareholder,

I am pleased to be writing to you with details of our Annual General Meeting ('AGM') which we are holding in The More Suite, 2nd Floor, Dexter House, No 2 Royal Mint Court, Tower Hill, London, EC3N 4QN on Wednesday, 9 May 2012 at 11.00 a.m.

### Resolutions

The resolutions that will be put to shareholders are set out in the formal Notice of the AGM which is set out on pages 3 to 4 of this document. Explanatory notes to the Notice of the AGM are set out on pages 8 to 9 of this document.

### Annual Report and Accounts

Those shareholders who elected to receive a paper version of the Annual Report and Accounts will receive a copy of the Annual Report and Accounts for 2011 under cover of this letter. The majority of shareholders in 2011 elected to receive shareholder information either directly to their e-mail address or through information on the Company's website [www.costain.com](http://www.costain.com). I believe it is in our shareholders' interest to receive information from the Company electronically. I therefore recommend that shareholders who have not yet done so should elect to receive shareholder documents such as the Annual Report and Accounts electronically via the Company's website where it can be viewed and downloaded online. Shareholders can also elect to receive e-mail communications. Any option can be selected or de-selected at any time by logging onto your account at [www.shareview.co.uk](http://www.shareview.co.uk).

### Action To Be Taken

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

Please complete and return the form of proxy in accordance with the instructions on the form in order that it may be received by Equiniti as soon as possible and, in any event, not later than 11.00 a.m. on 7 May 2012. The completion and return of the form of proxy will not prevent you from attending and voting in person at the meeting should you so wish.

### Recommendation

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

Yours faithfully,

A handwritten signature in black ink, appearing to read "D. Allvey", written over a horizontal line.

**David Allvey**  
Chairman

# PART II

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

This year's AGM will be held in The More Suite, 2nd Floor, Dexter House, No 2 Royal Mint Court, Tower Hill, London, EC3N 4QN on Wednesday 9 May 2012 at 11.00 a.m. You will be asked to consider and pass the resolutions below. Resolution 11 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

### Ordinary Resolutions

#### Annual Report and Accounts

1. To receive and adopt the Company's Annual Report and Accounts for the financial year ended 31 December 2011, together with the reports of the directors and auditors.

#### Director's Remuneration Report

2. To approve the Directors' Remuneration Report for the financial year ended 31 December 2011.

#### Final Dividend

3. To authorise the payment of a final dividend on the ordinary shares of 6.75 pence per ordinary share for the financial year ended 31 December 2011 on 25th May 2012 to shareholders on the register at the close of business on 20th April 2012.

#### Re-election of directors

4. To re-elect David Alvey, who retires by rotation, as a director of the Company.

*The biographical details for David are as follows:*

*David was appointed Chairman in January 2008 prior to which he was Chairman of the Audit Committee. With a career that started in civil engineering and subsequently as a Chartered Accountant, previous roles include Group Finance Director for BAT Industries plc, Barclays Bank plc and Chief Operating Officer for Zurich Financial Services, member of the UK Accounting Standards Board, member of the International Accounting Standards Insurance Group, Non-Executive Director of Thomas Cook plc (2007 to 2012), Senior Non-Executive Director of Intertek Group plc (2002 to 2011) and Senior Non-Executive Director of William Hill plc (2002 to 2011).*

5. To re-elect John Bryant, who retires by rotation, as a director of the Company.

*The biographical details for John are as follows:*

*John was appointed as Senior Independent Director in January 2008. Previous roles include Chief Executive of Corus Group plc (1999 to 2000), Chief Executive of British Steel plc (1999), Executive Director of British Steel plc (1995 to 1999) and Non-Executive Director of Bank of Wales plc (1996 to 2001).*

6. To re-elect Andrew Wyllie, who retires by rotation, as a director of the Company.

*The biographical details for Andrew are as follows:*

*Andrew was appointed as Chief Executive in September 2005. Previous roles include Managing Director of Taylor Woodrow Construction Ltd (2001 to 2005) and a member of the Taylor Woodrow plc Executive Committee. Andrew joined Taylor Woodrow in 1984 and worked on major contracts in Africa, the Middle East, the Far East and the UK.*

#### Reappointment of auditors and auditors' remuneration

7. To reappoint KPMG Audit Plc as auditors of the Company until conclusion of the next AGM of the Company.
8. To authorise the directors to determine the auditors' remuneration.

#### Approval of 2012 Costain Group PLC Long-Term Incentive Plan

9. To approve the rules of the 2012 Costain Group PLC Long-Term Incentive Plan (the '**LTIP**') produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, and to authorise the directors to:
  - (a) make such modifications to the LTIP as they may consider appropriate to take account of the requirements of best practice and for the implementation of the LTIP and to adopt the LTIP as so modified and to do all such other acts and things as they may consider appropriate to implement the LTIP; and
  - (b) establish further plans based on the LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the LTIP.

A summary of the principal terms of the LTIP is included in the Appendix to this Notice.

## PART II continued

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

### **Approval of Costain Group PLC Sharesave Plan**

10. To approve the rules of the Costain Group PLC Sharesave Plan (the '**Sharesave Plan**') produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, and to authorise the directors to:

- (a) make such modifications to the Sharesave Plan as they may consider appropriate to take account of the requirements of HMRC and for the implementation of the Sharesave Plan and to adopt the Sharesave Plan as so modified and to do all such other acts and things as they may consider appropriate to implement the Sharesave Plan; and
- (b) establish further plans based on the Sharesave Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Sharesave Plan.

A summary of the principal terms of the Sharesave Plan is included in the Appendix to this Notice.

### **Special resolution**

#### **Notice periods for general meetings other than annual general meetings**

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

By order of the Board

#### **Tracey Wood**

Company Secretary

30 March 2012

Registered Office:  
Costain House  
Vanwall Business Park  
Maidenhead  
Berkshire  
SL6 4UB

Registered in England and Wales No. 01393773

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1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact the Company's registrars, Equiniti on 0871 384 2250 (overseas callers should use +44 121 415 7047). Calls to this number cost 8p per minute from a BT landline; other providers' costs may vary. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
  2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA by no later than 11.00 a.m. on 7 May 2012.
  3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 11 below) will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.
  4. In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
  5. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
  6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
  7. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
  8. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company. Nominated persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investment in the Company.
  9. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 p.m. on 7 May 2012 (or, in the event of any adjournment, by 6.00 p.m. on the day which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
  10. As at 19 March 2012 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 64,710,725 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 19 March 2012 are 64,710,725. The Company does not hold any shares in Treasury.
  11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
  12. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.00 a.m. on 7 May 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

## PART II continued

# Costain Group PLC (the 'Company')

## Notice of Annual General Meeting continued

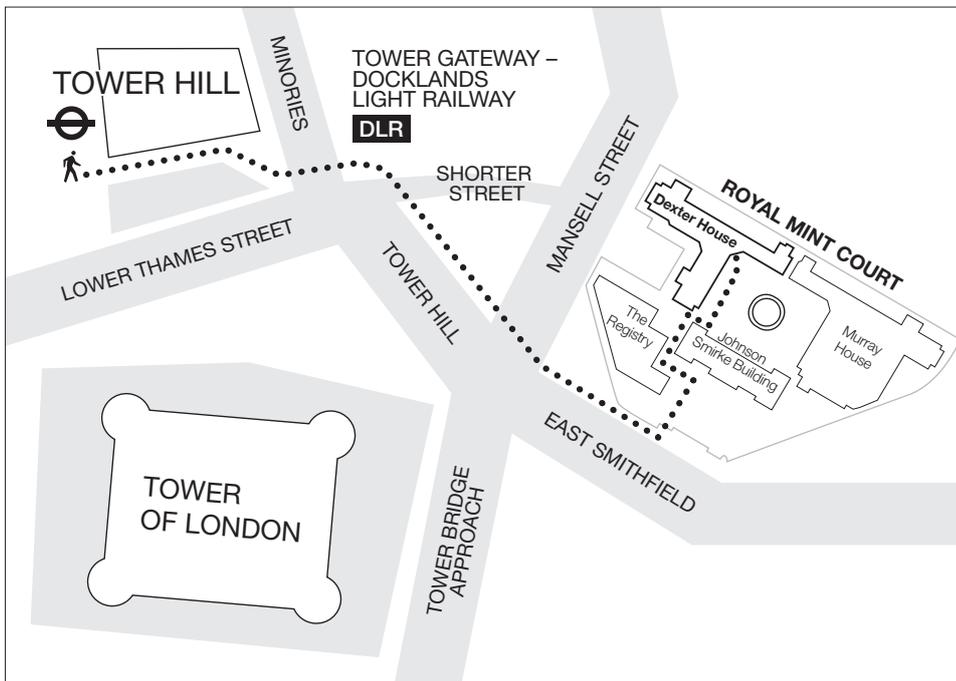
13. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
14. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
15. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
16. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
17. Any member attending the meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:
- to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information,
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the company or the good order of the meeting that the question be answered.
18. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at **[www.costain.com](http://www.costain.com)**.
19. Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement setting out any matter relating to:
- the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
  - any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006.
- The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
20. Except as provided above, members who have general queries about the AGM should use the following means of communication (no other methods of communication will be accepted):
- By contacting the Company's registrars Equiniti in writing at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or by telephoning their shareholder helpline on 0871 384 2250 (overseas callers should use +44 121 415 7047). Calls to this number cost 8p per minute from a BT landline; other providers' costs may vary. Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday.
  - By contacting the Company Secretary in writing at Costain House, Vanwall Business Park, Costain House, Vanwall Business Park, Maidenhead, Berkshire, SL6 4UB or by telephoning her on 01628 842444 or by emailing her at [info@costain.com](mailto:info@costain.com)
- Please note that shareholders may not use any electronic address provided in either this document or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

21. The following documents will be available for inspection at the registered office of the Company, Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB, from the date of this Notice during normal business hours, until the time of the AGM and at The More Suite, 2nd Floor, Dexter House, No 2 Royal Mint Court, Tower Hill, London EC3N 4QN, from 15 minutes before the AGM until the end of the AGM:

- Copies of the executive directors' service contracts;
- Copies of the letters of appointment of the non-executive directors; and
- Copies of the rules of the 2012 Costain Group PLC Long-Term Incentive Plan and the Costain Group Sharesave Plan.

Copies of the rules of the 2012 Costain Group PLC Long-Term Incentive Plan and the Costain Group Sharesave Plan will also be available for inspection at the offices of New Bridge Street (an Aon Hewitt company), 10 Devonshire Square, London EC2M 4PL, from the date of this Notice during normal business hours, on any weekday (Saturdays and UK Public holidays excepted) until the close of the AGM and at the place of the AGM for at least 15 minutes prior to and during the AGM.

22. Location and directions to  
The More Suite  
2nd Floor, Dexter House  
No 2 Royal Mint Court  
Tower Hill  
London  
EC3N 4QN



## PART II continued

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# Explanatory notes to the Notice of Annual General Meeting

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

Resolutions 1 to 10 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolution 11 is proposed as special resolution. This means that for this resolution to be passed, at least three-quarters of the votes cast must be in favour of it.

### **Resolution 1: Annual Reports and Accounts**

The Annual Report and Accounts for the year ended 31 December 2011 are available on the Company's website at [www.costain.com](http://www.costain.com) and have been sent to those shareholders who have elected to receive a hard copy.

### **Resolution 2: Directors' Remuneration Report**

The Directors' Remuneration Report is set out in full on pages 63 to 70 of our 2011 Annual Report and Accounts.

### **Resolution 3: Payment of a final dividend**

If resolution 3 is approved by shareholders the final dividend for the year ended 31 December 2011 will be paid on 25th May 2012 to shareholders whose names are on the Company's Register of Members at close of business on 20th April 2012.

### **Resolution 4: Re-election of David Allvey as a director**

David Allvey was first elected to the Board in 2001 and became Chairman in January 2008. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, David Allvey is required to stand for re-election at the AGM, having served on the Board for more than nine years. Further information about David Allvey is given on page 46 of our Annual Report and Accounts and on page 3 of this document.

### **Resolution 5: Re-election of John Bryant as a director**

John Bryant was first elected to the Board in 2002. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, John Bryant is required to stand for re-election at the AGM, having served on the Board for more than nine years. Further information about John Bryant is given on page 46 of our Annual Report and Accounts and on page 3 of this document.

### **Resolution 6: Re-election of Andrew Wyllie as a director**

Andrew Wyllie was first elected to the Board in September 2005. In accordance with the Company's Articles of Association and the UK Corporate Governance Code, Andrew Wyllie is required to stand for re-election at the AGM, having held office at the time of the two preceding annual general meetings and not having retired at either of them. Further information about Andrew Wyllie is given on page 46 of the Annual Report and Accounts and on page 3 of this document.

### **Resolution 7: Reappointment of auditors**

The auditors are required to be reappointed at each AGM at which accounts are presented. The Board, on the recommendation of the Audit Committee, which has evaluated the effectiveness and independence of the external auditors, is proposing the reappointment of KPMG Audit Plc.

### **Resolution 8: Auditors' remuneration**

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

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### **Resolution 9: 2012 Costain Group PLC Long-Term Incentive Plan**

The Company's existing 2002 Long-Term Incentive Plan (the 'LTIP') will expire in May 2012. Consequently, the Remuneration Committee of the Board has undertaken a full-scale review of the Company's long-term incentive provision, in conjunction with its regular review of the Company's overall senior executive remuneration policy. The Remuneration Committee is committed to ensuring that the Company's senior executive team is incentivised to drive sustainable earnings growth and returns to shareholders, thereby creating a genuinely strong alignment of interests between management and investors. A robust, strategically-focused equity-based long-term incentive policy is a key ingredient of this.

This resolution therefore seeks approval to introduce a new long-term incentive plan once the current plan has expired. The new LTIP will share many of the features of the 2002 plan (save for some changes to the treatment of a leaver's award to reflect one of the primary aims of the LTIP, which is the retention of key staff) but has also been updated to reflect current best practice and corporate governance requirements.

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

### **Resolution 10: Costain Group PLC Sharesave Plan**

The Company's Savings-Related Share Option Scheme will also expire this year. Resolution 10 seeks approval to introduce a savings-related share option scheme to replace the previous scheme. The new Sharesave Plan is a standard HM Revenue & Customs approved all-employee plan and will be used to encourage employee share ownership throughout the Company's group. The principal terms of the new Sharesave Plan are summarised in the Appendix to this Notice.

### **Resolution 11: Notice of general meetings**

This resolution renews the authority that was given at the Company's last AGM. The notice period required by the Companies Act 2006 for general meetings of the Company is 21 clear days unless shareholders approve a shorter notice period, which cannot be less than 14 clear days. AGMs must always be held on at least 21 clear days' notice.

At our last AGM, shareholders authorised the calling of general meetings other than an AGM on not less than 14 clear days' notice, and it is proposed that this authority be renewed. The authority granted by resolution 11, if passed, will be effective until the Company's next AGM when it is intended that a similar resolution will be proposed.

The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

# APPENDIX

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## Summary of the principal terms of the 2012 Costain Group PLC Long-Term Incentive Plan (the 'LTIP') and the Costain Group PLC Sharesave Plan (the 'Sharesave Plan') (together, the 'Plans')

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

### Principal terms of the LTIP

#### Operation

The Remuneration Committee of the Board (the 'Committee') will supervise the operation of the LTIP.

#### Eligibility

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

#### Grant of awards

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

The Committee may grant awards as conditional shares or as nil (or nominal) cost options. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

#### Individual limit

An employee may not receive awards in any financial year over Shares having a market value in excess of 100 per cent of his annual base salary. In exceptional circumstances, such as recruitment or retention, this limit is increased to 200 per cent of an employee's annual base salary.

It is the Committee's current intention that, for the 2012 awards, executive directors will receive awards of 100% of salary and that other senior executives will receive awards of between 30%-40% of salary.

#### Performance conditions

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

The performance conditions applying to initial awards made in 2012 will depend on the quantum of the award – with an aggregate earnings per share ('EPS') performance condition applying to that portion of an award over Shares worth up to 50% of salary, and an operating profit performance condition applying to the portion of an award (if any) granted over Shares worth in excess of 50% of salary.

#### *Portion of awards over Shares worth up to and including 50% of salary*

With respect to that portion of awards made over Shares worth up to and including 50% of salary, the performance condition will be based on aggregate EPS targets over a period of three financial years ending with the 2014 financial year. For the purposes of the performance conditions, EPS is calculated before pension interest.

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

| <b>Aggregate EPS targets over the 2012-2014 financial years</b> | <b>Percentage of vesting of that portion of an award made over Shares worth in excess of 50% of salary</b> |
|---|--|
| Below 90 pence  | 0%   |
| 90 pence  | 15%  |
| 100 pence or more   | 100%   |
| Between 90 pence and 100 pence                                  | Between 15% and 100% vesting on a straight-line basis  |

#### **Portion of awards over Shares worth in excess of 50% of salary**

With regard to the portion of awards (if any) made over Shares worth more than 50% of salary, the performance condition will be based on stretching operating profit targets for the 2014 financial year. 'Operating profit' is defined as underlying profit before interest, tax, amortisation and employment related acquisition consideration but excluding any private finance initiative (PFI) transfer into the pension and risk management costs.

The extent to which this portion of an award vests will be determined as follows:

| <b>Operating profit for the 2014 financial year</b> | <b>Percentage of vesting of that portion of an award made over Shares worth in excess of 50% of salary</b> |
|---|--|
| £29.6 million or below                              | 0%   |
| £37 million   | 50%  |
| Between £29.6 million and £37 million               | Between 0% and 50% on a straight-line basis  |
| £44.4 million or more                               | 100%   |
| Between £37 million and £44.4 million               | Between 50% and 100% on a straight-line basis  |

Consequently, for this portion of awards to vest in full, operating profit must have doubled over four years from 2010 levels.

Irrespective of the extent to which the operating profit performance condition has been achieved, no part of this portion of an award will vest unless the following EPS underpins have been achieved:

- EPS for the 2014 financial year must be at least 35.5 pence; and
- aggregate EPS over three financial years ending with the 2014 financial year must equal 100 pence or more.

If these two EPS underpins have been met, the portion of the award subject to the operating profit performance condition will vest in accordance with the above table.

The Committee can set different performance conditions from those described above for future awards.

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

#### **Vesting of awards**

Awards normally vest three years after grant to the extent that the applicable performance conditions have been satisfied and provided the participant is still employed in the Company's group. Awards in the form of nil (or nominal) cost options will normally be exercisable up to the 10th anniversary of grant.

#### **Leaving employment**

In order to achieve one of the key objectives of the LTIP to retain the Company's senior management, the Committee has determined that the treatment of an award upon a participant ceasing to hold employment or being a director with the Company's group will depend on the timing and reason for the cessation. This balances the treatment of leavers under the Company's annual bonus and Deferred Share Bonus Plan, which is of a more standard design.

## APPENDIX continued

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# Summary of the principal terms of the 2012 Costain Group PLC Long-Term Incentive Plan (the 'LTIP') and the Costain Group PLC Sharesave Plan (the 'Sharesave Plan') (together, the 'Plans') continued

### *Cessation within 18 months from grant*

With the exception of an acquisition-related redundancy (see below), an award will lapse if a participant ceases to hold employment or be a director with the Company's group for any reason within 18 months from the grant of the award.

### *Cessation on or after 18 months of grant*

- If a participant ceases to be an employee or a director because of his injury or disability, his award will vest on the date when it would have vested if he had not ceased such employment or office (the '**normal vesting date**'), subject to: (i) the extent to which the performance conditions have been satisfied at that time; and (ii) the pro-rating of the award to reflect the reduced period of time between its grant and the time of cessation.
- If a participant dies, his award will vest at that time, subject to: (i) the extent to which the performance conditions have been satisfied by reference to the date of cessation; and (ii) the pro-rating of the award to reflect the reduced period of time between its grant and vesting.
- If a participant ceases to be an employee or director in the Company's group for any other reason (except an acquisition-related redundancy – see below), his award will lapse on cessation unless the Committee determines otherwise. If the Committee exercises its discretion in the participant's favour, then the award will vest on the normal vesting date, subject to (i) the extent to which the performance conditions have been satisfied at that time; and (ii) the pro-rating of the award to reflect the reduced period of time between its grant and the time of cessation.

### *Cessation by reason of an acquisition-related redundancy before the normal vesting date*

If a participant ceases to be an employee or a director in the Company's group before the normal vesting date in circumstances where the Company or a group company has made an acquisition which results in the employee or director's redundancy, his award will vest on the normal vesting date, subject to: (i) the extent to which the performance conditions have been satisfied at that time; and (ii) the pro-rating of the award to reflect the reduced period of time between its grant and the time of cessation.

### **Corporate events**

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

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

### **Variation of capital**

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

### **Overall LTIP limit**

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

- 10 per cent of the issued ordinary share capital of the Company under the LTIP and any other employee share plan adopted by the Company; and
- 5 per cent of the issued ordinary share capital of the Company under the LTIP and any other executive share plan adopted by the Company.

### **Alterations to the LTIP**

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

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

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## **Principal terms of the Sharesave Plan**

### **Operation**

The Board will supervise the operation of the Sharesave Plan. It will be approved by HM Revenue & Customs ('**HMRC**') in order to provide UK tax-advantaged options to UK employees.

### **Eligibility**

Employees and full-time directors of the Company and any designated participating subsidiary who are UK resident taxpayers are eligible to participate. The Board may require employees to have completed a qualifying period of employment of up to five years before the grant of options. The Board may also allow other employees to participate.

### **Grant of options**

Options can only be granted to employees who enter into HMRC approved savings contracts, under which monthly savings are normally made over a period of three or five years. Options must be granted within 30 days (or 42 days if applications are scaled back) of the first day by reference to which the option price is set. The number of Shares over which an option is granted will be such that the total option price payable for those Shares will correspond to the proceeds on maturity of the related savings contract.

### **Individual participation**

Monthly savings by an employee under all savings contracts linked to options granted under any sharesave plan may not exceed the statutory maximum (currently £250). The Board may set a lower limit in relation to any particular grant.

### **Option price**

The price per Share payable upon the exercise of an option will not be less than the higher of: (i) 80 per cent of the average middle-market quotation of a Share on the London Stock Exchange on the three days preceding a date specified in an invitation to participate in the plan (or such other day or days as may be agreed with HMRC); and (ii) if the option relates only to new issue Shares, the nominal value of a Share.

The option price will be determined by reference to dealing days which fall within six weeks of the announcement by the Company of its results for any period or at any other time when the Board considers there to be exceptional circumstances which justify offering options under the Sharesave Plan.

### **Exercise of options**

Options will normally be exercisable for a six month period from the third, fifth or seventh anniversary of the commencement of the related savings contracts. Earlier exercise is permitted, however, in the following circumstances:

- following cessation of employment by reason of death, injury, disability, redundancy, retirement on reaching age 60 (or any other age at which the employee is bound to retire under his terms of employment) or the business or company that the employee works for ceasing to be part of the Company's group;
- when an employee reaches 60;
- where employment ceases more than three years from grant for any reason other than dismissal for misconduct; and
- in the event of a takeover, amalgamation, reconstruction or winding-up of the Company, except in the case of an internal corporate re-organisation when the Board may decide to exchange existing options for equivalent new options over shares in a new holding company.

Except where stated above, options will lapse on cessation of employment or directorship with the Company's group.

Shares will be allotted or transferred to participants within 30 days of exercise.

## APPENDIX continued

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# Summary of the principal terms of the 2012 Costain Group PLC Long-Term Incentive Plan (the 'LTIP') and the Costain Group PLC Sharesave Plan (the 'Sharesave Plan') (together, the 'Plans') continued

### **Overall Sharesave Plan limit**

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent of the issued ordinary share capital of the Company under the Sharesave Plan and any other employee share plan adopted by the Company.

### **Variation of capital**

If there is a variation in the Company's share capital then the Board may, subject to HMRC approval, make such adjustment as it considers appropriate to the number of Shares under option and the option price.

### **Alterations to the Sharesave Plan**

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

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

No alteration to a key feature of the Sharesave Plan may be made without the approval of HMRC.

### **Principal terms common to the Plans**

#### **Grant of LTIP awards/Sharesave options**

An LTIP award/Sharesave option may not be granted more than 10 years after shareholder approval of the Plans.

No payment is required for the grant of an LTIP award/Sharesave option. LTIP awards/Sharesave options are not transferable, except on death. LTIP awards/Sharesave options are not pensionable.

#### **Satisfaction of LTIP awards/Sharesave options**

LTIP awards/Sharesave options may be satisfied using new issue Shares, treasury shares or Shares purchased in the market. Treasury shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count.

#### **Participants' rights**

LTIP awards/Sharesave options will not confer any shareholder rights until the awards have vested or the options have been exercised and the participants have received their Shares.

#### **Rights attaching to Shares**

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

#### **Overseas Plans**

The shareholder resolutions to approve the Plans will allow the Board, without further shareholder approval, to establish further plans for overseas territories, any such plan to be similar to the relevant Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the relevant Plan.





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Costain Group PLC  
Costain House  
Vanwall Business Park  
Maidenhead  
Berkshire  
SL6 4UB