



Improving lives with smart infrastructure solutions

Costain Group PLC

Responsible business report 2018

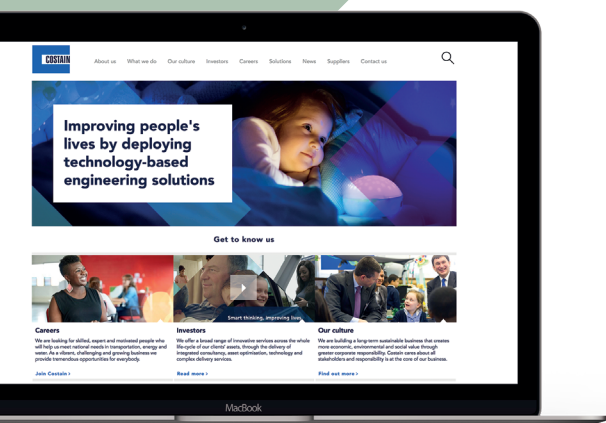


Costain is a smart infrastructure solutions company.

Our purpose is to improve people's lives with smart infrastructure solutions across the UK's energy, water and transportation infrastructures.

Improving lives with smart infrastructure solutions

→ 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

- Underlying operating profit for 2018 is £52.5m, increasing from £49.1m in 2017.
- 92% growth in annual profit in past five years.
- Record forward order book of £4.2bn, with over 90% repeat business reflecting successful differentiation.

Clear purpose and strategy

- Strategy has repositioned Costain as a smart infrastructure solutions company.
- Proactive alignment with rapidly-changing market and increasing complexity of client demands
- Continued involvement in major regulatory-driven procurement processes across our target markets.
- Differentiation through focus on long-term client relationships and integrated technology-enabled services.

Positive outlook

- Robust and enhanced balance sheet enabling participation in longer-term and larger strategic contract relationships.
- We estimate that our clients will spend around £91bn per annum, of which approximately £21bn per annum is on the technology-led services that we deliver.
- Our markets have common requirements, underpinned by strategic national needs. Our markets need to safeguard security, increase the capacity, improve customer service and drive efficiency across our clients' infrastructure assets.

Responsible business highlights

Ensuring Costain is a safe and great place to work

- Best ever safety performance
- Signed the 'time to change' pledge
- Named in The Times Top 50 Employers for Women 2018

Creating a better environment

- 42% reduction of our non-operational carbon footprint since 2013
- Lowest ever Environmental Incident Frequency Rate (EIFR)
- 96% of all waste diverted from landfill

Supporting our local communities and creating a lasting legacy

- 20,000+ young people engaged through Costain science, technology, engineering and maths (STEM) initiatives
- £199k raised for charitable causes
- Signed up to the Armed Forces Covenant

Providing sustainable solutions for the marketplace

- The 150th small/medium sized enterprise (SME) graduated from our supply chain academy
- Assessed to ISO 20400:2017 sustainable procurement
- £52m of collaborative research grants of which Costain has a share



Our strategy and 2025 goals

p8



Ensuring Costain is a safe and great place to work

p10



Creating a better environment

p18



Supporting our local communities and creating a lasting legacy

p24



Providing sustainable solutions for the marketplace

p30

Contents

We aim to deliver solutions that optimise the use of resources through intelligent design and efficient project delivery.

Responsible business report 2018

Chief executive's statement	2
Costain at a glance	3
Our business model	4
Sustainable development goals	5
Sustainability governance and ethics	6
Engaging with stakeholders	7
Our strategy and 2025 goals	8
Performance against our 2018 targets	9

Our four pillars

Ensuring Costain is a safe and great place to work	10
Creating a better environment	18
Supporting our local communities and creating a lasting legacy	24
Providing sustainable solutions for the marketplace	30

Additional information

GRI Index	36
About this report	38

Improving lives with smart infrastructure solutions

Welcome to our 2018 responsible business report. We remain committed to being a leading responsible business with a purpose to improve people's lives by delivering smart infrastructure solutions to our stakeholders.

This year, we have made excellent progress against our 2018 sustainability targets. Safety, as always, is our number one priority and we are pleased to report that we have achieved a world class performance with our lowest accident frequency rate ever. I am particularly proud that we have been recognised for the first time as a Times Top 50 Employer for Women, showing that we are making significant progress with our efforts to create a more inclusive workplace. We also received a fantastic response to our Costain people survey with over 75% of employees taking part and over 79% of our teams feeling fully engaged in the business.

We are making good progress towards achieving our 2025 sustainability goals with this report setting out our performance in 2018 and our targets for the coming year.



Andrew Wyllie CBE
Chief Executive

Costain at a glance

Our story

We improve lives with smart infrastructure solutions

What we do

We deliver integrated smart solutions to meet urgent infrastructure needs across the UK.

Why we do it

We help to safeguard the security, increase the capacity, improve customer service and drive efficiency in our clients' infrastructure programmes.

Our strategy

Our strategy is to focus on blue-chip clients whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements. Our five strategic priorities drive continued progress and differentiation.

How we do it

Our expertise in the integration of technology, consultancy, asset optimisation and complex delivery positions us at the forefront of a rapidly-changing market environment.

Our culture and values underpin everything we do.

We keep the nation moving



We power communities



We keep the water flowing



Our business in figures:

Energy market spend

£47.9bn

Water market spend

£10.5bn

Transport market spend

£32.8bn

Record forward orders

£4.2bn

Client satisfaction

86%

Repeat business

90%+

Employees

3,800

Chartered professionals

600+

People in technology or consultancy roles

34%

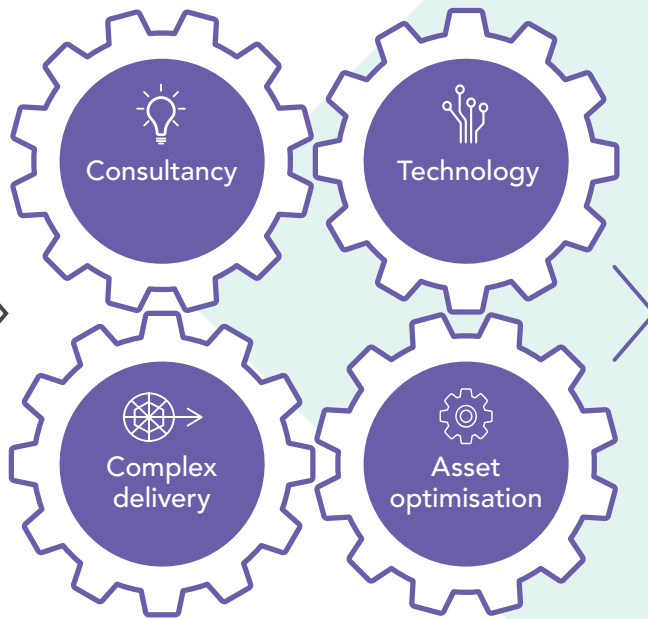
Our business model

Focused markets and integrated, technology-enabled services

Our market sectors



Our integrated services



Sources of competitive advantage

- Smart technology**
 We invest in research, innovation and technology to provide the smart infrastructure solutions our clients need.
- Outstanding reputation**
 We are recognised in the industry for our outstanding delivery and technical excellence.
- Financial strength**
 Our strong balance sheet, positive net cash and sustained profit growth provide the financial resources to invest in our business.
- Skilled and experienced team**
 The expertise of our industry leading team enables us to deliver optimal solutions for our clients.
- Strategic partnerships**
 We develop long-term relationships with our clients, collaborating strategically at all levels.
- Proven track record**
 Our clients trust us to consistently deliver innovative solutions on time and on budget.

Engaging with our stakeholders

Shareholders

We deliver sustainable growth in profit and increasing returns for our shareholders.



Dividend growth

8%

Total dividend for the year

15.15p

Clients

Our strategic relationships enable a deeper understanding of our clients' needs, allowing us to identify, create and deliver the best solutions.



Repeat business

90%+

Client satisfaction

86%

Workforce

We value all of our people and provide a safe and rewarding environment.



Accident frequency rate

0.03

Training hours

103,500

Community

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



Number of hours employees volunteered

5,825

Young people engaged in STEM

20,000+

Suppliers

We build partnerships with our suppliers and provide industry-leading training through our supply chain academy.



Number of SMEs graduated from supply chain academy

150

Percentage of total expenditure spent with SMEs (small, medium sized enterprises)

36%

How we operate

Responsible working

We are focused on continuing to operate a sustainable business that creates economic, environmental and social value and delivers tangible benefits for our stakeholders.

Embedded values and culture

Our culture and values underpin everything we do.

www.costain.com/our-culture

Robust corporate governance

We have rigorous policies and procedures and mandatory training to ensure we do things right first time.

Effective risk management

We have robust risk management processes which identify, manage and mitigate potential risks to ensure the success of the Company.

Sustainable development goals



In September 2015 The United Nations (UN) General Assembly adopted 17 global goals for 2030 that aim to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. These are known as the UN Sustainable Development Goals (SDGs).

Costain contributes to the objectives of the SDGs both strategically and operationally. We directly contribute to three goals through our core purpose, to improve people’s lives through better energy, water and transportation infrastructure. It is through the products and services that we deliver that we can make the biggest contribution to the Sustainable Development Goals. We are also able to make a difference through the responsible delivery of our operations where we are able to positively contribute to many of the SDGs and we will outline our progress throughout this report.



SDG 6: Clean water and sanitation

Population growth, regulatory changes, energy costs and climate change are having a dramatic impact on water usage. The national approach to managing water supply is changing to meet these challenges. The Government and industry regulator are tasked with cutting wastage and preserving an increasingly valuable resource, while protecting consumers from higher water bills.

Whole life costing, ‘no build’ solutions and optimising field force and maintenance activities are a priority. As well as a greater focus on energy efficiency, resilience issues around climate change and regulation, regulation change and increased competition driven by OFWAT and DEFRA.

We have transformed our business to deliver this capability for our clients by increasing our expert advisory services, investment capability and maintenance and operations resources.



SDG 7: Affordable clean energy

The demand for new power generation and transmission assets continues to increase. We need to replace ageing power stations and grid networks and prepare for an increase in electricity demand over future decades. We must also ensure that we have a safe and flexible gas network, capable of providing the heat and energy that our economy needs.

The global concern for climate change has led to increasing focus on decarbonisation and energy efficiency within the sector. There has never been a more pressing time to innovate.



SDG 9: Industry, innovation and infrastructure

The road network is a crucial part of the national transport system and is vital to the UK. It provides real and direct economic benefits: to business, to workers, to users. Better connections support individual towns and cities and strengthen the country as a whole. Failures of the road network increase costs, stifle employment opportunities and make it harder to do business in the UK.

As our population increases, the UK is demanding more from its rail infrastructure than ever before. It is estimated that we make 2.5bn rail journeys every year, which is set to rise to over 3bn by 2020. The current network is beyond capacity. Increasing demand will see growth in electrification, high-speed rail and the introduction of digital railway, making for a better connected nation.

Being a responsible business

The Board holds ultimate responsibility for Corporate Responsibility (CR) management and the Executive Board of Costain is accountable for all aspects of CR 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.

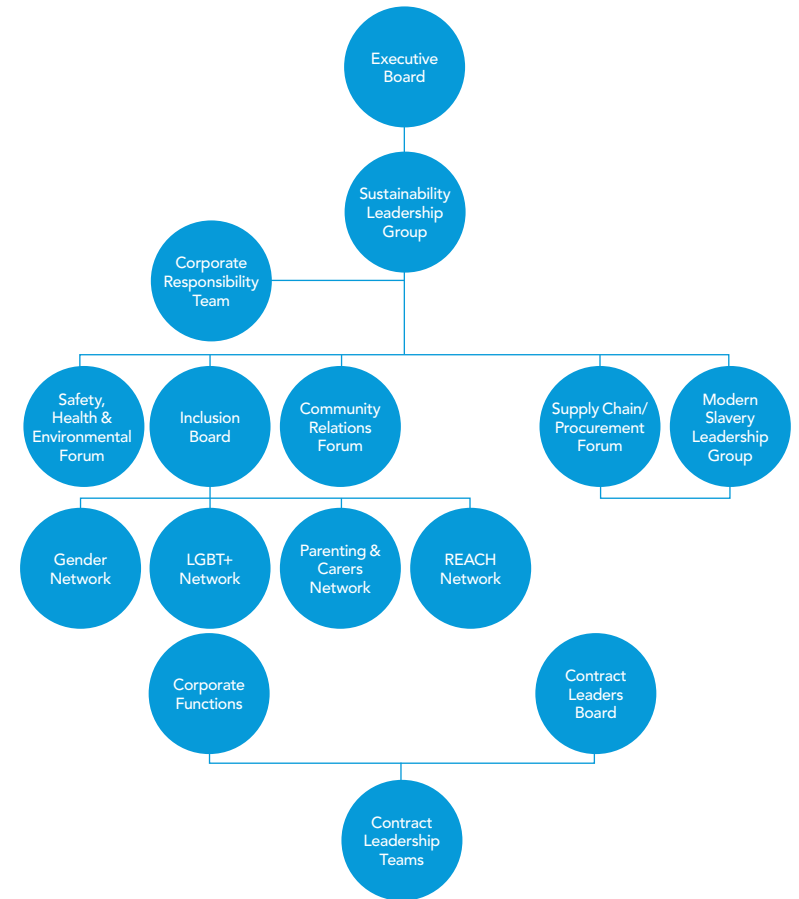
The Company uses the Costain Way, its operational management system, to detail controls and procedures, including Group policy statements, procedure manuals and other written instructions, which are reviewed and updated regularly.

The objectives of the Costain Way are to provide assurance that:

- Company activities across the business are compliant with appropriate legislation and codes of practice
- Company systems, procedures and processes are effective at mitigating identified risks
- Communicated, effectively delivered and management controls are consistently applied across the group.

The Costain Way is certified by BSI as compliant to management standards including ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (health and safety), ISO 22301 (business continuity), ISO 27001 (information security) and ISO 44001:2017 (collaboration).

The Group also has an independent internal audit function who undertake a programme of risk based audits across all operations throughout the year. All audit reports are shared with the relevant business owners who are expected to implement appropriate measures to address any risks or controls weaknesses. The results of all internal audit activity are also shared with the chief executive, chief financial officer and scrutinised by the Executive Board and Audit Committee on a regular basis.



Costain values

We firmly believe that behaving in a principled, disciplined way is key part of what makes Costain a responsible business. Our values ensure we create an inclusive, safe and healthy workplace, helping our people to be at their best everyday. Our culture is to be open and honest, this ensures we make the right decisions for our stakeholders.

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

Engaging with stakeholders

Focusing on the issues that matter

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

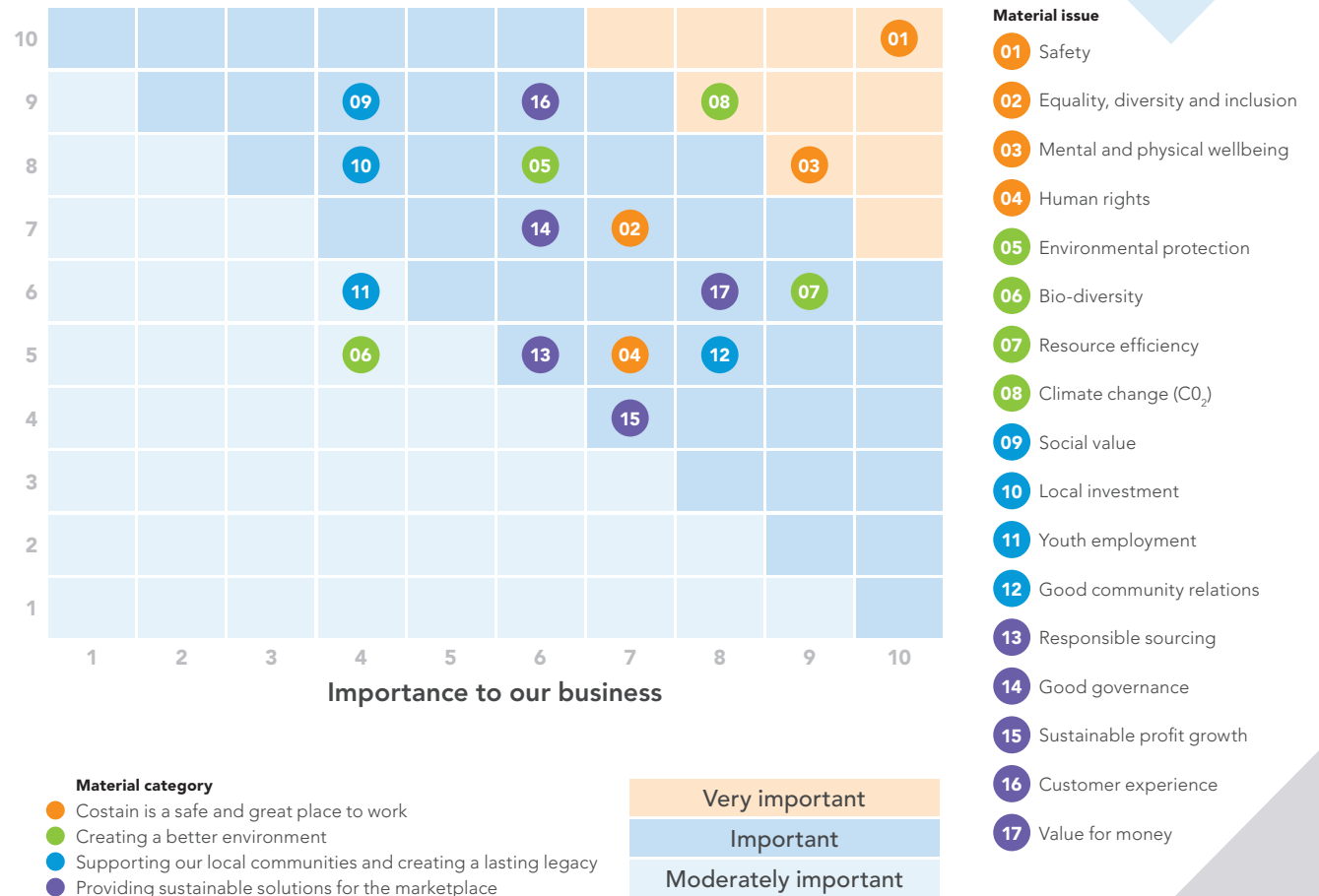
Our materiality assessment considers a wide range of issues that can be affected by our operations throughout our value chain. Many of these material issues align with the UN Sustainable Development Goals and all contribute to Costain improving people's lives.

Process for identifying material issues

The Costain materiality assessment is aligned to GRI G4 guidelines. Our process involves a continual programme of stakeholder engagement (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.

The intelligence we gathered through our 2018 engagements allowed us to rationalise a list of material issues, the commonly reported issues were ranked in respect of their importance to Costain and our stakeholders. Safety remains the highest ranked material issue, both with stakeholders and for Costain. Customer experience and good corporate governance were included in our assessment in 2018, this is a likely reflection of current societal factors.

To ensure we focus on the issues that matter we set annual sustainability targets, these are linked to the material issues reported. Where we do not have a specific target, we have an increased internal focus to ensure compliance, performance improvement and risk reduction.



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 support 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:



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

<p>Commitment</p>	<ul style="list-style-type: none"> • Never compromising safety • Always prioritising the health of our people • Ensuring all employees are treated and valued equally and we actively promote inclusion • Investing in tomorrow's leaders today. 	<ul style="list-style-type: none"> • Enhancing biodiversity • Using natural resources efficiently • Reducing our carbon emissions • Protecting the environment. 	<ul style="list-style-type: none"> • Respecting the communities that we serve • Investing in the communities where we operate • Inspiring the next generation • Generating local social value. 	<ul style="list-style-type: none"> • Providing clients with sustainable solutions that enhance their businesses • Supply chain collaboration • Operating sustainably and ethically.
<p>By 2025</p>	<ul style="list-style-type: none"> • Provide a safe working environment free from harm • Costain staff absence rate 20% under the private sector average • To have a workforce that represents society • Our people have the right skills and capabilities to achieve their potential and meet their aspirations. 	<ul style="list-style-type: none"> • All projects have a net positive biodiversity impact • Collaborating to contribute towards a successful circular economy • Leading the industry in low carbon engineering solutions and operations • No direct harm to the environment from our operations. 	<ul style="list-style-type: none"> • Leading and promoting best practice for community engagement • 60% of employees volunteer • 50,000 young people engaged through Costain STEM engagement • All projects demonstrate the social value that they bring to a local community. 	<ul style="list-style-type: none"> • Clients consistently say we exceed their expectations providing sustainable solutions • A collaborative supply chain that influences sustainable solutions for the industry • Costain is a sustainable and ethical investment.

Performance against our 2018 targets

We are pleased to report that we fully met 93% of our targets in 2018. Where we did not meet our targets we have plans in place to achieve these in 2019. The following pages detail our approach, highlight our achievements in 2018 and set out our priorities for 2019.



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

Group Accident Frequency Rate (AFR) of 0.04 ●	All relevant projects to measure biodiversity impacts ●	Average Considerate Constructors score of 42 ●	Sustainable design reviews to be completed on all new contracts. (resilience, water, carbon, accessibility, air quality, health and wellbeing) ●
All line managers to complete 'Mental Health Lite' training course ●	All relevant projects to achieve bronze or above in the 'resource efficiency matrix' within four months from starting on site, measuring and effectively managing carbon, materials, waste and water ●	Total financial giving to the community (charity, time, donations) equal 0.5% of Costain profit ●	Achieve external sustainable procurement verification against ISO 20400 ●
Every employee has completed unconscious bias training by end of 2018 ●	5% reduction in non-operational carbon emissions to achieve a 35% reduction by 2020 against our 2013 baseline. Develop PAS2080 action plan for compliance in 2019 ●	A further 15,000 young people engaged through Costain supported STEM activities ●	Continue to demonstrate the value of sustainability in our investment case ●
At least 33% of our senior leadership positions are filled by women by 2020 and at least one BAME Board director by 2024 ●	Environmental incident frequency rate of 0.13 or below ●	75% of new projects with a value >£100m calculating their social, economic value ●	
100% of new line managers to complete all six e-learning modules of the line managers toolkit by end of 2019 ●			
Launch employee networks for LGBT+, parenting, carers and race ●			

Status

- Achieved
- Partly Achieved
- Unachieved



Ensuring Costain is a safe and great place to work

We are committed to: never compromising safety, always prioritising the health of our people, ensuring employees are treated and valued equally, investing in tomorrow's leaders today and communicating openly and engaging with our employees, listening to their views on the Company and issues that matter to them.



Our approach	11
Never compromising safety	12
Always prioritising the health of our people	13
Ensuring all employees are treated and valued equally	14
Investing in tomorrow's leaders today	15
Communicating openly and by engaging with our employees	15
Case studies and priorities for 2019	16–17

Awarded the Patrons Award from the Royal Society For The Prevention Of Accidents

Recognised as a times top 50 employer for women

103,500 hours invested in employees' learning and development

Ensuring Costain is a safe and great place to work

Our approach

We strive to have a safe and inclusive working environment where everyone can be at their best and return home safely each day.

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. Through leading behaviours and a mindful organisational approach, our teams strive to meet and exceed the highest recognised performance standards in all operations, utilising an open and honest leadership approach to 'real' health and safety. As a Group, our compliance with OHSAS 18001 ensures we maintain an internationally respected management system and operational management take full ownership of the agenda. Risk is identified at the earliest stages of our processes and, wherever possible, eliminated through design, innovation driven by technological advances or alternative methodologies. This is the Costain Way.

Our people are our most important asset. Their physical health and general wellbeing is 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 we actively support our people in employment options designed to promote a suitable work-life balance and the maintenance of personal energy levels supplemented by dynamic (flexible) working and include these arrangements as a key consideration when planning our contracts and associated activities.

We are committed to building the best team at Costain. We work hard to create a culture where all employees are treated and valued equally, where they can be themselves and thrive in an environment where they are encouraged to think differently and reach their potential. We invest significantly in learning and development to ensure that our people have the skills and capabilities needed to meet both our clients'

Pledging to reduce mental health stigma

We were proud to sign the 'time to change' pledge to show that we are committed to changing the way that we think and act about mental health. Employees across the business made pledges to show how they would raise awareness and challenge the stigma of mental health.

To help raise awareness and sign post colleagues to professional support we have over 300 trained mental health first aiders working across our offices and sites.



expectations and that of their own ambitions. As our people are fundamental to the success of our business, we place great importance on their engagement; listening and acting on their views. In 2018, we conducted our most recent employee engagement survey, the information for which is helping to shape our strategies, policies and procedures.

We have the following people policies which every employee, supplier and partners must work to:

- Health and safety
- People
- Drugs and alcohol
- Corporate responsibility.

Never compromising safety

While we can never be complacent, we are pleased to report that 2018 saw our best annual safety performance on record (based on our accident frequency rate).

In 2016, we set out on a journey to 'Halve Harm'. Our indicators show that our injury rates are at an all-time low, building on a previously record breaking 2017. This is testament to our ongoing commitment to drive a step change in performance. Over the past 15 years injury rates have reduced by more than 90% while our total operational workforce size (including suppliers working on our sites) has increased by 46% and our overall working hours by 40%. The end result is our lowest ever AFR (Accident Frequency Rate) of 0.03 for 2018.

We continue to focus on leading indicators which give us enhanced foresight in the form of predictable trends and early warnings for opportunities to improve, rather than only focus on events once they have taken place. Eliminating harm through design will be the focus for our next step change.

We recognise the importance of leadership and behaviours in creating a positive, sustainable safety, health and environment (SHE) culture. Therefore in 2018 we trained a further 119 senior staff in the essentials of SHE leadership. The interactive course provided senior leaders with an update on key SHE legal requirements while introducing the five key traits behind organisational mindfulness, leadership behaviours and human factors to develop diverse, innovative thinking.

In 2017 we introduced an innovative new targeted approach to contract risk management, enabling and empowering contracts to focus on the local SHE risks fundamental to their work. In 2018, our performance monitoring of this approach has shown an advance in risk reduction and control. In addition, two deep dives on fundamental risk areas – the principal designer role under

the Construction Design and Management Regulations and the management of Joint Venture contracts - were undertaken across all contracts with lessons learned used to further enhance operational procedures.

In 2018 we were awarded the Patrons Award from the Royal Society for the Prevention of Accidents (RoSPA) along with a number of key client recognitions. We are delighted to be recognised for 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; so we continue to be actively involved within a range of leading best practice groups with our peers, helping to shape and transform the future for the industry.

Lowest ever accident frequency rate

0.03

Reduction in lost time incidents

50% In past five years

Senior staff on safety, health and environment (SHE) leadership training

119 staff 60 target

RoSPA recognition

12 awards

Hours worked in 2018

48 million

Ensuring Costain is a safe and great place to work

Always prioritising the health of our people

In 2018 we implemented our wellbeing strategy, making it a business priority.

The core of the strategy is to enhance our working environment so that we can all be at our best, every day, physically and mentally. Going forward, this drive will include external business influences on our colleagues' wellbeing; supported by a range of campaigns, working groups and interactions with industry steering groups. 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 working environments will be places to work where healthy lifestyle and work-life balance options are available for all.

In 2019 employee wellbeing will take centre-stage in our new three year strategy and will be supported by the 'BeWell' workplans which incorporate occupational health and wellbeing into one combined drive at the heart of all we do from design through to operation.

We are proud to have over 300 trained mental health first aiders within our business, providing support to all staff in every contract and office. Over 900 of our line managers have completed mental health awareness training since 2018, as a standard aspect of their development, enhancing their understanding of the topic area and further equipping them to support their teams. In addition to this, the same training has also been undertaken voluntarily by many staff members from across the Group at all levels.

We were delighted to sign the 'time to change' pledge in 2018 as another step we are taking to help break the negative stigma of mental health and we continue to work with industry leading groups such as Business in The Community (BITC) to share knowledge and best practice. Our two leadership SHE impact days and a fifth of our 315 Leadership

engagement tours completed within 2018 have focused on personal energy management, the benefits of dynamic (flexible) working and other wellbeing topic areas and fatigue management plans are now in place across the business.

Our health maturity matrix has been fundamental to a step change in our occupational health and wellbeing performance. 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 2018, 50% of all contracts (plus two major offices) met the silver standard with a further 25% achieving the industry leading gold standard.

We offer all our employees biennial medicals and over the past two years over 76% of staff have taken advantage of this opportunity.

Trained mental health first aiders

ratio of

1 to every 15 employees

Employees completed a company medical in past two years

76%

Line managers completed mental health awareness training

980+

Ensuring all employees are treated and valued equally

We are committed to building the best team in the industry. To achieve this, we have focused on improving the diversity mix of our people and more importantly, creating an inclusive culture that provides the best possible environment to thrive.

We believe that by being more diverse, we will be more innovative, have a greater understanding of our customers' needs and will deliver smarter, more inclusive solutions for our clients.

Delivering our equality, diversity and inclusion (EDI) strategy, we have an EDI board, consisting of executive directors, departmental heads and the chairs of our employee networks.

This year we have focused on the role of the line managers within our business, recognising the influence that they have in ensuring that the EDI strategy is embedded into our working practices and recruitment. As a result, we have updated our line managers' toolkit, a suite of training modules aimed at upskilling our line managers, to include a 'managing a diverse team' module.

We also hosted our first gender network event where 50 female

colleagues were invited to bring their line manager to join in discussions with our senior leadership team to find ways to address the challenges women face in their day-to-day roles and their career development.

We are pleased to report that we have achieved our 2020 target of having at least 33% of our Board positions filled by women and the FTSE 250 target to have a least one black, asian or minority ethnic (BAME) Board director by 2024. It has also been a record breaking year for Costain with regards to our early years recruitment (apprentice and graduate) programmes, which for the first time in our history achieve a 50/50 gender split.

In recognition of the progress that we have made in the gender arena, we were delighted to be named in The Times Top 50 Employers for Women 2018 and 'Employer of the Year' at the prestigious Women in Science and Engineering (WISE) awards.

We value and invest in our people and this year we have expanded our employee network groups, establishing LGBT+ and allies and Parenting and Carers' networks. This year, we were proud to march at Manchester Pride for this first time as well as taking part at London Pride for the second time.

To help our focus on improving employment opportunities for ethnic minorities, we have signed up to the Business in the Community's 'Race Equality' campaign.

In 2019 we will be launching the next evolution of our EDI strategy which will focus significantly on inclusion and will build on the work we have already done to ensure our policies and procedures are inclusive.

Costain treats me with dignity and respect

78% of employees agree

Costain respects individual differences

83% of employees agree

Senior leaders that are female

22%

Executive board that are female

33%

People work flexibly

36%

Female graduates recruited in 2018

55%

Ensuring Costain is a safe and great place to work

Investing in tomorrow's leaders today

As we transform what we do, we believe that it is imperative that we invest in the development of our people.

Technology creates opportunities for us to upskill the workforce, ensuring that we have the capabilities to deliver smart, sustainable solutions to our clients.

We are a people centred business. Our clients buy services and knowledge, so it is important for us to focus on helping our people to reach their full potential and to achieve their career goals.

In 2018, we enrolled over 200 employees on our new consultancy development programme.

We also introduced a new 'project director excellence' programme and 'love my technology' course.

We continue to improve our early careers programme and this year we welcomed 26 apprentices and 68 graduates into the business. It has been a record-breaking year for us; our early years development programmes have been oversubscribed and for the first time in our history, our 2018 graduate cohorts are a 50/50 gender split.

We are now sponsoring 25 PhD students who are carrying out over £52m of innovative collaborative research projects with leading UK universities.

Communicating openly and by engaging with our employees

Listening to the views of our people is vital to our success. This year, we conducted our biennial employee survey and we were delighted that over 75% of our employees responded.

75%
response rate
(2016: 70%)

82%
'Costain is a
great place
to work'
(2016: 76%)

91%
'I feel
committed to
helping Costain
succeed'

79%
overall
engagement
(2016: 74%)

"I feel that Costain have made great steps forward regarding flexible working and mental health awareness and the Company is a great place to work."

87%
'I feel proud of
the Costain
brand'
(2016: 81%)

STRATEGY IN ACTION

The Times top 50 employer for women



In 2018 Costain were named in The Times Top 50 employers for women, an assessment process led by Business in the Community, the Prince's Responsible Business Network.

The alphabetical and unranked list celebrates UK employers that are building gender equality into their business strategy and have committed to creating inclusive workplace cultures and women's progression at work.

"We are proud that our work to make Costain a great place for women to work has been recognised. We strongly believe that having diverse and equal teams, paired with a forward-thinking culture at all levels of our business, is fundamental to delivering our strategy." Sally Austin, Costain Group HR director.

The listing involves a comprehensive submission process managed by the gender equality campaign of Business in the Community. Chloe Chambraud, Gender Equality Director, Business in the Community, said "Well done to Costain on being named in The Times Top 50 Employers for Women 2018 – the process was highly competitive so they should be very proud of their success. Their efforts are enabling women and men to contribute equally to society, and I hope other organisations will learn from their example".

Investing in mental health

As part of our commitment to making Costain a safe and great place to work, we launched our first wellbeing strategy. Mental health was identified as a key focus area and we set an ambitious target to make mental health awareness training a required competence for all line managers.



To tackle the stigma of mental health in the workplace, we have our own in-house dedicated trainer (accredited to Mental Health First Aid England standards), to deliver a continual programme of half day awareness training sessions across all contracts and offices.

We also deliver the two day Mental Health First Aider (MHFA) training

for colleagues wishing to become a mental health first aider.

We are pleased to report that over 900 line managers, from Board level to frontline, have received mental health training. This has helped to normalise mental health, making people feel more comfortable talking about issues. It also creates awareness of the support services that are available.

- We have over 300 mental health first aiders, equating to a ratio of one MHFA for every 15 employees.
- Approximately 20-25% of employees have received some form of mental health awareness training.

Ensuring Costain is a safe and great place to work

Closing our gender pay gap

We were pleased to see our Group median gender pay gap reduce by 0.44% and in the same period see the total number of women in the organisation increase to 24%.

In 2018, we increased the number of women in all pay quartiles, however there remains more women in our lower pay quartile than there are in both the upper middle and upper quartiles combined. This gender imbalance continues to significantly contribute to our current gender pay gap.

We have worked hard to increase female representation in our senior leadership population and are pleased to see this representation increase to 22%. However this represents a relatively small group with our upper pay quartile being made up with only 12% women, increasing by 1%.

The under representation of women in senior management roles remains the major contributory factor to our current pay gap. We have worked hard to attract women into the industry, however the majority of new female entrants to the industry are at a junior level.

The lower and lower middle quartiles female populations grew by 2% when compared to 2017. While the increase of women can be seen as positive for balancing our overall gender mix, it does also have an impact on our gender pay gap.

In 2018, we saw an increase in both men and women receiving a bonus payment. This is a reflection of the success of the business and an individual's performance.

Encouragingly there has been an 8% increase of women receiving a bonus, meaning that the percentage of men and women receiving bonuses were broadly equal. There is however a 43.75% median bonus pay gap of men and women reflecting the proportion of men in senior management roles (receiving proportionately larger bonuses).

Our gender pay gap

The difference in hourly pay between men and women:

Overall pay gap	2017	2018
% median	24.69	24.25
% mean	22.89	22.05

The difference in annual bonus between men and women:

Bonus gap	2018
% median	43.75
% mean	51.99

What's included in our hourly pay?

Hourly pay includes basic pay, car allowances, shift pay, on-call and stand-by allowances. Excluded are payments for overtime, redundancy and benefits-in-kind along with employees on family or sick leave.

What is the mean?

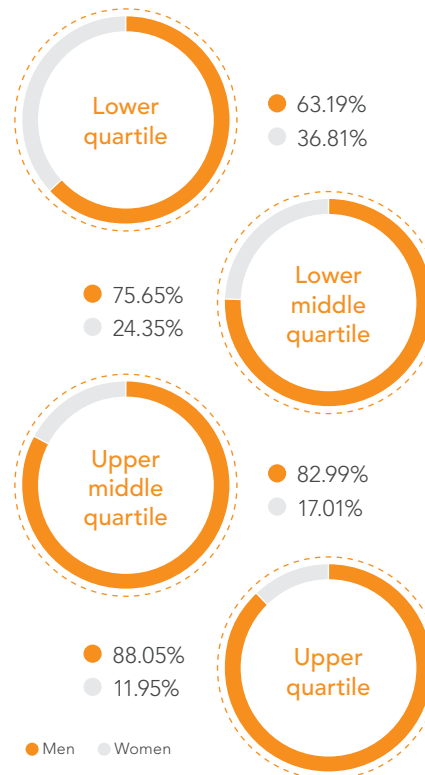
The mean average involves adding up all the numbers and dividing the result by the number of values in the list. We calculate the mean average for both men's and women's hourly pay and report the percentage difference.

What is the median?

The median involves listing all the numbers in numerical order. The median is the middle number. We calculate the median for both men's and women's hourly pay and report the percentage difference.

Our pay quartiles

The graphic below illustrates the gender distribution at Costain across four equally sized quartiles from lowest to highest.



Priorities for 2019

- Continue to reduce the number and severity of accidents
- Launch our new Inclusion strategy
- Roll out wellbeing specific line manager training
- Costain to achieve external accreditation for equality, diversity and inclusion
- Continue to close our gender pay gap
- Continue to make mental health and wellbeing discussions an accepted and normal part of daily conversation.



Creating a better environment

Our commitment to creating a better environment goes far beyond legal compliance. We work with our clients and supply chain to deliver innovative, sustainable solutions that enhance the environment and improve people's lives in the UK.

Our environmental management system is certified to ISO 14001:2015 and defines, measures and controls the processes and activities that are carried out across the business.

Reduction in our non-operational CO₂ emissions over past five years

42%

Waste diverted from landfill

96%

Lowest ever environmental incident frequency rate

0.13

Our approach	19
Using natural resources efficiently	20
Reducing our carbon emissions	21
Protecting the environment	22
Enhancing biodiversity	23
Case studies and priorities for 2019	23

Creating a better environment

Our approach

Our aspirations go well beyond merely minimising harm on the environment. We work proactively to deliver the best solutions for our clients and minimise our own footprint.

Costain implements and maintains an environmental management system which is certified to ISO 14001:2015. This helps define, measure and control processes and activities that are employed in the execution of the business and ensure continuous improvement.

We have seen the environmental agenda develop significantly over the last decade and our focus has widened to take complex issues into account such as climate change. Our clients also have more sophisticated requirements and we have extended our focus from simply direct impact to whole life impacts of our designs and delivered assets.

We are very much committed to minimising pollution and the impact of our waste but are now aiming to lead the way in low carbon project delivery and minimising the whole life carbon impacts. Following the Paris Agreement there is more pressure to develop low carbon solutions for our

clients with 'build nothing' as an ultimate goal. We have set a corporate target to achieve PAS2080 (Carbon Management in Infrastructure) by the end of 2019 and have been verified against the standard on three contracts to date.

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

In 2018 we introduced our resource efficiency matrix which requires all our contracts to measure themselves against sustainability criteria and act to meet at least bronze standard. The Matrix has been well received with all contracts meeting the target in 2018.

Our commitment to a positive environmental impact was demonstrated by a number of awards in 2018 including CEEQUAL Excellent awards for London Power Tunnels, London Bridge Station, Bakerloo Line link and Crossrail Anglia.



Minimising environmental impact

A joint venture of Costain, VINCI Construction Grands Projets and Bachy Soletanche is delivering the east section of the Thames Tideway Tunnel and has developed a series of innovations, driven by its community focus to find ways to safely reduce the impact of work on neighbours.

A holistic noise and air quality monitoring system has been established on all Tideway East satellite sites. The system is unrivalled in regard to current industry standards, consisting of 14 noise monitors with embedded, intuitive software systems.

The system not only enables effective noise management but also gives the community transparency and a better understanding of mitigation measures.

Well beyond the scope of most infrastructure projects and in compliance with noise limitation criteria, the Costain, VINCI Construction Grands Projets and Bachy Soletanche joint venture have also designed and used the only electrically powered hydrofraise in the world, which will build the diaphragm wall of the shafts.

By using mains electricity rather than diesel generators the hydrofraise cuts air pollution and is significantly quieter, reducing the impact on local residents.

Using natural resources efficiently

We aim to deliver solutions that optimise the use of resources through intelligent design and efficient project delivery.

We believe collaboration with clients and our supply chain is the best way to identify opportunities to eliminate waste, reduce resource use and support circular consumption models.

The sustainable management of waste from our operations has been an environmental measure for over 10 years. We have reduced waste produced by over 30% since 2013 and diversion of waste from landfill has been above 95% for the last four years.

In 2018 we signed a commitment to BITC's Waste to Wealth initiative promising to set targets, redesign and work collaboratively to unlock opportunities to double the nation's resource productivity and eliminate avoidable waste by 2030.

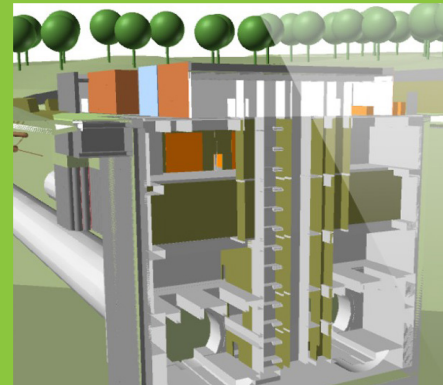
We seek to reduce the negative impact of materials we purchase and have a procurement policy which

requires our buyers and suppliers to select products based on their sustainability credentials. For example, our timber suppliers must provide timber from certified legal and sustainable sources (FSC or PEFC).

During 2018, our contracts focused on reducing single use plastics, achieving significant changes to office and site materials to eliminate their use. We intend to continue this effort in 2019 as we move to more circular solutions. Our resource efficiency matrix (REM) will help us to think differently and consider waste as a resource through setting KPI's and targets.

For 2019 we have set targets to undertake sustainable design reviews that will encompass material efficiency and carbon reduction at a point in the processes where the greatest carbon and environmental benefit can be unlocked.

	2014	2015	2016	2017	2018
Total waste removed from site (T)	684,886	673,329	580,304	519,292	279,117
Tonnes construction waste/ £100,000 turnover	2.1	2.4	2.7	1.9	1.8
Total waste diverted from landfill	94%	93%	96%	95%	96%



Challenging design to cut carbon for HS2

The Skanska, Costain, STRABAG (SCS) joint venture to design and deliver the London tunnels section of HS2's first phase has made great strides to reduce the project carbon footprint on Lots S1 and S2 of HS2. Aided by the implementation of PAS2080 and the industry's first 50% reduction target for a project of this scale, the carbon baseline has been reduced by 19%.

The project has now been successfully verified against PAS2080 by demonstrating leadership, significant commitment and extensive collaboration in carbon reduction opportunities and mitigation efforts.

The 19% reduction in carbon through design changes is equivalent to the average weight of 40,250 elephants or driving an average fossil fuelled car 25,000 around the world! The changes include modifying the overall design of the station approach at Euston and optimising the shafts by reducing their size and shape. Technology integration has also been high on the team's agenda and by bringing the project carbon specialist, BIM and estimating teams together the carbon data can be directly derived from the project BIM model. In working towards a 50% reduction target the whole project team is investigating every aspect of the project to identify further opportunities to eliminate emissions. From challenging scope, specifications and design decisions to reviewing materials, energy and modes of transport, close collaboration between all parties involved has been instrumental.

SCS is the first HS2 Main Works contractor to have qualified for PAS2080 certification and are ensuring lessons learnt and knowledge sharing across HS2 and the industry.

Creating a better environment

Reducing our carbon emissions

Costain is playing a significant part in leading the low carbon agenda for the industries in which we operate.

We are actively supporting our clients' and supply chain drive to reduce their carbon footprints in seeking sustainable whole-life low carbon solutions. This is in addition to managing and reducing our own direct carbon footprint.

Since 2015 our total carbon emissions have reduced by 41%. We did see a slight increase in our emissions in 2018 when compared to 2017, due to the changing nature of our work.

For the seventh year running Costain has received third party certification from Achilles, a global leader in supplier information management with a specialist service in international greenhouse gas certification, for its certified emissions measurement and reduction scheme (CEMARS). Since 2016 Costain has annually achieved CEMARS gold standard for ongoing reduction achievements.

Our long-term commitment to carbon reduction continues to receive external commendation including shortlisting at the NCE Tech Fest Awards and British Construction Industry Awards.

As signatories to the infrastructure carbon review, Costain has long been committed to reducing carbon from infrastructure assets. We have prioritised a move towards carbon neutral green energy tariffs and mandated the use of hybrid and energy efficient technology for power setups. This change has led to a 42% reduction in our non-operational CO₂ emissions over the last five years. In 2018 93% of offices were on carbon neutral 100% renewable energy tariffs and by 2020, Costain aims to have all offices on green energy tariffs, demonstrating our commitment to renewable energy.

In 2015 we helped in the development of PAS2080, the world's first specification for managing whole life carbon in infrastructure. Costain was a member of the steering group and on the technical advisory panel that helped shape the specification.

We have implemented PAS2080 across several contracts and have set an ambitious target of achieving Group wide verification in 2019. PAS2080 establishes a common understanding and framework and focuses on accurately measuring whole life carbon at every stage from initial design through to delivery. Roles and responsibilities are clearly identified to ensure the greatest reductions are achieved. We believe PAS2080 verification will drive considerable cost and carbon savings in project delivery and the operations of UK infrastructure, aligning to the principles of 'Project 13'.

Our carbon footprint

CO₂ equivalent emissions (tCO₂e)

16,703 Total

2018	16,703
2017	18,579
2016	18,523

15,921 Scope 1 (tCO₂e)

2018	15,921
2017	17,001
2016	15,255

782 Scope 2 (tCO₂e)

2018	782
2017	1,578
2016	3,267

Emissions intensity (tCO₂e/£m)

11.21

2018	11.21
2017	10.70
2016	11.19

Non operational carbon (tCO₂e/£m)

3.3

2018	3.3
2017	3.2
2016	4.3

Protecting the environment

Our goal is to minimise any potential environmental impacts and to maximise opportunities to enhance the environment, embedding sustainability into all decision making.

We work closely with our clients to engage with stakeholders and do all we can do to reduce the impacts associated with our works.

We pride ourselves on having a very effective environmental management system, with engagement and commitment from senior leaders in our environmental performance. 2018 has been another positive year evidenced by a 50% reduction in the environmental incident frequency rate (EIFR), compared to 2015 as well as a 30% decrease in the total number of reported incidents.

We measure how engaged our staff are with environmental issues on our contracts through the reporting of close calls, observations and hazards. In 2018 we saw a significant improvement in our calculated environmental engagement ratio, with a 66% increase in reporting since 2015 and 90% of our projects achieving an environmental engagement ratio of green or higher.

We believe this is an important measure in helping to reduce incidents and drive engagement with our staff on environmental improvement measures.

We started the year by introducing new air quality requirements for our directly hired plant and machinery aimed at reducing our air pollution. We are now working to introduce the same requirements for our supply chain. This complements our push for carbon reduction in delivering works which has led to the widespread use of hybrid power generation (battery and solar) rather than diesel. We continue to lead in this area and are contributing to the Supply Chain Sustainability School's plant focus group.

	2013	2014	2015	2016	2017	2018
Environmental incidents (number)	80	108	86	84	71	64
Environmental incident frequency rate	0.28	0.35	0.25	0.19	0.15	0.13
Environment related prosecutions, cautions or notices	0	0	0	0	0	0



#BeatPlastic Pollution challenge

The A-one+ team (a Costain, Colas and Jacobs joint venture) working on behalf of Highways England in Kent (Area 4) performing essential highway maintenance, held a #BeatPlastic Pollution Challenge.

The team worked with over 50 children from six local Brownie groups from the Dartford and Tonbridge areas in painting fly-tipped vehicle tyres, collected from the Area 4 network. These tyres are normally transported to China for final disposal and by upcycling them we have managed to save 10.9 kilogrammes of carbon emission (CO₂e).

The tyres were brought back to the depots and used as planters for pollinator friendly plants.



Creating a better environment

Enhancing biodiversity

We are dedicated to enhancing the biodiversity of the areas in which we work, improving the environment for flora, fauna and the local community, creating social value.

Our objective is to encourage our teams to take additional action to further mitigate impacts not addressed through planning legislation and work with our clients to target a net gain in biodiversity. This is an important step in understanding the impacts of our works and improving mitigation.

On the Peterborough and Huntingdon compressor stations contract we have worked with our client National Grid to undertake an ecosystem services and biodiversity impact assessment with the objective of using the findings to drive better design of mitigation and landscaping schemes. The model shows that the final design will deliver a net benefit by creating 16 biodiversity units.

A close relationship with the Wildlife Trust led to us holding two 'Wild Wellbeing' volunteering days in 2018. The events provided staff with the opportunity to undertake improvement work within a Wildlife Trust reserve and at the same time we measured whether there had been a benefit to their mental wellbeing using the Short Warwick Edinburgh Mental Wellbeing Scale. The results of the events showed that 100% of attendees felt happier and healthier following the day and 50% felt more positive going back to work.



Release of the 'A14 twelve'

In 2018 our A14 project team realigned a section watercourse to create a bespoke habitat for water voles discovered unexpectedly along the critical path of the improvement works. The environmental work included planting wetland vegetation and wildflower-rich turf suitable for water vole, a task which would normally take up to two years but was completed in just nine months.

When the scheme is completed, 271 hectares of new, connected wildlife habitat, equivalent to 269 rugby pitches, will have been created, and twice as many trees as were felled during the scheme will have been planted.

The £1.5bn Highways England project was one of the five finalists in BBC's Countryfile Magazine Awards 2018 in the Conservation Success of the Year category.

Priorities for 2019

- All new relevant projects to measure biodiversity impact
- All of our contracts to meet silver standard in the resource efficiency matrix
- Continue to reduce the carbon emissions from our operations, properties and our client's operational assets
- Further reduce our environmental incident frequency rate.



Supporting our local communities and creating a lasting legacy

We believe that the solutions that we provide to our clients will deliver significant improvements to the infrastructure in the UK and to the lives of the people using it. As a long term sustainable business, we want to do more to maximise the social value we create.



Our approach	25
Respecting the communities we serve	26
Investing in the communities where we operate	26
Inspiring the next generation	27
Generating local social value	29
Case studies and priorities for 2019	28-29

Volunteering in 2018

5,825 hrs

Charitable giving

£199,000

Young people engaged in science, engineering, technology and maths (STEM) activities in the last two years

37,581

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 are committed to building sustainable communities and recognise the importance of creating social value.

This year, our employees voted to appoint Samaritans as the Costain Charitable Foundation's charity partner for 2018 and 2019. The partnership is closely aligned with our wellbeing strategy and focus on mental health in the workplace. Throughout the year, we have contributed over £16,500 to the charity through various corporate fundraising activities across the business. Each local project or office has an appointed charity champion to drive fundraising efforts and to support the national Samaritans campaigns and events.

We recognise that supporting local communities goes beyond making financial donations and we encourage all our projects, regardless of size and value, to get involved and make a real difference to the local communities that we are working in.

We have a dedicated team working in community relations roles across our

contracts. This helps us to understand the needs of the community and we can engage at a local level with all relevant stakeholders, creating a positive legacy that we can be proud of.

Each year, all Costain employees are entitled to take two days annual volunteering leave to help make a difference in our local communities. We encourage our staff to use volunteering leave to support a charity or project that is close to their hearts.

We want to encourage young people into our exciting industry and remain committed to promoting STEM subjects and initiatives in local schools and colleges. We offer work experience placements and early careers interventions to allow us to showcase what the industry has to offer and to help us to build more diverse teams.

We continue to be active members of the Prince of Wales 'Responsible Business Network' and Business in the Community. We are also proud patrons of the Prince's Trust.

STRATEGY IN ACTION

Making memorable spaces

We are proud to be delivering sustainable infrastructure solutions across the UK that leave a positive legacy whether it is improved journey times for commuters or increased capacity in our energy supplies.

Going beyond this, we have made a commitment to improving the lives of the communities that we are working in by supporting them and creating a lasting legacy.

In 2018, the team working on the Welsh Government improvement schemes in South Wales completed a three year project to design and construct a new memorial garden at Ty Hafan children hospice near Cardiff.

With the support of 44 companies in the supply chain, hundreds of volunteer hours and over £45,000 raised, the new garden includes a newly constructed wheelchair racetrack, a viewing platform with stunning views across the Bristol Channel, a summer house, a new central garden area with sensory planting, new lighting and sound features, a band stand and memorial tree.

The memorial garden plays a vital palliative role in supporting the holistic needs of families of children who have sadly died while in Ty Hafan's care. Together, we provided an important space for families to remember and reflect the positive memories created during their short but full lives.



Respecting the communities we serve

We are a responsible business that is committed to treating people and the communities around us fairly and with respect. We want to exceed the expectations of our stakeholders and strive to create a positive experience during the planning and implementation stages of a project.

This year, we have joined the Institute of Customer Service (ICS) and launched a new customer contact database. The system helps us to understand the needs of our local communities and enables us to demonstrate how we are

improving lives through the way that we deliver our projects.

Every project site has a stakeholder engagement plan designed to ensure that we are fully integrated into the local communities where we are operating and communicating effectively with all our stakeholders.

Costain is partnered with the Considerate Constructors Scheme, an independent not for profit organisation that was set up to improve the image of construction.

Investing in the communities where we operate

Our purpose is to improve people's lives, and to help us to achieve this, we are committed to investing in the local communities that we serve.

Our most valuable asset is our people. Throughout the organisation, we have an abundance of different skills, across a range of disciplines and we encourage all our employees to volunteer their time to support the local communities where we live and work. Every employee is entitled to take two days volunteering leave to help an organisation or cause of their choice.

In 2018, approximately 5,825 hours were spent supporting charities and providing valuable help to our local communities across the UK.

Our large network of science, technology, engineering and maths (STEM) ambassadors gave up their time to promote STEM skills and careers at numerous educational events.

Exchanging places at HS2: cycle safety and awareness campaign

Our CSjv team at the HS2 enabling works, in conjunction with the Metropolitan Police and Keltbray, held an Exchanging Places cycle safety awareness session at Victoria Road. The campaign promoted safer cycling, particularly when sharing the road with trucks. The session allowed Keltbray to demonstrate the difficulties truck drivers face from their elevated, and isolated, position in the cab alongside giving cyclists the advice and skills to keep them safe. Participants could sit in a lorry and watch for a cycle moving up the left side of the vehicle. This first-hand experience is an extremely effective way of demonstrating the limited visibility of cyclists from the driver's seat.



Supporting our local communities and creating a lasting legacy

Inspiring the next generation

To ensure we have the best people to help us meet our national needs, we work hard to attract and recruit the broadest, most diverse range of people to Costain. The types of roles we now recruit for are growing, particularly in respect of technology disciplines. Inspiring the next generation of engineers and technologists has never been more important.

In 2016 we set a target to engage 50,000 young people through science, technology, engineering and maths (STEM) initiatives by 2025. Engaging with schools, colleges and universities is a great way to connect with the local community, but also helps raise awareness of the significance of STEM occupations and the impact that the roles have in society.

Costain has 170 STEM ambassadors who visit schools, inspiring young people with their real life STEM experiences. Costain employees are really passionate about STEM engagement taking part in a variety of initiatives, ranging from practical challenges such as building scaled replica suspension bridges, Lego challenges and facilitating inspirational visits.

Our engagement initiatives cater for all ages, recognising the different interactions required through a young person's education. In 2018 pupils from two Canary Wharf College primary schools were treated, by their chair of governors, a Costain employee to visit the ICE 'Invisible Superheroes' exhibition to learn more about international infrastructure projects, including Tideway's super sewer for London.

We encourage employees to become STEM ambassadors because we recognise the positive benefits it provides to the volunteer, the beneficiaries and the school. Our graduates are challenged on their first day at Costain to sign up as a STEM ambassador in support of their professional development. We believe that our graduates and apprentices are often best placed to serve as inspirational role models to

young people and help us to reach out to groups who are currently underrepresented in the industry, such as women and people of black, Asian or minority ethnicities.

Many colleagues use their two days volunteering leave to support education initiatives. In 2018, we visited over 110 schools, engaging over 20,000 young people and donating over 3,900 hours through employee volunteering. In addition to our outreach work, 19 young people completed 411 days of work experience with Costain in 2018. We are confident that we will hit our 2025 target during 2019.



Future female talent

We have a significant youth engagement programme that has reached over 35,000 young people in the past two years. Inspiring women to pursue a career in our industry is key to helping us to build diverse teams. With attendance figures at graduate recruitment fairs falling, we now host our own careers events targeting interested candidates who can apply to attend. To help us increase the number of female applicants, in 2018, we held our first female only careers event.

Future Female Talent was an invite only event aimed at final year under-graduates who expressed an interest in working for us via our graduate vacancies or previous career events. Held at the London Transport museum, 60 young women had the opportunity to meet women from across the company, from apprentices and graduates to board members. Following the event, 30% of attendees applied for graduate positions and 44% were successful.

Interventions, like Future Female Talent, allows us to showcase what the industry has to offer and helps to build a more diverse team.

Our youth engagement programme is making a difference – in 2018 a record breaking 52% of our early year recruits (apprenticeships and graduates) were female.

'Big Sisters' raising aspirations

Inspired by the work of the Girls Out Loud social enterprise, employees have been taking part in their 'Big Sister' mentoring programme.

Girls Out Loud is a not for profit organisation that has been set up to raise aspirations of young girls aged 13 to 18 and facilitates various interventions in secondary schools in the north west.

Big Sister is a mentoring programme that works with 13 to 15-year-old girls who are bright but sit in the middle cohort and 'cruise' through their educational journey. We recognise that these girls are our future leaders, managers and entrepreneurs and therefore deserve our investment.

We supported three employees to be trained as Big Sister role models. Each were carefully matched with students from Middleton Technology School in Rochdale and Cowley International College in St Helens.

Every month, the 'sisters' met on school premises for a supervised one to one session and participated in group activities throughout the year. During the meetings, the young women receive guidance, support and motivation from their role model, increasing their self-confidence and building self-esteem.

Costain is proud to be working with Girls Out Loud and we now have one employee sitting on the advisory board.

We have been involved with their role model relay initiative and we are supporting the 'Big Sister' programme again in 2018/19.



Supporting our local communities and creating a lasting legacy

Generating social value

We believe that social value can be measured and calculated at all phases of a project or asset lifecycle, meaning design, delivery of a project and during its operational lifespan.

The Costain design process seeks to maximise social value outcomes as well as enhancing environmental capital and reducing negative impacts (environmental, social and economic).

To find the social value created through the delivery of our contracts, project teams record data, containing inputs, outputs and where possible quantify relevant impacts. This information is used as part of our community engagement programmes and to help our clients demonstrate value for money.

Key focus areas for Costain contracts are: local employment creation; procuring goods and services from local small and medium sized businesses (SMEs); sustainable community investments; and upskilling local people, particularly those not in employment, education or training. Delivering positive outcomes against these key focus areas creates a positive lasting legacy and helps to foster strong local relationships.

Costain is working on monetising its social value of its social value and has completed various pilots on contracts where significant positive impacts can be demonstrated. We plan to publish project case studies upon their actual completion to provide a complete appraisal of the value created.

In 2018, 36% of every £1 we spent was directly with an SME. This represents a 10% decrease from 2017, however we saw 269 companies previously classified as SMEs, grow into large classified companies in 2018. The growth of previous SMEs is an encouraging trend, demonstrating the effectiveness of our focus on upskilling small businesses, helping them to become more competitive and commercially resilient.

We were pleased to see a 41% increase in spend with micro sized businesses (employing less than 10 people and having a turnover less than £632k*) during the period.

*Companies House definition

Priorities for 2019

- Engage 15,000 more young people through our STEM activities
- Continue to work with local businesses, spending at least 35% of every £1 with SMEs
- Total annual contribution to the communities where we work (charity, volunteer time, donations and local employment) \geq 1% of Costain profit.



Providing sustainable solutions for the marketplace

Working with our clients, partners and supply chain, we are committed to developing technology enabled, sustainable solutions to help meet urgent national infrastructure needs.



Our approach	31
Providing customers with sustainable solutions	32
Supply chain collaboration	33
Operating sustainably and ethically	34
Case studies and priorities for 2019	35

Number of SMEs engaged in supply chain academy
150

Total value of collaborative research grants of which Costain has a share
£52m

Number of Costain sponsored PHDs
25

Providing sustainable solutions for the marketplace

Our approach

A technology revolution is currently underway and is fundamentally changing our markets.

Client expenditure is moving away from the construction of new assets, with a greater proportion directed towards the optimisation and enhanced use of existing infrastructure, using technology to provide insight, step-change improvements and efficient delivery.

In response to a changing market, Costain has focused on delivering smart infrastructure solutions. Costain is investing in research and development, with 25 PhD students involved in over £52m collaborative research projects with key partners to help address the increasingly more complex and urgent UK infrastructure challenges. Additionally, a third of Costain employees are now performing consultancy roles, helping to provide sustainable solutions to our clients business challenges.

Not only do our solutions need to be innovative, they need to be sustainable and delivered ethically. We have increased our focus on preventing modern slavery and human trafficking, publishing the actions we have taken in our annual modern slavery transparency statement.

We place a strong emphasis on sustainability in the procurement of goods and services, seeking to minimise risk and maximise social, environmental and ethical value. In 2018 Costain’s procurement processes and procedures were assessed to ISO 20400:2017 Sustainable Procurement, meeting one our 2018 responsible business targets.

Our close relationships with our supply chain are underpinned by working to ISO 44001:2017 (Collaborative Business Relationships), Costain received certification to the standard in 2018.

The following policies underpin our approach, setting out how we must operate and behave:

- Collaborative working
- Ethical business conduct
- Modern slavery and human trafficking
- Customer service
- Quality management.

Spent with an SME
(small, medium sized enterprise)

36% of our total spend



Number of SMEs engaged in supply chain academy

150

2018	150
2017	140
2016	127

- Assessed to ISO 20400:2017 Sustainable procurement standard.
- Achieved ISO 44001:2017 Collaborative Business relationships standard.

Providing clients 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 ask 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.

In response to client and customer requirements, 34% of Costain people are now performing consultancy or technology roles, broadening the services we provide. Costain consultants are helping our clients to meet the needs of their customers – more often than not a sustainability related issue – using our vast experience of delivering complex projects and programmes.

In 2018 we set a target that sustainable design reviews should be completed on all new contracts. The

sustainable design review requires the project design team to complete an assessment of the water, carbon, air quality, accessibility, resilience and health and wellbeing risks and opportunities. By completing the assessment at the early stages of the project's design, this allows our contracts to better manage risk, minimise impact and to make holistic decisions.

Costain has increased its investment in research and development, sponsoring 25 PhD students to undertake leading-edge research at renowned universities including Cambridge, Imperial College and Edinburgh. Examples of research projects include:

- Urban energy rhythms. Our research objective is to make smarter infrastructure by considering system flexibility.

Active management of energy demand will be an essential part of our future smart cities, and as a consequence, fundamental assumptions must be reflected in system design from the outset.

- Connected autonomous vehicles in freight transportation. Our research is to better understand the role of technology in the freight transportation industry, especially in handling the supply chain of dangerous goods via road infrastructure.
- Data driven engineering. The main objective of the research is to realise the full potential of data in asset management. Using Building Information Modeling (BIM) to start the data driven asset performance efficiencies.

Employees in consultancy or technology roles

34%

Employees that are chartered professionals

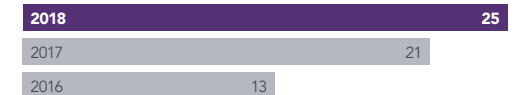
600+

Value of collaborative research grants of which Costain has a share

£52m

Number of Costain sponsored PhDs

25



Providing sustainable solutions for the marketplace

Supply chain collaboration

Costain has long recognised the benefits that effective relationships and a collaborative approach can provide. Partnering and collaborative practices are central to our approach and an essential element in delivering our services.

We have developed extensive experience of these types of working arrangements across the full range of our supply chain whether customers, joint venture partners or suppliers. Our ability to adapt our collaborative approach depending on the circumstances is valued by both clients and suppliers alike.

In 2018 99% of our £4.2 billion forward order book came from repeat orders. Costain works hard to develop a range of collaborative approaches and in 2018 we were certified to ISO 44001:2017 Collaborative Business Relationships.

We believe that investing in our supply chain is fundamental to the success of Costain. By working to the framework of ISO 44001:2017 we collaboratively work with our suppliers to raise standards and develop innovations.

We continue to invest in relationships with our supply chain and complete regular 'business-to-business' meetings to create a platform to enhance our collaborative relationships. Supplier performance reviews are completed quarterly on all contracts for all strategic and preferred supply chain partners. Our suppliers maintained a high average performance review score of 68% in 2018.

In 2018 we hosted a further 10 small businesses through our supply chain academy helping to enhance skills and capabilities on a variety of topics including commercial, HR, wellbeing and environmental management. Since the academy launched, 150 small businesses have now completed the training programme.

Costain is a partner of the supply chain sustainability school, a free training provider for the industry covering a wide range of topics from sustainable procurement, modern slavery and fairness inclusion and respect. As a partner, we promote access to the school's resources to our supply chain and employees.

Costain's Employee Assistance Programme (EAP) is now available to all supply chain partners. Extending the scheme is an industry first and offers our 20,000 supplier colleagues free 24/7 practical help and advice on issues such as financial, legal, workplace, consumer, family and health. Since the utilisation of the service has increased by over 50% based on 2016 use.

Improving the safety and reliability of our strategic road network

We are providing the technology to power pioneering work led by Highways England to transform journeys by allowing connected and autonomous vehicles (CAVs) and roads to 'talk' to each other. This was tested for the first time on the live network on the high-tech corridor being created on the A2/M2 in Kent. We brought together industry leading technology partners from across Europe and delivered an integrated end-to-end system.



STRATEGY IN ACTION

Ethical labour promise

In 2018 Costain signed a partnership agreement to become a Bright Future business partner. Bright Future is an employment programme developed by the Co-op with charity partners, to provide victims of modern slavery with a pathway to paid employment and reintegration into society.

Working with charity City Hearts, Costain has engaged strategic suppliers; VGC, Danny Sullivan and Reliable Contractors to create work placements with a view to helping place victims on Costain contracts in full-time employment.

Also in 2018 Costain signed up to the Gangmasters and Labour Abuse Authority's Construction Protocol. This is a joint industry agreement aimed at eradicating slavery and labour exploitation, committing signatories to action, protecting vulnerable workers, sharing information and raising awareness within the supply chain.

Operating sustainably and ethically

We have a responsibility to procure ethically and sustainably. Costain demands from its supply chain the same high standards and values as we request from our own organisation. We apply scrutiny when procuring goods and services to ensure they are sourced or manufactured in a responsible and sustainable way, from accountable suppliers.

In 2018 we conducted a review of our responsible business policies, ensuring that they continue to be relevant, effective and consider the economic, environmental and social impacts of the goods and services we procure. Our suite of relevant policies, which are publicly available at costain.com, include:

- Corporate Responsibility
- People (covering labour and employment standards)
- Ethical Business Conduct
- Modern Slavery and Human Trafficking.

We continually assess our anti-corruption and anti-bribery processes including having in place appropriate whistleblowing procedures to ensure

their continued effectiveness.

Compliance with our anti-bribery policy is reviewed on an annual basis by all relevant officers, employees and partners and associated persons within our supply chain.

This year, we published our modern slavery statement setting out the steps taken to ensure that slavery and human trafficking is not taking place in any part of our business or that of our supply chain. We have continued to expand the provision of training across front line supervisors and identified high-risk labour suppliers.

In 2017 a new global standard for sustainable procurement, ISO 20400 was launched and in 2018 Costain's procurement processes and procedures were assessed. We were pleased to receive external validation

of our processes. Following the assessment our procurement team are working on an improvement plan, which will help us to enhance our social and environmental value.

Over the past three years we have focused on reducing our procurement risks (including modern slavery) and creating social value. With regards to social value we have placed a significant emphasis on the diversity of our suppliers and the wellbeing of their people.

In support of the Government's target to spend £1 in every £3 with SMEs by 2022, 36% of every £1 we spent was directly with an SME in 2018.

Providing sustainable solutions for the marketplace

STRATEGY IN ACTION

Creating a carbon reduction culture

Our CIM6 project for Severn Trent Water at the Finham Sewage Treatment Works project is one of 26 wastewater treatment works being upgraded to meet new discharge standards for phosphorous established by the Framework Directive.

The original design was to extend the current activated sludge plant installation footprint by 33% in addition to constructing a new concrete aeration tank. This solution represented significant additional capital and operational costs with substantial associated carbon emissions.

The principals of PAS2080 to build less were implemented and early contractor involvement within the feasibility and design phases enabled the identification of an innovative alternative design. This solution saved over £7.12m, and reduced carbon emissions by over 79,500tCO₂eq while also achieving ground breaking low levels of ammonia and phosphorous within final effluent compared to UK water industry standard levels.

This was achieved by challenging standard practice and innovative secondary and tertiary wastewater process treatment technologies. Rather than extend and construct a new asset, Integrated Fix-film Activated Sludge (IFAS) technology is being installed into the existing asset and an innovative tertiary solids removal process using magnetite is being retrofitted into the existing sand filter. Both technologies will dramatically increase capacity performance and drive optimum efficiencies in the water treatment processes. This smart technology-led solution will result in a reduction in the operational energy demands, operational expenditure and ensure the sustainable use of existing assets, maximising their asset lifecycle while reducing capital expenditure.



Priorities for 2019

- Sustainable design reviews to be undertaken on all new projects incorporating lifecycle analysis where appropriate
- All contracts to be embedding digital solutions to monitor and improve productivity
- 100% of our relevant strategic supply chain partners to sign up to the GLAA's Construction Protocol
- 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 2018: P2–3; P24–25	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 2018: P6–15	
GRI 102: 5	Ownership and legal form	Annual Report 2018: P120–121	
GRI 102: 6	Markets served	Annual Report 2018: P6–15	
GRI 102: 7	Scale of the organisation	Costain at a glance: P3 Annual Report 2018: P1–3	
GRI 102: 8	Information on employees and other workers	Ensuring Costain is a safe and great place to work: P10–17 Annual Report 2018: P32	
GRI 102: 9	Supply chain	Business Model: P4 Supply chain collaboration: P35 Annual Report 2018: P6–7	
GRI 102: 10	Significant changes to the organisation and its supply chain	About this report: P38	
GRI 102: 11	Precautionary principle or approach	About this report: P38	
GRI 102: 12	External initiatives	About this report: P38	
GRI 102: 13	Membership of associations	About this report: P38	
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: P120	
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: P38	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: P36-37	
GRI 102: 56	External assurance	About this report: P38	
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, P6-15	
Environmental			
GRI 304-2	Significant impacts of activities, products and services on biodiversity	Creating a better environment: P23	
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: P4-5	
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: P24-29	

Unless otherwise stated, this report highlights our approach to sustainability, governance, material issues, strategy and performance during the 2018 financial year (1 January 2018 to 31 December 2018).

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 p36–37).

This is our annual Responsible Business Report, published in March 2019.

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 safety, health and environment (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 Responsible Business Report and welcome any views you may have.

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

Our 2018 Group Annual Report can be viewed at: www.costain.com/investors

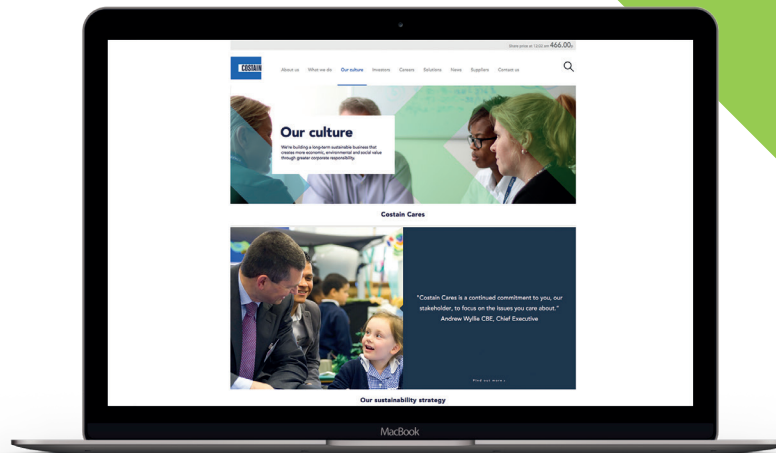
Useful links

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