



COSTAIN



Smart thinking, improving lives

Sustainability Report 2017

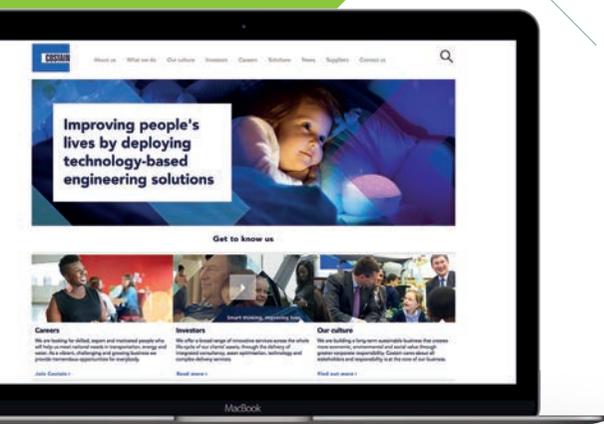
Costain Group PLC

Costain is a smart infrastructure solutions company.

Our purpose is to improve people's lives by deploying technology-led programmes to meet urgent national needs in the UK's energy, water and transportation infrastructures.

Smart thinking, Improving lives.

→ To find out more about how Costain collaborates with clients on a wide range of contracts, please visit our website www.costain.com



FINANCIAL HIGHLIGHTS

Another strong performance

- Revenue, including share of joint ventures and associates, increased to £1,728.9 million (2016: £1,658.0 million)
- Underlying operating profit up 18% to £48.7 million (2016: £41.1 million)
- Net cash position increased to £177.7 million (2016: £140.2 million). Average month-end net cash for the year increased to £96.7 million (2016: £69.1 million).

Clear purpose and strategy

- Proactively aligning the Group with the fast changing market environment and rapidly evolving client requirements in energy, water and transportation infrastructures
- Transforming Costain into the UK's leading smart infrastructure solutions company

- Providing an integrated offering of technology, consultancy, asset optimisation and delivery services to meet increasingly complex and urgent national needs.

Positive outlook

- Maintained forward order book at £3.9 billion, with over £1.1 billion of revenue secured for 2018
- Well positioned, through long-term strategic client relationships and an increase to over 1,300 people in consultancy and technology roles, to deliver multi-billion pound programmes
- Recommended final dividend of 9.25 pence per share (2016: 8.4 pence), increasing the total dividend for the year by 10% to 14.0 pence per share (2016: 12.7 pence).

SUSTAINABILITY HIGHLIGHTS

Ensuring Costain is a safe place to work

- Best ever safety performance
- Colleagues marched at the Pride in London Parade

Creating a better environment

- 26% year-on-year reduction of our non-operational carbon footprint since 2013
- Lowest ever Environmental Incident Frequency Rate (EIFR)

Supporting our local communities and creating a lasting legacy

- 16,000 young people engaged through Costain science, technology, engineering and maths (STEM) initiatives
- Employees volunteer over 5,000 hours in our local communities

Providing sustainable solutions for the marketplace

- Business In The Community Wales', Responsible Large Business of the Year Award, in 2017
- The 140th small/medium sized enterprise (SME) graduated from our supply chain academy


 Communicating with employees, listening to their views and the issues they raise

Creating a better environment

- Enhancing biodiversity
- Using natural resources responsibly
- Reducing our carbon footprint
- Protecting the environment





Our strategy and 2025 goals

Ensuring Costain is a safe and great place to work

Creating a better environment

Supporting our local communities and creating a lasting legacy

Providing sustainable solutions for the marketplace

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A clear purpose and strategy are transforming Costain into the UK's leading smart infrastructure solutions company

Welcome to our 2017 Sustainability Report. We have a clear purpose at Costain to improve people's lives, both through the services we provide and in the way we operate. We are committed to building a long-term sustainable company that creates economic, environmental and social value for our stakeholders. Being a responsible business underpins everything we do.

In 2016, we launched our 2025 sustainability strategy designed to address the environmental, social and ethical challenges facing Costain, our clients, supply chain, shareholders and communities. In developing our strategy, we listened to the views of our stakeholders to see what is important to them. In doing this we are able to focus our efforts on the actions that make a difference and improve lives.

I am pleased to report that we have made excellent progress in 2017. Highlights include: achieving our best-ever safety performance; demonstrating our commitment to tackle the stigma of mental health in the workplace by signing up to the 'time to change' pledge; increasing the number of women in senior management positions from 10% to 18% in the last three years; engaging over 16,000 young people in science, technology, engineering and maths and diverting 95% of our waste from landfill. However, we recognise there is more to do.

This report sets out where we are on our journey and our priorities for the year ahead.

Andrew Wyllie CBE
Chief Executive



COSTAIN AT A GLANCE

Improving people's lives

What we do

We offer a broad range of innovative services across the whole life-cycle of our clients' assets, through the delivery of integrated consultancy, technology, asset optimisation and complex delivery services.

Our work in action

Costain has been shaping the world in which we live for over 150 years by continuing to transform. Our people are committed to high performance and safe delivery.

2017 revenue

Revenue, including the Group's share of joint ventures and associates, for the year increased 4% to £1,728.9 million (2016: £1,658.0 million).



Strong market focus

Our focus is on meeting urgent national needs across three major markets where our work helps to safeguard the security, increase the capacity, improve customer service and drive efficiency in our clients' infrastructure programmes.

-  ENERGY
-  WATER
-  TRANSPORTATION

Clear set of priorities

By positioning ourselves as the leading smart infrastructure solutions company we will enhance our growth and market position as we continue to drive value for our stakeholders. We will achieve this by focusing on four priorities:

-  BROADEN OUR INTEGRATED SERVICE DELIVERY
-  ATTRACT AND DEVELOP NEW SKILLS
-  WORK RESPONSIBLY AND SAFELY
-  ACHIEVE SUSTAINABLE GROWTH IN PROFIT

Proven track records

We have a proven track record of delivering results for our stakeholders and we continue to create value for our clients, society, our people and shareholders.

ORDER BOOK

£3.9bn

2017	3.9bn
2016	3.9bn
2015	3.5bn
2014	3.0bn

Creating value for our stakeholders

OUR KEY INPUTS:

Sources of competitive advantage

OUTSTANDING REPUTATION

We are recognised in the industry for our outstanding delivery, technical excellence, health, safety and sustainability performance.

SKILLED AND EXPERIENCED TEAM

The skills, productivity and expertise of our people, along with investment in research and development, enable us to deliver optimal solutions for our clients.

SMART TECHNOLOGY

Investment in research, innovation and technology is crucial to deliver value in the services we provide to meet the needs of our clients.

STRATEGIC PARTNERSHIPS

We are a trusted delivery partner that collaborates strategically at all levels with our clients. We develop strategic relationships with all our stakeholders to support the development of broader services and technology solutions for our clients.

FINANCIAL STRENGTH

The financial resources (through shareholder capital, retained profits and cash generation) we need to run our business.

WHAT WE DO:

How we create value

OUR INTEGRATED, SMART INFRASTRUCTURE SOLUTIONS

We are 100% focused on UK blue-chip infrastructure clients, specialising in projects requiring technology-based integrated services across the asset lifecycle.



CONSULTANCY

Concept, design and programme management consultancy



COMPLEX DELIVERY

Construction and implementation of technology led service solutions



ASSET OPTIMISATION

Maintenance support and upgrading, and advice on asset portfolio investments



OUR MARKETS

We focus on markets where there is committed spend, underpinned through legislation, regulation or essential national need.

ENERGY

WATER

TRANSPORTATION

OUR STRATEGY:

How we maximise value

OUR AMBITION

By positioning ourselves as the UK's leading smart infrastructure solutions company we will enhance our growth and market position as we continue to drive value for our stakeholders.



BROADEN OUR INTEGRATED SERVICE DELIVERY



ATTRACT AND DEVELOP NEW SKILLS



WORK RESPONSIBLY AND SAFELY



ACHIEVE SUSTAINABLE GROWTH IN PROFIT

OUR OUTPUTS:

The value we create

SHAREHOLDERS

We deliver sustainable, profitable growth and attractive returns for our shareholders. We continue to invest in the Group to support our strategy for growth.

9.25P
final dividend
14.0P
total dividend for the year

SOCIETY

Our projects bring productivity benefits from enhanced infrastructure, and employment opportunities.

135
STEM Ambassadors
16,000+
young people engaged in STEM

CLIENT

Our trusted relationships with our clients enable a better understanding of their needs, allowing us to identify, create and deliver the best solutions.

90%+
repeat business
85%
customer satisfaction

EMPLOYEES

We provide a safe and rewarding environment for employees and subcontractors.

250+
mental health first aiders
78,000
training days

HOW WE OPERATE

RESPONSIBLE WORKING

Costain Cares is our long-term strategy to build a longer-term sustainable business that creates economic, environmental and social value and delivers tangible benefits for stakeholders.

EMBEDDED VALUES

Underpinning everything we do are the Costain values and a culture where all our employees embody our values.

ROBUST CORPORATE GOVERNANCE

We have rigorous policies, procedures and mandatory training to ensure we have a responsible business culture.

EFFECTIVE RISK MANAGEMENT

Our robust risk management processes identify, manage and mitigate potential risk to the success of the business.

SUSTAINABLE DEVELOPMENT GOALS

The United Nations (UN) has set 17 global objectives for 2030 that aim to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda.

Costain's core purpose is to improve people's lives, so by aligning our strategy with the UN Sustainable Development Goals (SDGs) we can focus our business on the issues that matter.

Through our operations we impact on many of the SDGs, some of which are material to our stakeholders, and we will report our progress against these goals throughout this report.

Through our services we directly support the objectives of three goals, which are also clearly aligned to our purpose – 'improving people's lives'.

SDG 6: clean water and sanitation

Climate change, population growth and changes in consumer behaviour are putting increasing pressure on the water sector. With clients going through the latest round of regulatory change, there is an even greater need for innovation to ensure the industry can continue to meet the needs of people, businesses and the environment. Using the latest technology to improve the management of assets is vital. It will allow the industry to preserve an increasingly valuable resource, while protecting consumers from higher bills.

SDG 7: affordable clean energy

Alternative energy sources and advances in digital technology are creating a more competitive and dynamic energy market by providing consumers access to greater choice. According to Ofgem, renewables produced 26% of all electricity in 2017, with this figure expected to increase as associated technology costs decrease.

Reducing the environmental impact of electricity generation and gas to heat homes and businesses is one of the UK's top energy priorities. The UK is committed to reducing carbon emissions by 80% by 2050, relative to levels in 1990. Ofgem states that since the Climate Change Act 2008, over half the reduction in the UK's greenhouse gas emissions resulted from cleaner electricity. However, there has been limited progress in reducing emissions from heat (gas) and transport.

The transition toward more renewable energy and diversified supplies is creating opportunities and challenges for the flexibility of existing supply infrastructure.

SDG 9: industry, innovation and infrastructure

To keep up with growing demand and the need for improved connectivity, commitment to transport infrastructure is vital for our economy to thrive.

The Government has pledged to increase transport investment by 50% between 2015 and 2020 as this will ultimately drive growth and productivity across the UK. It is crucial, however, that this additional support is put towards projects that make a positive impact on people's lives.



Being a responsible business

Being a responsible business requires commitment from all. Strong leadership is needed to ensure that sustainability is embedded in the culture of the Company.

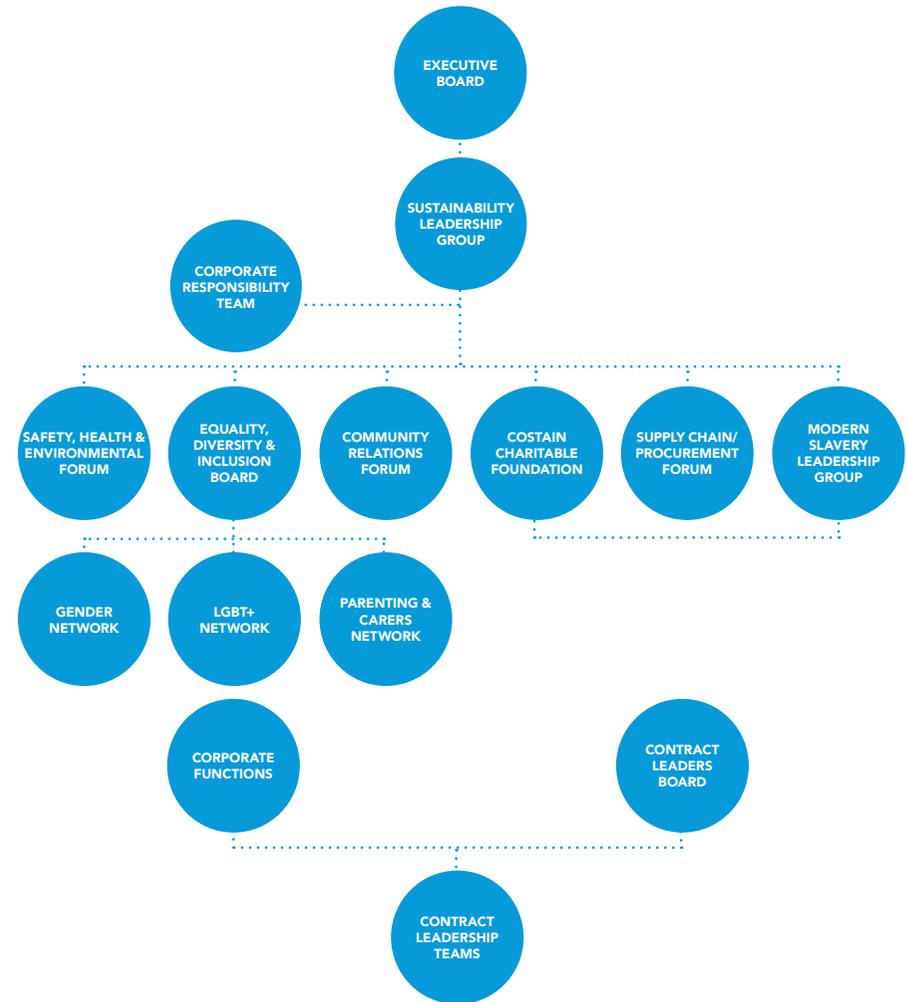
The Board holds ultimate responsibility for Corporate Responsibility (CR) management, and the Executive Board of Costain is accountable for all aspects of CR/ sustainability delivery, including setting policy, determining our strategy and providing leadership to drive our sustainability strategy.

We have an established Sustainability Leadership Group (SLG), consisting of directors and senior managers who hold direct responsibilities for our sustainability performance.

The SLG is responsible for implementing and delivering policy and reports progress to the Executive Board.

There are 27 policies that have been developed to support and drive responsible business behaviour at Costain. These can be found at: www.costain.com/our-culture/policies.

Every employee is responsible for working in a responsible and sustainable way.



Costain values

Behaving in a principled, disciplined way is all part of being a caring team and a responsible company. We believe that a happy workplace helps our people produce the best work. Our success rests, in large part, on the kind of self-motivated people we bring into our business and the sort of responsible suppliers and partners we choose. Our values guide our approach to creating a strong and inclusive culture.

C	O	S	T	A	I	N
Customer Focused	Open and Honest	Safe and Environmentally Aware	Team Players	Accountable	Improving Continuously and therefore the...	Natural Choice



MATERIALITY

Focusing on the issues that matter

We are committed to identifying and addressing the material sustainability issues that affect Costain and our stakeholders.

Our materiality assessment considers a wide range of issues that can be affected by our operations throughout our value chain. Many of these material issues align with the UN Sustainable Development Goals and all contribute to Costain improving people’s lives.

Process for identifying material issues

The Costain materiality assessment is aligned to GRI G4 guidelines.

Our process involved spending time engaging with stakeholders (including clients, local communities, consultants, charities and employees) through face-to-face meetings, surveys and desktop studies to understand the issues they currently face and the risks they see in the future.

As an output we ranked over 100 issues by their importance to Costain and our stakeholders, before reducing this to a list of 16 material topics. Many of the initially identified issues were very specific and therefore we have grouped them under a higher level material issue as part of our reduction process.

The ranking based around two criteria; the importance to Costain stakeholders and Costain’s ability to influence positive change. Safety, health and wellbeing were ranked highest (as seen in the graphic to the right).

While we have targets and report against 16 material issues, we are aware of other issues which we are monitoring because of their importance to our stakeholders. We are also addressing other material issues that may have a lower priority, but because we can positively influence change and in certain cases know that our action is the ‘right thing to do’.



Our 2025 goals

In 2016, we launched our 2025 sustainability strategy, in which we set ourselves ambitious long-term goals.

These goals were selected to ensure we help to achieve the UN Sustainable Development Goals and as a result of our materiality assessment. We are committed to measuring and reporting on our progress in a transparent and meaningful way. Each year we review our progress against these goals and set annual targets to ensure continuous improvement and an industry-leading approach.

Our 2025 goals focus on four pillars that are material to our business and our stakeholders:

- Costain is a safe and great place to work
- Creating a better environment
- Supporting our local communities and creating a lasting legacy
- Providing sustainable solutions for the marketplace

	Commitment	By 2025
Costain is a safe and great place to work 	Never compromising safety	Provide a safe working environment free from harm
	Always prioritising the health of our people	Costain staff absence rate 20% under the private sector average
	Ensuring all employees are treated and valued equally and we actively promote diversity and inclusion	To have a workforce that represents society
	Investing in tomorrow's leaders today	Our people have the right skills and capabilities to achieve their potential and meet their aspirations
	Communicating openly and by engaging with our employees, listening to their views on the Company and the issues that affect them	To be a Times top 100 employer by 2020
Creating a better environment 	Enhancing biodiversity	All projects have a net positive biodiversity impact
	Using natural resources efficiently	Collaborating to contribute towards a successful circular economy
	Reducing our carbon emissions	Leading the industry in low carbon engineering solutions and operations
	Protecting the environment	No direct harm to the environment from our operations
Supporting our local communities and creating a lasting legacy 	Respecting the communities that we serve	Leading and promoting best practice for community engagement
	Investing in the communities where we operate	60% of employees volunteer
	Inspiring the next generation	50,000 young people engaged through Costain STEM engagement
	Generating local social value	All projects demonstrate the social value that they bring to a local community
Providing sustainable solutions for the marketplace 	Providing customers with sustainable solutions that enhance their businesses	Clients consistently say we exceed their expectations providing sustainable solutions
	Supply chain collaboration	A collaborative supply chain that influences sustainable solutions for the industry
	Operating sustainably and ethically	Costain is a sustainable and ethical investment

PERFORMANCE AGAINST OUR 2017 TARGETS

We are pleased to report that we fully met 85% of our targets in 2017. Where we did not meet our targets we have plans in place to achieve these in 2018. The following pages detail our approach, highlight our achievements in 2017 and set out our priorities for 2018.

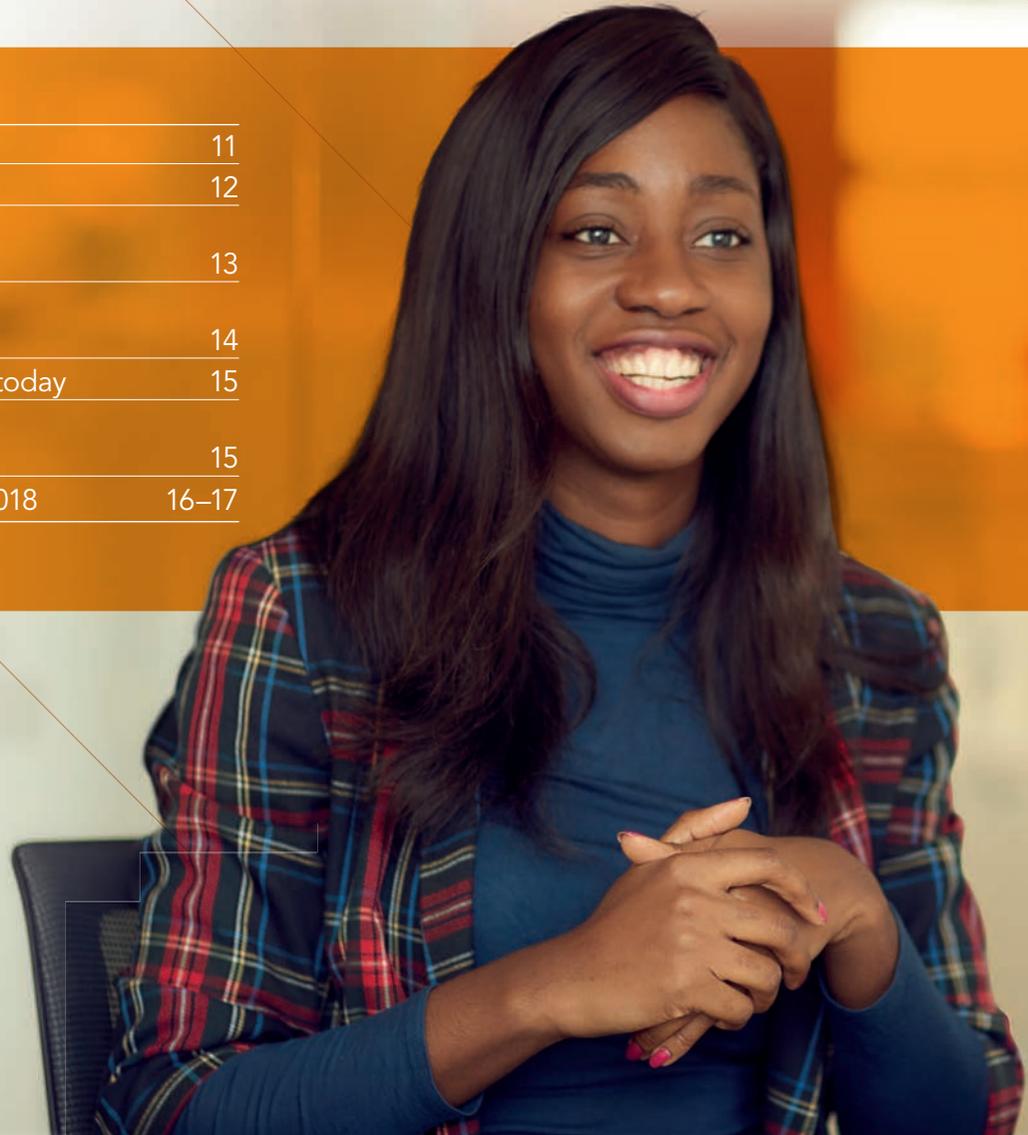
Status
● Achieved ● Partly Achieved ● Unachieved

	Commitment	2017 Target	Status
Costain is a safe and great place to work 	Never compromising safety	Group Accident Frequency Rate (AFR) of 0.07	●
	Always prioritising the health of our people	100% of projects and permanent offices to achieve bronze level status in the Costain health maturity matrix. With 50% of projects to achieve silver status	●
		All project and office colleagues to have access to Mental Health First Aiders	●
	Ensuring all employees are treated and valued equally and we actively promote diversity and inclusion	A further 250 managers to complete unconscious bias training	●
	Investing in tomorrow's leaders today	100% of our senior leaders (Executive Board, Divisional Senior Leadership Team, contract leaders) to attend and complete the new Costain SHE leadership development course	●
	Communicating openly and by engaging with our employees, listening to their views on the Company and the issues that affect them	Visible Company action plan from 2016 engagement survey	●

	Commitment	2017 Target	Status
Creating a better environment 	Enhancing biodiversity	All relevant projects to achieve an environmental engagement score of green or above by the end of 2017	●
	Using natural resources efficiently	All projects to trial the Resource Efficiency Matrix	●
		5% reduction in non-operational carbon per £1m turnover in 2017, contributing to a 35% reduction by 2020 against the 2013 baseline	●
	Protecting the environment	Environmental incident frequency rate of 0.18 or below	●
Supporting our local communities and creating a lasting legacy 	Respecting the communities that we serve	Average Considerate Constructors score of 41	●
	Investing in the communities where we operate	30% of Costain employees undertake a volunteering opportunity in 2017	●
		Inspiring the next generation	10,000 young people engaged through Costain supported STEM activities
		Roll-out Costain's inspirational work experience programme	●
	Generating local social value	Implementation of supply chain mapping tool across all major Costain contracts	●
	Supporting charity	Charitable donations equal 0.5% of Costain profit	●
Providing sustainable solutions for the marketplace 	Providing customers with sustainable solutions that enhance their businesses	Develop and implement a bespoke sustainability themed customer engagement survey	●
	Supply chain collaboration	Implement action plan to achieve ISO 20400 Sustainable Procurement in 2018	●
		100% of strategic partners registered with the Supply Chain Sustainability School and achieving silver standard	●
	Operating sustainably and ethically	A sustainable return for our shareholders	●

Ensuring Costain is a safe and great place to work

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ENSURING COSTAIN IS A SAFE AND GREAT PLACE TO WORK

Our approach

We have a diverse, skilled and experienced team who ensure the safe, effective delivery of our strategy.

The protection of our people, our stakeholders and all those affected by what we do is at the heart of our business and is a core value for Costain. From the earliest opportunity, our teams strive for the highest standards through our industry leading approach driven by open and honest leadership that understands what real health and safety means. Our compliance with OHSAS 18001 ensures we maintain an internationally respected management system.

Our operational teams take ownership of their health and safety risks. Risk is identified at the earliest stages of our processes and, wherever possible, eliminated through design or alternative methodologies. This is the Costain Way.

Our people are our most important asset and both their physical and mental health is a key to a happy, effective and sustainable workforce. We want our people to be at their best and we recognise that good

mental health is an essential element for success. For this reason, the workforce is supported by over 250 Mental Health First Aiders and a range of employment options designed to promote a sensible work-life balance. In support of this focus and following direct feedback from employees, a dedicated Wellbeing Strategy has been developed which further raises the bar and sets standards for 2018 and beyond.

We are committed to building the best team at Costain. We work hard to create a culture where all of our employees are treated and valued equally, where our people can be themselves, thrive and reach their potential.

We invest significantly in learning and development, ensuring that our teams have the skills and capabilities needed to meet both our clients' requirements and their own ambitions, now and in the future.

Cultural flexitime

Following employee feedback, we launched an update to our planned absence process. The update allows employees wishing to observe holy holidays the flexibility to do so by working on bank holidays in exchange for an extra day's leave. This eliminates the need to take annual leave for important cultural or religious events. For example, an employee might choose to work on Good Friday and swap the leave entitlement for a different holy festival such as Eid or Diwali.



Our people are fundamental to the success of our business, we place great importance in engagement, listening and acting on their views.

In 2018, we will be conducting our next employee engagement survey. We will use the information gathered to help us to continue implementing positive changes.

Never compromising safety

While we can never be complacent, we are pleased to report that 2017 saw our best annual safety performance on record (based on our accident frequency rate performance).

Indicators show that our injury rates are at an all-time low. It is clear to see that over the past 15 years these rates have reduced by 72% while our total operational workforce size (including suppliers working on our sites) has increased by 46%. Despite this, we have set ourselves a stretching goal to halve harm to people involved in our operations by the end of 2018.

We have made a conscious decision to move away from lagging indicators to those which give us better foresight in the form of predictable trends and early warnings for opportunities to improve, rather than focus on events once they have taken place.

We recognise the importance of leadership in creating a positive safety, health and environmental (SHE) culture. Therefore in 2017 we trained 100 of our senior managers

in SHE leadership. The interactive course provided our Executive Board, sector directors and contract leaders with an update on key SHE concepts while introducing new, proactive ways of thinking about SHE.

In 2017 we introduced an innovative new approach to contract risk management. This targeted method enabled and empowered contracts to focus on the SHE risks fundamental to their work. In addition, three deep dives on key risk areas were undertaken across all contracts and the lessons learned were used to enhance operational management.

We were proud to have received the highest-level achievement award from the Royal Society for the Prevention of Accidents (RoSPA) in recognition of our exemplary record of consecutive RoSPA gold awards

for over 25 years. The Patron's award (launched this year) was presented to our oil and gas sector after our achievement of 26 consecutive gold awards. As RoSPA gold award winners, we have achieved a consistently high level of performance, demonstrating well developed occupational health and safety management systems and culture, outstanding control of risk and low levels of error, harm and loss.

High standards of health and safety are not an option, they are an imperative. We are always considering the future and the ways in which we can continue to lead and influence health and safety standards both internally and within our peer groups.

LOWEST EVER ACCIDENT FREQUENCY RATE

0.07

REDUCTION IN LOST TIME INCIDENTS

35% since 2014

SENIOR STAFF ON SAFETY, HEALTH AND ENVIRONMENT (SHE) LEADERSHIP TRAINING

100 staff 66 target

ROSPA RECOGNITION

18 awards

HOURS WORKED IN 2017

48 million

ENSURING COSTAIN IS A SAFE AND GREAT PLACE TO WORK

Always prioritising the health of our people

In 2017 we launched our Health Maturity Matrix, a tool to help our contracts raise the bar and drive innovation.

The matrix provides a set of incremental leading indicators which assess a contract's culture and maturity resulting in the achievement of bronze, silver and gold standard. In 2017 all contracts met the bronze standard and half attained silver.

We made wellbeing a major focus in 2017, as we recognise that by creating and maintaining the right culture where our employees can be happy and healthy, they will fulfil their potential. In turn, absenteeism will reduce, morale will increase and our general working environment will become a place to work where healthy lifestyle choices are available for all. This is key to helping us to attract and retain the very best talent by ensuring Costain is a great place to work.

We believe in giving our employees the tools to promote, maintain and maximise their wellbeing to support them in being the best that they can be. In 2018 we will be launching our new Wellbeing Strategy which will

help us build on the strong progress we made in 2017. A major focus of the strategy is mental health, challenging its often negative stigma and providing our colleagues with training and enhanced awareness of an issue that one in four people will experience in their lives.

Our industry has traditionally not addressed mental health and as such we are proud to have over 250 trained Mental Health First Aiders within our business, providing support to all staff in every contract and office. In addition to this over 300 (that's one per every 17 members of staff) of our line managers have completed mental health awareness training, enhancing their understanding of mental health and ensuring they are equipped to support their teams.

We are delighted to be signing the 'time to change' pledge in February 2018 as another step we are taking to help break the negative stigma of mental health.

We offer all our employees biennial medicals. Over the past two years 80% of staff have taken advantage of this opportunity as part of our commitment that every employee completes at least biennial medicals.

In a proactive step, we were delighted to open up our employee assistance programme to employees of our supply chain as well as our own staff. The service provides confidential advice to anyone experiencing worry, stress or anxiety via a free 24/7 helpline and emotional support through telephone or face-to-face counselling sessions.

TRAINED MENTAL HEALTH FIRST AIDERS

250+

EMPLOYEES COMPLETED A COMPANY MEDICAL IN PAST TWO YEARS

80%

LINE MANAGERS COMPLETED MENTAL HEALTH AWARENESS TRAINING

300+

Ensuring all employees are treated and valued equally

We believe that greater diversity will make us a better, more creative, innovative, agile and efficient organisation.

It is our goal to build a workforce that is representative of society and to achieve this, we are committed to meeting the FTSE 350 target of having at least 33% of our senior management positions filled by women by 2020. We are also committed to the FTSE 250 target to have at least one BAME (black, asian or minority ethnic) Board director by 2024.

We launched our latest Equality, Diversity and Inclusion (EDI) strategy in March 2017 and have implemented a number of initiatives that we believe will help us meet our goal. Our focus over the last year has been on enhancing line manager training, removing barriers to flexible working and ensuring that our policies are inclusive.

We are pleased to see progress towards our goal and since 2016 our senior female population has grown from 10% to 18%.

We have worked hard to ensure that bias is removed from our recruitment, reward and development programmes. We have implemented a new recruitment system which removes personal details, providing our hiring managers with blind CVs. We have invested significantly in training, seeing over 1000 line managers completing unconscious bias training since its launch in 2016.

Retaining diverse talent is significantly important, we have seen a trend of mid-career women leaving Costain and the industry when they have children. To address this trend we are working hard to promote flexible working, providing both the individual and line managers support through formal arrangements. 10% of our employees are on a formal flexible working arrangements and we estimate that approximately an additional 30% of employees work flexibly through informal arrangements.

To support flexible working, we have made a significant investment in new IT systems and software, which is supporting a 40% increase in minutes spent using video conferencing between 2014 and 2017.

We were proud to march at the Pride in London Parade for the first time in 2017, in celebration of LGBT+ rights and equality. Over 70 colleagues attended the parade, making a bold statement that #lovehappenshere.

We were delighted to be announced as a Times Top 50 employer for women, a direct result of our focus on being an inclusive company.

We have published our gender pay gap after conducting an in-depth review into our employee remuneration. We are confident that men and women are paid equally for doing equivalent roles across our business. Our gender pay gap however is 23.8%.

COSTAIN TREATS ME WITH DIGNITY AND RESPECT

78% of employees agree

INCREASE IN FEMALE EMPLOYEES SINCE 2013

38.9%

SENIOR LEADERS THAT ARE FEMALE

18%

EXECUTIVE BOARD THAT ARE FEMALE

20%

NEW RECRUITS IN 2017 FROM BLACK, ASIAN & MINORITY ETHNIC ORIGINS

14%

NEW RECRUITS IN 2017 THAT ARE FEMALE

23%

ENSURING COSTAIN IS A SAFE AND GREAT PLACE TO WORK

Investing in tomorrow's leaders today

Developing our skills and capabilities is key to ensuring we continue to provide innovative, sustainable solutions to our clients.

We are focused on ensuring that every employee has fair and equal opportunity to access development programmes, enabling them to progress their careers and achieve their aspirations.

We invested over £4m on learning and development with over 78,500 hours of training completed in 2017, a significant increase year-on-year. This has helped over 600 employees gain a promotion in the year.

We have an award winning graduate development programme, with over 250 graduates working towards becoming chartered.

We also have over 120 apprentices on a structured development programme undergoing training across the business.

We are currently sponsoring 21 PhD students to undertake leading-edge research with leading UK universities.

The skills of our team is one of our fundamental strengths and over 25% of our employees are now chartered professionals. The investment in our peoples' skills is essential to ensuring we have the best team in the industry.

Communicating openly and by engaging with our employees

Leading from the front, our chief executive and managing directors led two Group-wide Safety, Health and Environment (SHE) Leadership Impact days in 2017, where every contract and office stood down from work to discuss key health and safety topics.

Our senior leaders visited every one of our contracts across the UK to engage with our teams, including joint venture partners, clients and suppliers. The days were used to discuss SHE risks, as well as behaviours we all must maintain to meet our target to halve harm by 2018.

The events also focused on targeting risk monitoring, health and wellbeing. Both events were highly successful, with feedback from our colleagues being used as part of our ongoing proactive risk management and the foundation for the wellbeing strategy which will be launched in 2018.

In addition, we ran campaigns for International Women's Day and International Women in Engineering Day. Both events saw employees getting involved in discussions on gender equality, challenging gender stereotypes and profiling role models.

In response to employee feedback, we launched employee networks for Gender and LGBT+ and Allies. The networks have received excellent levels of engagement and support, with a particular highlight seeing the LGBT+ and Allies network marching at the Pride in London Parade.

STRATEGY IN ACTION

Designing for health

Designers have the ideal opportunity to identify and eliminate safety, health and environmental hazards in the earliest stages of their involvement on projects. CDM 2015 makes this a requirement for all those classed as 'designers'.

The Costain, MWH (now Stantec) and Severn Trent Water team working on the Activated Sludge Plant (ASP) contract near Burton-on-Trent developed a brief to fully appreciate and design around physical health hazards such as noise, vibration, chemical and biological agents and effects from the weather.

The brief considered all stakeholder needs and influence within the contract scope including constructors, operators, maintainers and de-commissioners.

Previous, relevant projects and asset design challenges were reviewed with the learning shared during the workshop. Case studies were developed by Severn Trent Water, Costain and MWH illustrating the various health hazard management methods used by the respective companies.

Maria Melton, project director said: "As a health champion on the framework, I can honestly say that this work has been invaluable with regard to raising the health agenda within the daily thought patterns of everyone as a designer. There is already a wide range of benefits coming to light and it has also emphasised possibilities with regard to further workshops on environmental and safety management in design".

The end result is a new toolkit and process to be integrated into the Costain system to ensure a 'business as usual' approach for the Group as a whole. This will be a fundamental enhancement to the elimination and risk control work already undertaken by our design teams.

Costain Pride

For the first time, a group representing Costain marched at the Pride in London Parade. Over 70 people including friends, family and colleagues, dressed in Costain rainbow t-shirts, proudly flying Costain flags attended the event.

The Pride in London Parade provides a platform for every part of the LGBT+ (lesbian, gay, bi and transgender) community to raise awareness of LGBT+ issues and campaign for the freedoms that will allow everyone to live their lives on an equal footing.

Attending the parade gave us a great chance to publicly show that Costain is an inclusive company which strives towards creating a culture where everyone can bring their true-selves to work.

One of the Costain engineers attending the parade said "It was a brilliant experience to march in Pride with Costain. I felt so supported by my colleagues and the senior members of the Company. It was also great to meet like-minded people who wanted to make a difference to our industry. It helped me to feel proud to be myself at work".

Costain's efforts to support LGBT+ issues did not stop at Pride. We also joined the Stonewall Diversity Champions programme in 2017.

Moving forward, our employee LGBT+ and Allies network will help shape our Equality, Diversity and Inclusion strategy. Costain is looking forward to the 2018 Pride in London Festival and Manchester Pride events.



ENSURING COSTAIN IS A SAFE AND GREAT PLACE TO WORK

STRATEGY IN ACTION

Offering a helping hand

We extended our Employee Assistance Programme to our circa 20,000 supply chain colleagues in 2017. This is a first for the construction industry and offers free support to anyone in the business or supply chain experiencing worry, stress or anxiety caused by health, family, work, legal or other issues.

The move underscores our aspiration to lead in improving the health and well-being of our workforce.

The programme offers confidential advice to employees via a free 24/7 helpline. It also provides additional emotional support through telephone or face-to-face counselling sessions. All employees and supply chain staff are briefed on the support available as part of their induction process.

Concerns about the health and well-being of employees and supply chain workers are embedded at the heart of our business.

Gavin Bye, Costain Group safety, health and environment director, comments: "Costain has long been an industry leader on employee health and wellbeing issues and a natural next step was to extend our Employee Assistance Programme to our supply chain. We hope our decision will see other organisations across the industry following suit.

"We all experience many challenges throughout our lives which can lead to worry and stress, so we felt that help and support should be offered to our entire workforce, not just our own staff. Our Employee Assistance Programme provides a superb confidential service to help us all through the difficult times that we can face in our lives."

The programme also provides support for employees and supply chain workers experiencing issues with their physical health. There is an online portal where staff can go for mini-health checks, personalised health risk assessments and access to fact sheets on a broad range of health topics.

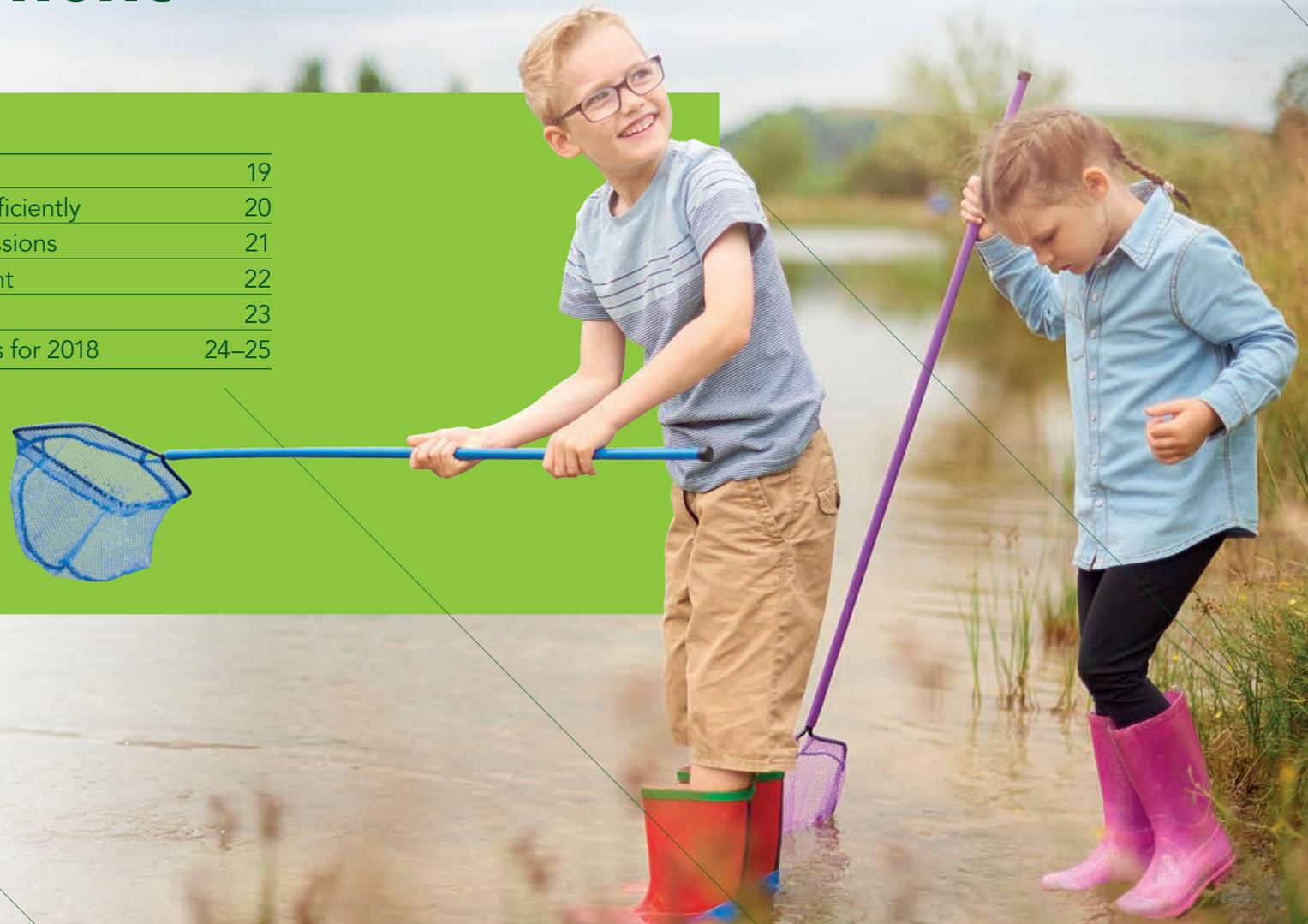
Priorities for 2018

- Continue to reduce the number and severity of accidents
- Sign up to the 'time to change' pledge
- All employees to have completed unconscious bias training
- All line managers to have completed mental health awareness training
- Publish our gender pay gap report
- Make mental health and wellbeing discussions an accepted and normal part of daily conversation



Creating a better environment

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CREATING A BETTER ENVIRONMENT

Our approach

Costain's aspirations go beyond merely minimising harm on the environment. We work actively with our clients to provide environmental enhancement and sustainable solutions.

Costain implements and maintains an environmental management system and is certified to ISO 14001 requirements. This helps to define, measure and control processes and activities that are employed in the execution of the business.

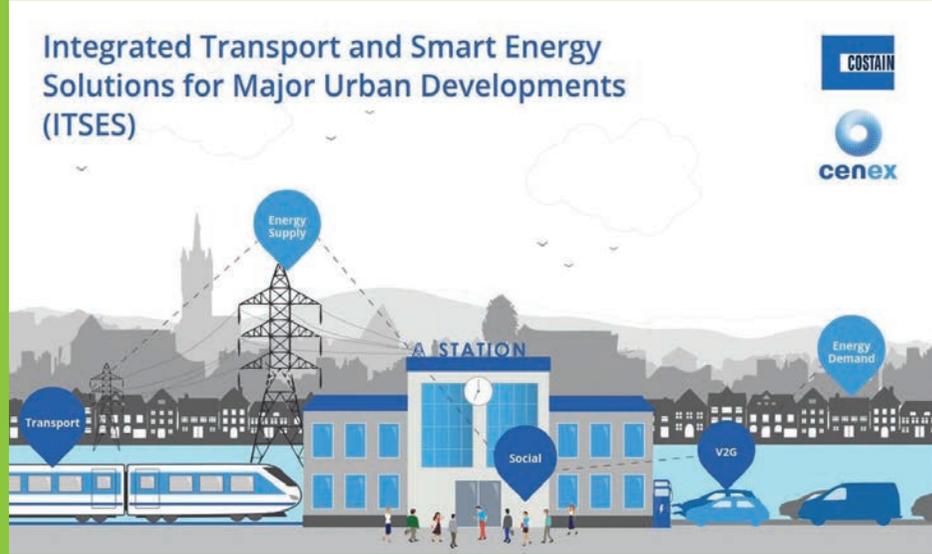
We aim to improve continually the environmental performance of all Costain activities by proactively developing solutions to minimise environmental impacts during the delivery and life-cycle of contracts.

We achieve this through committed and inspired leadership and an open culture that encourages innovation and partnership with our clients and supply chain.

As the population and economic activity of the UK grows there is more pressure to find low carbon solutions for our customers and protect our natural environment. Costain is rising to this challenge and has set ambitious medium and long-term targets.

Our progress towards meeting our targets is encouraging. In particular we are close to meeting our target to reduce our non-operational carbon emissions by 35% by 2020 compared to our 2013 baseline.

Integrated Transport and Smart Energy Solutions for Major Urban Developments (ITSES)







Costain and the Centre of Excellence for Low Carbon and Fuel Cell technologies (Cenex) conducted research for the UK Government into business models that will enable Vehicle-to-Grid Technology integration into the current UK infrastructure.

Vehicle-to-Grid Technology uses the battery storage capabilities of electric vehicles to balance the grid at periods of high demand, therefore reducing demand on power generation.

This market facilitation involving UK Government officials among other large companies, SMEs and interest groups has

helped secure £20m of Innovate UK funding. This will be used to help address the decarbonisation of the UK's transport and energy networks.

It is predicted that the industry will create 10,000 jobs in the UK alone and establish business models that will distribute wealth from energy differently. This in turn will address critical national challenges around energy generation and balancing. This technology has been identified as having an essential role in decarbonising the networks and creating truly smart cities.

Using natural resources efficiently

We aim to deliver solutions that use the earth’s limited natural resources in a sustainable way, while minimising impacts on the environment. This allows us to create more with less.

The sustainable management of waste from Costain’s operations has been an environmental measure for some time. We have reduced waste by over 25% since 2013 through efficient planning, the use of waste and material management plans, robust procurement of waste services and the implementation of a data management system to record, monitor and action waste reduction.

We measure the quantity of waste diverted from landfill through reuse off-site, recovery and recycling. This has remained high in 2017 at over 95%.

We put considerable effort into identifying the highest value uses for waste and we work with charities and communities where possible to reuse materials rather than create waste.

We are also aware of the potential impact from the material we purchase

and have a sustainable procurement policy which requires our buyers and suppliers to select products with the lowest environmental impact. For example, our timber suppliers must provide 100% FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification) certified timber.

In 2017 we trialled a Resource Efficiency Matrix to incentivise contracts to reduce their environmental footprint and operate in a resource efficient manner.

The matrix identifies opportunities by challenging our teams to use existing efficient methods and technologies, investigating innovative ways to minimise our impacts. We manage six key areas including: carbon, materials, waste and water, setting reduction targets in the office environment and within construction.

	2013	2014	2015	2016	2017
Total waste removed from site (T)	695,000	684,886	673,329	580,304	519,292
Tonnes construction waste/ £100,000 turnover	2.1	2.1	2.4	2.7	1.9
Total waste diverted from landfill	95%	94%	93%	96%	95%



Working with partners is important in finding alternative uses for waste. One particularly successful partnership is with Community Wood Recycling. Costain has worked with the social enterprise since 2014, which has resulted in the collection of over 569 tonnes of waste timber from Costain projects.

49% of the timber collected has been driven up the waste hierarchy into reuse; going to various community projects. The remainder of the timber is recycled, which prevents any waste to landfill.

This project has social benefits too. The collection service has created six paid jobs and 15 training opportunities for local people.

CREATING A BETTER ENVIRONMENT

Reducing our carbon emissions

Costain is leading the step-change in carbon management that is shaping the industries in which we operate. We are actively supporting our clients' drive to reduce their carbon footprints and proposing sustainable whole-life low carbon solutions. This is in addition to managing and reducing our own direct carbon footprint.

For the sixth year running Costain has received third party certification from Achilles for its certified emissions measurement and reduction scheme (CEMARS).

Our long-term commitment to carbon reduction continues to receive external commendation. In 2016 and again in 2017, Costain was nominated for CEMARS Gold Standard due to our ongoing reduction achievements.

In 2016 our emissions reduced by 41% compared to 2015; the most significant reduction Costain has recorded since records began.

Following on from this significant reduction, we are pleased to report that in 2017 we achieved a further 4% decrease in our carbon footprint compared to 2016.

We have achieved a 26% year-on-year reduction in our non-operational carbon footprint at our permanent offices and through business mileage, when compared to our 2013 baseline.

We have prioritised a move towards carbon neutral green energy tariffs, the use of hybrid and energy efficient generators and power setups

Hybrid vehicles are now available in every grade of the Company car fleet, with all vehicle emissions capped to a maximum of 120gCO₂/km; reducing overall emissions by 12% compared to the previous fleet.

By 2020, Costain aims to have all offices on green energy tariffs, demonstrating our commitment to renewable energies and guaranteeing zero emissions for greenhouse gas reporting.

GREENHOUSE GASES

CO₂ EQUIVALENT EMISSIONS (tCO₂e)

18,579 Total emissions

2017	18,579
2016	18,523
2015	Restated 25,094

17,001 Scope 1

2017	17,001
2016	15,255
2015	19,488

1,578 Scope 2

2017	1,578
2016	3,267
2015	5,606

10.7 Emissions intensity (tCO₂e/£m)

2017	10.70
2016	11.19
2015	19.06

NON OPERATIONAL CARBON (tCO₂e/£m)

3.2

2017	3.2
2016	4.3
2015	5.05

Protecting the environment

Costain’s aspirations go beyond merely minimising harm on the environment to working with our clients to provide environmental enhancements, develop low carbon and environmentally sustainable solutions.

We achieve high levels of environmental engagement through committed leadership, an open culture that encourages innovation and partnerships with our stakeholders.

2017 has been an extremely positive year regarding reduction in environmental incidents. We have seen a 21% reduction in the environmental incident frequency rate (EIFR), compared to 2016 as well as a significant decrease in the number of reported incidents.

To raise the environmental awareness and engagement of our people, in 2017 we challenged each contract and office to identify an environmental sustainability topic which was relevant to the location. We required that at least one of the events was focused on resource efficiency, encouraging innovative thinking –

and wider engagement with our supply chain with the objective to share learning. Events undertaken by our contracts varied from volunteering time at local wildlife projects, reducing energy usage on the contract, trialling alternative more efficient equipment, reducing waste and supporting local community projects.

In 2017 we saw a positive increase in our calculated Environmental Engagement Ratio, with 93% of our projects achieving an Environmental Engagement Ratio of green or even higher.

	2012	2013	2014	2015	2016	2017
Environmental incidents (number)	85	80	108	86	84	71
Environmental incident frequency rate	0.28	0.28	0.35	0.25	0.19	0.15
Environment related prosecutions, cautions or notices	0	0	0	0	0	0

CREATING A BETTER ENVIRONMENT

Enhancing biodiversity

By enhancing the biodiversity of the areas in which we work, we not only improve the environment for flora and fauna, but we also create social value, which positively impacts the lives of the communities in which we operate.

This intent also links and supports our strategic objective of 'supporting our local communities and creating a lasting legacy'.

During 2016/17 we launched a number of new processes and tools as part of our environmental management system. These support our contracts to measure and therefore mitigate biodiversity loss and where possible support biodiversity net gain.

One of our sustainability objectives for 2018 is that every new contract will measure their biodiversity impact. Our intention is that this will spur our teams to take additional action to further mitigate impacts not addressed through planning legislation and work with our clients to leave a positive impact on biodiversity.

Identification and measurement is the first step in the journey of impact reduction and achieving biodiversity net gain. In 2015 we introduced a requirement for every contract to produce a Biodiversity Action Plan as part of the Environmental Management Plan for the project.

Costain's 'A465 Heads of the Valleys' project team won a Gold Award for Environmental Best Practice at the Green World Environment Awards, competing against 500 global nominations. They were recognised for their significant environmental best practice, creating two new bat crossings, bat roosts, successfully translocating rare Welsh Whitebeam Trees, planting thousands of trees and using felled trees, creating artificial hibernaculum.



STRATEGY IN ACTION

Designing and constructing efficient highways

Costain recently completed the construction of a new dual carriageway to replace the old A556 trunk road between Knutsford and Bowdon. Working closely with Capita and Highways England, we set out to find innovative solutions to reduce carbon emissions in both the design and construction of the new road.

By using recycled materials, consisting of road planings and quarry dust, we were able to produce a cement bound granular material to construct the sub-base of the new road. The work resulted in a saving of 8,000 heavy goods vehicle movements from local roads. The carbon saving through this efficiency equated to an estimated 690 tonnes.

As part of the collaboration to reduce carbon, we were able to change the design of the traditional 'Y' shaped bridge beam to a 'W' shaped beam, creating a more economical solution that reduced the volume of concrete by 1,725 tonnes and saving 324.3 tonnes of embodied carbon. Additionally, this initiative reduced lorry movements to and from site, contributing to a further saving of 119.53 tonnes of embodied carbon. This design change also saved approximately £350,000 in material costs.

To minimise fuel usage, the project trialled various hybrid technologies, including excavators and generators. By using a battery powered generator the project was able to save £190 in fuel and 728kg of carbon per week when compared against a traditional generator.

Our concrete supplier, Hanson, was involved in our strategy to reduce carbon by supplying concrete which was made up of between 40-50% of secondary material, ultimately reducing our overall carbon footprint with an estimated saving of 1740 tonnes of carbon against standard concrete mixes.

Solar savings

Our joint venture team working at Thames Water's Cholsey treatment works successfully powered the site entirely by solar for a week in 2017. The team set themselves the challenge to reduce their carbon emissions and sought renewable power solutions.

The solution involved using three Solatainer units, in replacement of a conventional 100kVa diesel generator. The Solatainer is a renewable hybrid unit, with inbuilt PV solar panels and battery storage – all neatly combined in a 20ft shipping container.

The site, albeit small, has five office cabins, a canteen and toilets all of which are powered using solar energy and backed up by a small back diesel generator. From setting up the site in August 2017 until 31 December, a period that equated to 2,856 working hours, 61% or 1,729 hours of power was provided through solar generation. Following the trial the site team adopted the setup for the remainder of the project and have paved the way for other Costain projects to follow in their footsteps.

Per week	100 KvA Generator	3 Solatainers
Hire cost	£282	£230 x 3 = £690
Hours in operation	168 hours	168 hours
Gas oil consumption	1,512 litres = £756	63 litres = £32
Fuel tank	£20	£30
Emissions	.47tCO ₂ eq	0.19 tCO ₂ eq
Total cost	£1,058	£752



CREATING A BETTER ENVIRONMENT

STRATEGY IN ACTION

Leaving a positive environmental legacy in Tovil

A Costain project to install a new footbridge over the railway in Tovil, Kent on behalf of Network Rail built positive community relations through its environmental benefits.

From the outset, the team explored opportunities to create a positive biodiversity impact on the land they were operating on. By working with children from the nearby St Michael's Primary School, they set out to plant trees, wildflowers and hedgerow plants, installing hedgehog homes, hibernaculas, bird boxes, bat boxes and bee hotels.

As part of a learning experience, the children took part in a biodiversity discussion with the Kent Wildlife Trust.

For their efforts in enhancing the environment and educating local children, the team were 'Highly Commended' by the Construction Industry Research and Information Association (CIRIA) and were awarded a Gold Green Apple Award.



Priorities for 2018

- All new relevant projects to measure biodiversity impact
- Consistently measure resource efficiency
- Further reduce our carbon emissions, both from our operations and our properties
- Further reduce our environmental incident frequency rate to a record-breaking level

Supporting our local communities and creating a lasting legacy

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SUPPORTING OUR LOCAL COMMUNITIES AND CREATING A LASTING LEGACY

Our approach

We are committed to supporting our local communities and creating social and economic value. We believe that our community investment helps build stronger communities and enhances our reputation.

We manage our community relationships at a local level, providing financial and non-financial support to our tailored community programmes. Each contract has a community engagement plan and a sustainability action, which is developed by a dedicated community relations representative. Our processes require each contract to complete local stakeholder mapping, helping us to understand the needs of our local communities and implementing programmes that leave a positive legacy.

Every Costain employee is entitled to two days' annual volunteering leave and our senior leadership actively encourages staff to use this allowance in support of good causes.

We aim to inspire future generations by promoting science, technology, engineering and mathematics (STEM) in schools and colleges, and through our work experience programme.

We have a charitable foundation which makes grants to charities and in 2017 we partnered with Cancer Research UK. The Costain Charitable Foundation is governed by a Board of Trustees, which is made up of employees, executive and non-executive directors and independent trustees.

We are also an active member of the Prince of Wales's 'Responsible Business Network', Business in the Community and are proud patrons of the Prince's Trust. Many Costain employees play a significant role in collaborating with the Prince's charities.

STRATEGY IN ACTION

Helping ex-offenders get back on their feet

Over 11 million people in the UK have a criminal record, yet three quarters of employers admit to discriminating against applications with a criminal conviction.

In 2017, Costain supported a Business in the Community (BITC) initiative to end discrimination against people with criminal convictions. The 'ban the box' initiative refers to removing the need for ex-offenders to declare any 'spent' convictions in their applications, in light of research proving that 75% of employers discriminate against ex-offenders and 16% of employers would reject any ex-offender outright.

Costain projects have historically supported the recruitment of ex-offenders. Of the 11 million people in the UK with a criminal record, nearly half are still seeking employment two years after release from custody or paying their fines. The social case is clear, giving opportunities to ex-offenders to restart their careers reduces the rate of re-offending by up to 50%.

The Costain Skanska Joint Venture project working for Crossrail are hard at work trying to reverse the trend, by linking in with the London Community Rehabilitation Company. They formed a pilot partnership which aims to identify work placements on site for local unemployed people with a recent criminal conviction. The partnership to date has recruited and trained 12 ex-offenders in roles on the project.

Based on the pilot project, there is clear evidence that such a scheme can be a huge success and one that could be introduced as a means to helping to support recruitment and creating social value.

Respecting the communities we serve

We place great importance on respecting all of our stakeholders. Our dedicated community relations team work to build community relationships, built on trust, responsible behaviour and our ability to listen to our communities.

The Considerate Constructors Scheme was set up to help improve the image of the construction industry and provides an independent audit from which we can measure the performance of our sites.

Costain sites scored, on average, 22% higher than the overall average for the industry, scooping two national runners up awards and three gold awards at the annual Considerate

Constructors Awards. In total 14 Costain sites picked up awards from the scheme in 2017.

Costain was recognised by Business In The Community Wales winning the 'Responsible Large Business of the Year Award' in 2017. This endorsement was based on the excellent work the team in Wales have done to support local businesses, their communities and some significant charity work.

AVERAGE CONSIDERATE CONSTRUCTORS SCHEME SCORE

44 out of 50



EMPLOYEE VOLUNTEERING HOURS

5,000



Investing in the communities where we operate

We are fully committed to leaving a positive legacy on all of our contracts and our people are passionate about volunteering to enhance our local communities. In 2017, 25% of Costain colleagues completed some form of volunteering, resulting in over 5,000 hours being donated to good causes. Volunteering ranged from promoting science, technology, engineering and maths (STEM) in schools, to community projects across the country.

One of our biggest community projects is the design and redevelopment of the outdoor facilities for the Ty Hafan children's hospice near Cardiff. This significant project has seen the collaboration of many suppliers, who have all volunteered time, money and materials, providing support which the charity could not afford.

The team from the Costain, Vinci, Bachy Joint Venture completing the Thames Tideway East project gave

their time to mentor small businesses. The initiative, in partnership with Business in the Community, aims to upskill small businesses and start-ups, giving them support on a variety of business matters.

Many projects support local food banks by collecting consumables and volunteering time to help run the facilities. Working with disadvantaged people is an area that we are passionate about. For example, our team working on the M1 motorway volunteer by cooking at the Hope 4 Homeless shelter and colleagues from across the business volunteer with the Prince's Trust.

Environmental enhancement projects, such as litter picking on the banks of the River Thames, working with local Wildlife Trusts to remove invasive species and creating habitats for insects, birds and mammals local to our projects, all contribute to the work our people do in the community.

SUPPORTING OUR LOCAL COMMUNITIES AND CREATING A LASTING LEGACY

Inspiring the next generation

We want to attract diverse talent into Costain. We believe that investing in the long-term is the only way we will achieve a truly representative workforce. For this reason Costain set a target to engage 10,000 young people through science, technology, engineering and maths (STEM) initiatives in 2017.

The STEM target builds on the 2016 focus for Costain colleagues to donate 10,000 hours to good causes through volunteering. Costain has a long history supporting schools and currently has over 300 STEM and Construction Ambassadors who visit schools across the UK to celebrate our fantastic industry. Employees are encouraged to become ambassadors and receive two days volunteering leave per year, which many use for volunteering in schools. In 2017 colleagues visited over 150 schools, engaging over 16,000 young people and donating over 2,500 hours through employee volunteering. In addition to our outreach work, 61 young people completed 745 days of work experience with Costain in 2017.

Generating local social value

Our purpose is to improve people's lives. We achieve this through our unique client focus, helping to address critical national needs and as such we are creating social value. Further to the services we provide, we also have significant opportunity to create local social value through the way we operate.

Working with small businesses and employing local people is one way that we are able to generate social value. In 2017, 46% of every £1 we spent was directly with an SME (small and medium enterprise). This is an increase of £156m when compared to 2016.

Our community investment programmes provide financial and physical resources to local projects. Each contract is required to complete a sustainability action plan which includes a heat mapping process to help identify initiatives we can support, prioritising those where a sustainable outcome can be achieved. In 2017 over 2,500 hours of voluntary time was provided to community projects, ranging from creating community gardens, providing materials for the Bluebell heritage railway and supporting various local charities.

We also understand that we can create long lasting social value through design. Our head of Design Management worked with an industry party, facilitated by the Supply Chain Sustainability School to create a new industry wide guidance document on the steps that can be taken during the design stages of a contract to generate additional social value.

A simple example of this focused approach is the Old Hall Lane Underpass beneath the A556, near Manchester. Costain organised and listened to feedback from stakeholder engagement sessions. The height of the underpass was raised by 40cm to accommodate horse riding and prevent riders having to dismount and lead their horses under on foot. This was particularly important for local disabled riders.



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Supporting charity

Cancer Research UK was selected by Costain employees as the Costain Charitable Foundation's charity partner for 2017. The partnership saw colleagues, suppliers and clients participating in a variety of fundraising events. These included supporting the Stand Up to Cancer campaign, three peaks challenges and many, many cake sales. In total over £35,000 was raised for the charity, which will go towards accelerating progress to see three-quarters of people surviving cancer within the next 20 years.

There is always a strong local focus with Costain contracts and our colleagues are passionate about supporting others. This is a passion that has long been associated with Costain and was demonstrated in 2015 when we raised over £1.1m for charity as part of our 150th anniversary commemoration. In 2017, collective charitable donations exceeded £200,000.

Much of the fundraising is in support of local hospices, air ambulances and children's charities, helping to create strong community relations.

Partnering to have an impact

Supporting our local communities is an essential ingredient to the success of our projects and our London Bridge Station Redevelopment project is a great example.

Working in partnership with our client Network Rail, the team delivered over 150 community engagement activities ranging from educational site visits, careers speed dating, apprentice workshops, pre-employment training and weekly reading and maths volunteering at local primary schools. In addition, the team also completed a garden regeneration project to improve local green space in a highly built up area of London. All of these initiatives collectively meant the project donated 852 days of employee volunteering to the local community, on top of raising almost £100,000 for charity.

Investment in skills and training was a big social driver for the local community and, to support this, the project partnered with the Construction Industry Training Board (CITB) to form a National Skills Academy.

The National Skills Academy was able to address strategic priorities, including local recruitment and training for both Costain and supply chain employees, which in many cases resulted in qualifications being gained. A big focus was to leave a legacy that up-skilled the workforce for their next project.

A legacy that the project team is very proud of is the recruitment and development of ex-offenders and disadvantaged young people who were supported by the Prince's Trust. The focus on local and socially deprived people resulted in recruitment of 61 apprentices, whose occupations range from traditional trades based roles to technology apprenticeships. The project also supported 48 work experience students, with the aim to inspire them to join the industry.



SUPPORTING OUR LOCAL COMMUNITIES AND CREATING A LASTING LEGACY

STRATEGY IN ACTION

Building future talent through education

Costain set an ambitious target to engage 10,000 young people through Costain led STEM initiatives in 2017.

The promotion of STEM skills is not a new priority and has seen Costain colleagues for many years participating in careers talks, site safety talks, visits and much more. The priority though has changed, and the Group is working hard to encourage its young recruits to become STEM ambassadors, delivering genuinely inspirational engagement. The industry has a significant challenge to become more diverse and as such, being smarter with who is taking part in engagements is key to bringing talent into our industry.

A fantastic example of Costain working strategically with a school is the London Design & Engineering University Technical College (LDE UTC) in East London. Costain is a founding sponsor of the school, which opened in September 2016 and is one of 48 UTCs across the country. The key feature of the school is that it is employer and university led, along with support by the Baker Dearing Trust. The school is non-selective and DfE funded.

Through the school, Costain is contributing to a fundamental, shift in the provision of STEM education in London moving it into the digital age and addressing the lack of Black, Asian & Minority Ethnic (BAME) people, along with gender representation in the Engineering industry.

To date, Costain has provided significant support, with Jeremy Galpin becoming a Costain nominated school director and chair of governors. One of the key elements to this relationship is the integration of our apprentice programme with the school, to establish a talent pipeline. Costain STEM ambassadors provide support to lesson plans, site visits and are currently developing a 12-week project on smart cities, which will form part of the young people's GCSE or A-level course work.

Costain is very pleased to have also sponsored the Pure Maths A-level, a subject that the school did not have funding or time-table space to support. This is being delivered outside of school hours and is fully subscribed to, despite this.

Of course, there are many other schools engagements taking place across the UK, and the target to reach 10,000 young people was well exceeded, with 16,000 young people engaged in 2017.



Priorities for 2018

- Engage a further 15,000 young people through our STEM activities
- 75% of new projects with a value >£100m to calculate their social economic value
- Sign up to the Armed Forces Covenant

Providing sustainable solutions for the marketplace

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PROVIDING SUSTAINABLE SOLUTIONS FOR THE MARKETPLACE

Our approach

The biggest impact we can make to the UN Sustainable Development Goals is to work with our clients, partners and supply chain to develop innovative sustainable solutions.

Costain is playing a major role in meeting urgent national infrastructure needs, which are being driven by significant demographic, economic and social trends, across the UK's energy, water and transportation sectors.

We are responding to some of the major challenges of the 21st century – including global warming, the impact of pollution on human health, the need for improved productivity and the requirement to stimulate regional economic development.

These challenges are having a profound impact on all market participants, not least our clients and the demands they, in turn, are placing on Costain. This is creating a wide range of opportunities for us to deliver innovative and sustainable solutions to meet the challenges ahead.

We must deliver our solutions in highly regulated and legislated environments that increase network capacity, improve customer service and ensure security of supply. Our solutions must also demonstrate value-for-money and be deliverable within clients' budgets.

Providing customers with sustainable solutions

Our clients ask us to solve complex large-scale problems and we achieve this through analysis and fresh thinking. We place particular importance on technology, innovation and collaboration.

Our clients are asking us to provide infrastructure solutions that will enable them to deliver smarter and more efficient services.

The Costain ethos is always to ask how we can do things better, quicker, faster, safer and more effectively, deploying innovation and technology at every appropriate opportunity.

To ensure we continue to generate thought leadership on key issues, we have increased the number of PhD students we are sponsoring to 21. They are undertaking leading-edge research at renowned universities including Cambridge, Imperial College and Edinburgh.

We are working with Government innovation agencies to develop new services to bring to the market. This includes the first use of drones

beyond the line of sight for infrastructure management, integrating sensor technology (IOT) into infrastructure for smart cities and development of artificial intelligence (AI) to drive productivity and greater outcomes for clients.

We are delighted to be part of a consortium lead by TRL, the global centre of innovation and transport mobility, on the first real-world operational trial of platooning vehicles on UK roads.

Platooning involves two or more HGVs accelerating, braking and steering in sync through wireless 'vehicle-to-vehicle communication'. The technology effectively allows them to communicate with each other and operate as a single unit.

The first UK trial, funded by the Department for Transport and Highways England, will see up to three HGVs travelling in convoy and all will be controlled by the lead vehicle. All lorries in the platoon will have a driver ready to take control at any time. The pilot will explore whether this autonomous driver technology can improve the fuel efficiency of HGVs to reduce emissions output as well as increase traffic flow and road capacity. It is also hoped that the trial will boost acceptance and understanding by road users ahead of mapping out potential future infrastructure considerations. It will also look at the commercial case for the adoption of the technology.

PATENTS HELD

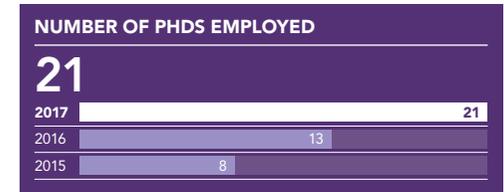
28

EMPLOYEES THAT ARE CHARTERED PROFESSIONALS

25%

AMOUNT SPENT ON PHD RESEARCH 2017

£50m+



PROVIDING SUSTAINABLE SOLUTIONS FOR THE MARKETPLACE

Supply chain collaboration

In 2017 Costain was one of the first UK and worldwide companies to be independently assessed by BSI and achieve certification to ISO 44001: collaborative business relationship management systems – requirements and frameworks.

A great example of a successful collaborative business relationship is between Tarmac and Costain. Costain and Tarmac have a long relationship, with Tarmac being a strategic supplier to Costain – the highest classification afforded to a supplier. To become a Costain supplier, there are three levels classification, each achieved through increased levels of verification (Verified, Preferred and Strategic). Costain and Tarmac were recognised for their long-term partnership, building best-practice collaboration across the supply chain by winning the Supply Chain award at the 2017 Institute for Collaborative Working Annual Collaboration Awards at a ceremony held at the House of Lords. The awards celebrate the importance of collaborative working as a key

factor for UK industry. It was the first time that this category has been won by companies in the construction sector.

David Taylor, Group commercial director said: “This award is testament to the hard work that has gone into developing this successful partnership. It’s a great achievement that we should rightly be proud of. This partnership with Tarmac is delivering real benefits for customers, and we are continually exploring ways to improve the model that we’ve jointly created. Both businesses have Board-level commitment to replicating our current successes on other joint project bids.”

Jeremy Greenwood, managing director of national commercial and construction solutions at Tarmac

added: “We are delighted to receive this national recognition of the success of our partnership with Costain in terms of the benefits it brings for customers. Our new approach to collaboration has enabled us to set new benchmarks for sustainable highways construction on projects like Heysham, while also delivering a cost saving of 11% of total package value. We’ve also established a new data capture process to help us learn and adapt our approach for further joint projects.

“The successes we have achieved together underline the importance of early engagement with supply chain partners, to unlock innovation and deliver significant benefits for both our customers and the industry as a whole.”

Operating sustainably and ethically

We have a responsibility to procure ethically and sustainably. In 2017 a new standard for sustainable procurement, ISO 20400 was launched and we completed a mock-assessment to help formalise our action plan for compliance.

We published our first Modern Slavery statement in line with the 2015 legislation, setting out the steps we have taken to prevent this immoral crime occurring within any part of our business or value chain.

One key step taken was the awareness training of 1,800 employees. A risk assessment of our procurement activities was completed, high risk suppliers were identified and our supply chain managers worked with these organisations to mitigate their risks.

STRATEGY IN ACTION

Lifecycle assessment capability

Understanding the holistic environmental and human health impacts of products and services is a new capability provided by Costain. Working with producers and designers, our specialists provide an in-depth insight, identifying opportunities for innovative thinking which lead to significant improvements in the environmental performance of their products and services.

Working to ISO 14040 and ISO 14044 standards, we use cutting edge software to develop a trustworthy, transparent lifecycle assessment (LCA). This process enables our clients to understand the true impact of their operations, putting them in a great position to be able to effectively manage high impact areas in the most sustainable way, while maximising value.

The LCA produced for Thames Tideway East helped identify the dominant materials and processes in terms of environmental impact.

The information obtained was disseminated to the key stakeholders of the Tideway programme. This engagement highlighted the key impact areas before developing a series of potential mitigation interventions for consideration during design, collaborating with suppliers to provide alternative solutions. This has led to some further reductions in overall impacts of key activities and ensuring suppliers are fully engaged and helping to deliver targeted innovation into the project.

Supply chain academy

2017 saw the fifth annual intake of the Costain Supply Chain Academy (SCA). Set up in 2012 to support and develop small and medium sized enterprises (SMEs), the academy has supported 140 businesses to-date.

The Academy was set up in recognition that most SMEs do not have the skills or resources to consider tendering for work on our major projects, so we equip them to perform to the standard we expect of our supply chain. This provides assurance of a competent local resource to deliver our projects and the communities benefit from increased employment opportunities.

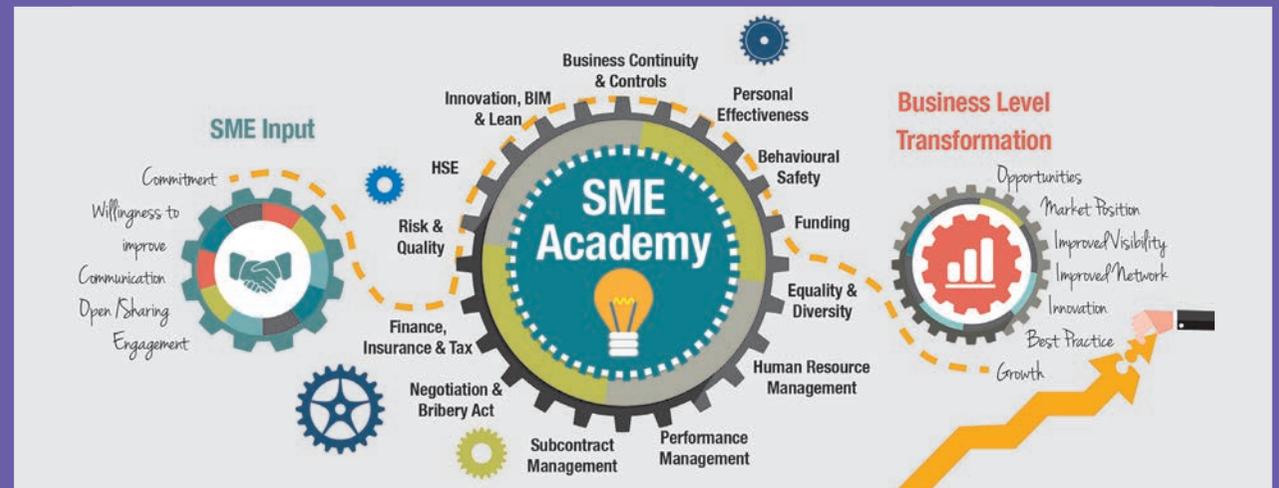
The Academy offers SMEs free industry training on 22 modules focusing on industry best practice, sound business strategies and awareness of legislation, and include leadership and management, equality and diversity, financial management, modern slavery, safety, health and environment and business development. We also offer a module on Building Information Management.

This is combined with other engagement activities to ensure maximum effectiveness. For example, facilitating 'Meet the Buyer' events to provide small businesses with minimal tendering experience useful information regarding procurement processes and pre-qualification requirements.

SMEs joining the supply chain via the Supply Chain Academy benefit from ongoing support and development, including business mentors, performance management and reviews. Coaching is also provided in how best to tender for and win work.

The Academy's training upskills local SMEs to deliver to Costain's high standards. This enables businesses to be included within the supply chain that would have previously not tendered for work.

For example, Kelly Formwork was introduced to Costain's Crossrail projects in 2012. Since then they have grown and developed, with SCA help, into preferred supplier status and are now one of Costain's Top 100 suppliers.



PROVIDING SUSTAINABLE SOLUTIONS FOR THE MARKETPLACE

STRATEGY IN ACTION

Nanotechnology in infrastructure

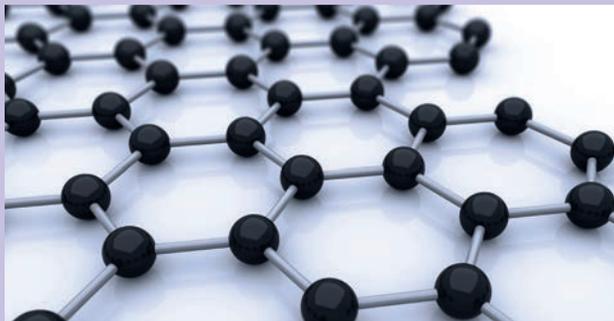
Recent advances in nanotechnology can transform the infrastructure sector by bringing resilience and improving the sustainability of our structures. Costain has been working with leading universities and the supply chain to develop advanced construction materials. The business case for advanced materials is clear with almost half of the construction budget spent on infrastructure repair and maintenance rather than building new structures, while at the same time these repairs are usually ineffective. In the EU, 20% of the repairs will fail in five years, 55% in 10 years and most will fail within 25 years. The impact that these repairs have is enormous, not only on the environment but also on the local communities affected by the works.

Smart, biomimetic materials that are inspired by natural biological systems can completely change the way our infrastructure behaves. Costain funded a PhD at Cardiff University as part of the Materials for Life (M4L) project researching and upscaling self-healing concrete. This concrete can heal cracks with a variety of mechanisms, such as releasing healing agents from microcapsules, filling cracks with bacterial action and closing cracks with shape memory polymers, thus significantly reducing the need for frequent repairs and maintenance.

Following the success of the M4L programme, Costain has funded a second PhD at the University of Cambridge looking into the possibility of generating a self-sensing mechanism in concrete products. This research uses nanotechnology and in particular a “wonder” material called graphene; the strongest material on earth (200 times stronger than steel) yet the most lightweight material.

The vision is that graphene can significantly strengthen structures to allow thinner members to be used; generating savings in terms of material quantities and providing a more sustainable solution. At the same time, a self-sensing mechanism could allow the material to sense when it has experienced cracking and then trigger self-repair.

The implications of self-healing and self-sensing materials are immense and when such mechanisms are fully developed, they will reduce the burden on the environment and the local communities that constant repairs and maintenance of the structures impose.



Priorities for 2018

- Meet the new international standard for sustainable procurement ISO 20400
- Implement sustainable design review process
- Complete further awareness training for our supply chain on modern slavery
- Continue to provide innovative sustainable solutions to our clients.

GRI INDEX

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: core option

GRI Standard	Disclosure	Location	Additional information/Omissions
General standard disclosures			
Organisational profile			
GRI 102: 1	Name of the organisation	Front cover	
GRI 102: 2	Activities, brands, products and services	Business Model: P4 Annual Report 2017: P6–11; P22–25	Additional information in 'What we do' on costain.com
GRI 102: 3	Location of headquarters	Back cover	
GRI 102: 4	Location of operations	Annual Report 2017: P22–25	
GRI 102: 5	Ownership and legal form	Annual Report 2017: P50–53	
GRI 102: 6	Markets served	Annual Report 2017: P22–25	
GRI 102: 7	Scale of the organisation	Costain at a glance: P3 Annual Report 2017: P1–5	
GRI 102: 8	Information on employees and other workers	Ensuring Costain is a safe and great place to work: P10–17 Annual Report 2017: P28, P30–31, P54–69	
GRI 102: 9	Supply chain	Business Model: P4 Supply chain collaboration: P35 Annual Report 2017: P20–21	
GRI 102: 10	Significant changes to the organisation and its supply chain	About this report: P40	
GRI 102: 11	Precautionary principle or approach	About this report: P40	
GRI 102: 12	External initiatives	About this report: P40	
GRI 102: 13	Membership of associations	About this report: P40	
Strategy			
GRI 102: 14	Statement from senior decision-maker	Chief Executive Statement: P2	
Ethics and integrity			
GRI 102: 16	Values, principles, standards and norms of behaviour	Sustainability governance and ethics: P6	Additional information in 'About us' on costain.com
Governance			
GRI 102: 18	Governance structure	Sustainability governance and ethics: P6	
Stakeholder engagement			
GRI 102: 40	List of stakeholder groups	Business Model: P4	
GRI 102: 41	Collective bargaining agreements	N/A	We do not recognise any trade unions
GRI 102: 42	Identifying and selecting stakeholders	Materiality: P7	
GRI 102: 43	Approach to stakeholder engagement	Materiality: P7	
GRI 102: 44	Key topics and concerns raised	Materiality: P7	

GRI Standard	Disclosure	Location	Additional information/Omissions
Reporting practice			
GRI 102: 45	Entities included in the consolidated financial statements	Annual report: P102	
GRI 102: 46	Defining report content and topic boundaries	Materiality: P7	
GRI 102: 47	List of material topics	About this report: P40	
GRI 102: 48	Restatements of information	Materiality: P7	
GRI 102: 49	Changes in reporting	About this report: P40	Not applicable as first sustainability report
GRI 102: 50	Reporting period	About this report: P40	Not applicable as first sustainability report
GRI 102: 51	Date of most recent report	About this report: P40	
GRI 102: 52	Reporting cycle	About this report: P40	
GRI 102: 53	Contact point for questions regarding the report	About this report: P40	corporate.responsibility@costain.com
GRI 102: 54	Claims of reporting in accordance with the GRI Standards	Back cover	
GRI 102: 55	GRI content index	GRI Index: P38	
GRI 102: 56	External assurance	About this report: P40	
Topic-specific standards			
Economic			
GRI 201-1	Direct economic value generated and distributed	Costain at a glance: P3	
GRI 203-1	Infrastructure investments and services supported	Annual report: P1–3, P22–25	
Environmental			
GRI 304-2	Significant impacts of activities, products and services on biodiversity	Creating a better environment: P21	
GRI 305-1	Direct (Scope 1) GHG emissions	Creating a better environment: P21	
GRI 305-2	Energy indirect (Scope 2) GHG emissions	Creating a better environment: P21	
GRI 306-2	Waste by type and disposal method	Creating a better environment: P20	
GRI 307-1	Non-compliance with environmental laws and regulations	Creating a better environment: P22	
Social			
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Ensuring Costain is a safe and great place to work: P12–13	
GRI 404-1	Average hours of training per year per employee	Ensuring Costain is a safe and great place to work: P15	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs	Ensuring Costain is a safe and great place to work: P15	
GRI 405-1	Diversity of governance bodies and employees	Ensuring Costain is a safe and great place to work: P14	
GRI 413-1	Operations with local community engagement, impact assessments, and development programmes	Supporting our communities and leaving a positive lasting legacy: P28–30	

ABOUT THIS REPORT

Unless otherwise stated, this report highlights our approach to sustainability, governance, material issues, strategy and performance during the 2017 financial year (1 January 2017 to 31 December 2017).

Our approach

We may occasionally mention activities that occurred before or after the reporting period, when this helps provide a clearer picture of our performance.

We have included case studies as examples of our sustainability strategy in action. The report covers Costain Group activities. It does not include activities or performance of our suppliers, contractors or partners unless otherwise noted.

This report has been prepared in accordance with the GRI Standards: Core option (see p38–39).

This is our inaugural Sustainability Report, which we will publish annually. This report was published in April 2018.

Assurance

With the exception of our carbon emissions, we do not commission independent assurance of our sustainability management and reporting.

Our emissions data is independently verified and accredited to the recognised standard Certificated Emission Measurement and Reduction Scheme (CEMARS) awarded by Achilles.

For SHE data, our internal assurance function performs validation assessments across our contracts, ensuring the integrity of our data and that our rigorous standards for SHE management are upheld. In addition, compliance with internal policies is a key responsibility of our internal audit function and is regularly discussed by both our Board and Executive Board.

We welcome your views

Costain is committed to engaging in dialogue with all its stakeholders.

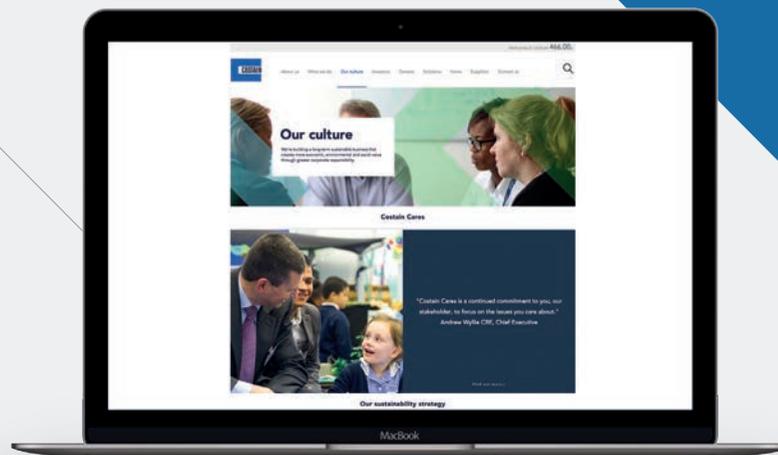
We are actively encouraging feedback on our Sustainability Report and welcome any views you may have.

To provide feedback, or request additional information, please email: corporate.responsibility@costain.com.

Our 2017 Group Annual Report can be viewed at: www.costain.com.

Useful links

costain.com
costain.com/investors
costain.com/our-culture
costain.com/annual-report-2017
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