



Results For The Year Ended 31 December 2020

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Costain Group PLC
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Costain Group PLC

('Costain' or 'the Group' or 'the Company')

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Costain, the smart infrastructure solutions company, announces its results for the year ended 31 December 2020.

Highlights

- **Operating effectively and profitably**
 - in responding to COVID-19 all contracts continue to operate effectively with clear safety measures and remote working in place
 - adjusted operating profit of £18.0m (2019: £37.9m), despite financial impact of COVID-19, in line with revised expectations
 - statutory reported loss before tax of £96.1m (2019: £6.6m) includes significant charges in relation to the Peterborough & Huntingdon (P&H) and A465 road contracts
- **Significant operational improvements made**
 - new leadership team
 - de-layered organisational structure
 - improved contract selection and risk management processes
- **Continued momentum in securing new work in line with strategic focus**
 - £2.3bn of new contract awards and extensions, including £1.1bn of new contract awards and extensions and £1.2bn of preferred bidder at year end
 - £4.2bn order book
- **Strong year end cash**
 - net cash of £102.9m (2019: £64.9m)
- **Confident outlook for 2021 and beyond**
 - substantial and growing infrastructure market, positioned on significant long-term underwritten investment programmes
 - confident in delivering growth in profits and margins in 2021

Financial Summary	2020	2019
	£m	£m
Group revenue		
-adjusted ¹	1,070.5	1,175.6
-statutory reported	978.4	1,155.6
Operating profit/(loss)		
-adjusted ²	18.0	37.9
-statutory reported	(92.0)	(3.2)
Profit/(loss) before tax		
-adjusted ²	13.9	34.6
-statutory reported	(96.1)	(6.6)
Net cash balance³	102.9	64.9
Basic earnings/(loss) per share		
-adjusted ²	5.8p	25.1p
-statutory reported	(36.7)p	(2.3)p
Dividend per share	Nil	3.8p

1. Before revenue impact of significant contract provision adjustments of £92.1m (2019: £20.0m) (see financial statements note 3).

2. Before net other items of £10.3m (2019: £21.1m) and significant contract provision adjustments of £99.7m (2019: £20.0m) (see financial statements note 3).

3. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings (before arrangement fees of £1.2m).

Alex Vaughan, chief executive officer, commented:

"Last year was a challenging year but I am proud of how well everyone at Costain responded and the resilience shown across our business which enabled us to continue to operate effectively with strict COVID-19 safety measures in place.

"We are pleased to report an adjusted operating profit of £18.0m, despite the financial impact from COVID-19. The significant charges reported at the half-year relating to two contracts are clearly disappointing, and importantly we have taken robust steps to prevent such issues from reoccurring.

"Last year, we continued to be successful in winning new contracts and preferred bidder positions worth over £2.3bn with an increasing proportion of this work incorporating our broader service offering in line with our strategy.

"The UK Government has provided a clear strategic framework for UK infrastructure investment, underpinned by long-term underwritten investment programmes to support the UK Government's drive to level-up economic growth and to meet decarbonisation commitments. I am confident that Costain is in a good position to capitalise on the opportunities in front of us and to grow our profits in 2021."

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There will be a live online presentation for analysts today at 09:00. To register your attendance please contact costain@mhpc.com

An on-demand webcast will be available via www.costain.com/investors from 2pm today.

Notes to Editors

Costain helps to improve people's lives with integrated, leading edge, smart infrastructure solutions across the UK's transportation, water, energy and defence markets. We help our clients improve their business performance by increasing capacity, improving customer service, safeguarding security, enhancing resilience, decarbonising and delivering increased efficiency. Our vision is to be the UK's leading smart infrastructure solutions company. We will achieve this by focusing on blue chip clients whose major spending plans are underpinned by strategic national needs, regulatory commitments, legislation or essential performance requirements. We offer our clients leading edge solutions that are digitally optimised through the following five services which cover the whole lifecycle of their assets: future-shaping strategic consultancy; consultancy and advisory; digital technology solutions; asset optimisation and complex programme delivery. Our culture and values underpin everything we do.

For more information visit www.costain.com

2020 OVERVIEW

Summary

In responding and adapting to COVID-19, our priority has been ensuring the safety and wellbeing of our people and the communities in which we work, as well as protecting our business and continuing to serve our clients. We are proud of how well everyone has adapted to achieve this and would again like to pay tribute to our people, partners and clients who have done everything they can to look after one another and to do the right thing.

Last year was an exceptionally challenging year as we worked hard to successfully manage the operational impact from COVID-19 and maintain effective operations for our clients. We also completed our capital raising which strengthened our balance sheet and was a positive catalyst for a number of new contract wins.

We finished the year with an adjusted operating profit of £18.0m, a positive performance given the challenges created by the pandemic and one we are confident we can build on this year.

These results reflect £94.7m of significant charges from two long-standing contracts in relation to Peterborough & Huntingdon (P&H) and the A465 road construction (both disclosed at the half-year) and a one-off charge of £5.0m in relation to closing out a legacy contract (ASF South). Clear lessons have been learnt from these events and we have taken decisive action to prevent such issues reoccurring. We have strengthened the senior leadership team, introduced greater accountability from top to bottom, improved our governance and controls and completed a root and branch exercise to identify and manage potential contract risk. As a result, Costain is a more resilient business and one which we are convinced will move forward with confidence to capitalise on the many opportunities ahead of us.

The infrastructure markets in which we operate have remained strong and this is reflected in the level of new work we have won. Supported by the strength of our balance sheet following our capital raising last May, we secured £2.3bn of new work awards including £1.2bn of preferred bidder positions last year. Our order book stood at £4.2bn at the year end and we have a good level of secured revenue for 2021 at c£1.0bn (compared to c£940m at FY2020). We will also benefit from positions on some 60 major live frameworks, with 27 won in 2020.

Our markets are supported by significant long-term investment programmes underwritten by UK Government policy, regulation, legislation and critical national need. The UK Government has committed to further investment to support its drive to level up economic growth and to meet decarbonisation commitments. Crucially, we have positioned our offer to meet the changing needs of our clients through our complex construction programmes, consultancy contracts and digital performance improvement unlocking the opportunity to deliver safer, faster, greener, better and more efficient solutions.

As well as taking advantage of these market opportunities, improving our business performance is paramount. Our focus on delivering projects to plan, managing our risks effectively, prioritising cash generation and continuing our efficiency programme are the bedrock to delivering the improved business performance we expect in 2021.

Costain is committed to leading on conducting business responsibly and we have aligned our purpose of improving peoples' lives to the United Nation's Sustainable Development Goals. Our focus areas are creating a greener future, working towards being net zero by 2035, ensuring Costain is a safe, inclusive and great place to work where everyone can be at their best and enhancing the value that Costain contributes to society.

Trading and financial performance

Results

Statutory reported Group revenue for the year was £978.4m (2019: £1,155.6m). The reduction in revenue results from a lower level of capital project activity, in line with our planned strategic change in mix of services and the revenue impact of contract adjustments on the A465, P&H and ASF South contracts.

Statutory reported loss before tax was £96.1m (2019: loss of £6.6m) and statutory reported loss per share was 36.7 pence (2019: 2.3 pence).

Adjusted operating profit was £18.0m (2019: £37.9m) and adjusted basic earnings per share were 5.8 pence (2019: 25.1 pence). The adjusted operating profit reflects the estimated £9.2m impact of COVID-19, as well as the impact of an extensive contract review during the year assessing end-of-life assumptions and changes in margin mix and volume.

Order book

We have maintained our strong order book at £4.2bn (as at 31 December 2020) with over 90% being repeat orders, of which £1.1bn is new contract awards and extensions. In addition, we have a strong preferred bidder position on contracts worth over £1.2bn (including £1.0bn in respect of the allocated work under the Highways England Smart Motorway Programme) and have secure positions on some 60 major live frameworks, with 27 won in 2020. The level of tendering activity across our target markets remains high.

Operational changes

Leadership team

We have made further significant changes to bolster the Executive Board over the past year. Helen Willis joined as chief financial officer in November 2020, Sue Kershaw was appointed managing director of the transportation division in March 2020, and Sharon Harris was appointed general counsel and company secretary in October 2020. Other new members of the leadership team completed their first year, including Nathan Marsh in the newly-created position of chief digital officer, Maxine Mayhew as managing director of the natural resources division and Catherine Warbrick as human resources director. These changes have brought a refreshed approach and diversified the experience of our executive management team, placing us in an even stronger position to take advantage of the market opportunity open to us.

Improved contract risk management

The Group's contract selection, tender and contract management processes and behaviours have been enhanced over the past 18 months, resulting in lower contract risk and better cost management throughout the lifecycle of our projects. In reassessing our contract selection criteria we have decided not to pursue one-off energy EPC contracts, focusing instead on long term investment programmes.

To enhance tender governance the Group has updated its policies for commercial expectations and risk appetite for all new contracts, including reducing the acceptable level of downside risk and increasing the minimum level of acceptable profit for all new contracts. The Group has also implemented a five-gated approval process prior to signing any contract, including independent risk and assurance review prior to target cost and contract conditions approval.

In addition, the Group has implemented its 'Operational Excellence Model' on all new contracts and existing long-term frameworks. The monitoring and administration of scope of works changes to identify and escalate potential cost increases at an early stage have been enhanced, including the rigour of monthly reviews of all contracts in a standard and mandatory format, and detailed measurement of work in progress and cash collection.

Response to COVID-19

In responding and adapting to COVID-19, our priority has been ensuring the safety and wellbeing of our people and the communities in which we work, as well as protecting our business and continuing to serve our clients.

At the start of the pandemic, we took decisive actions to reduce our cost base, including management taking a reduction to their salaries. Overall, in 2020 the estimated financial impact of COVID-19 was mitigated to a reduction in our profitability of £9.2m. The Group received £2.0m from the COVID-19 Job Retention Scheme and also took the decision to defer VAT of c £10.0m under an agreed UK Government scheme.

In the second half of the year we adapted and maintained strong and effective safety measures which ensured the effective operation of our business across every contract. We remain alert to the continuing challenges and will ensure that we maintain the necessary safety measures in place on all our contracts to both keep our teams safe, and to maintain our productivity.

Our markets

Long-term investment plans are shaping the increased investment in the UK's strategic infrastructure to meet key national priorities. In order to meet and benefit from these key infrastructure priorities for the UK, Costain has positioned itself as one of the UK's leading smart infrastructure solutions companies operating across the transportation, water, energy and defence markets supporting the delivery, enhancement and operation of the UK's critical infrastructure.

These markets have significant long-term investment programmes underwritten by UK Government policy, regulation, legislation and critical national need. They are evolving rapidly and positioned for accelerated growth responding to population increases, climate change, customers' enhanced expectations of improved service, ageing assets and the need for greater efficiency and performance including a growing adoption of technology. All are resulting in Costain's clients changing their business strategies and investment priorities.

UK Government investment

UK Government has set out the critical role of new and modernised infrastructure in supporting the levelling up of a growing and globally competitive economy, and in decarbonising our environment.

National Infrastructure Strategy

In response to the National Infrastructure Commission's Infrastructure Assessment, the UK Government published its National Infrastructure Strategy in November 2020, committing to the investment of £27.0bn in economic infrastructure in 2021-22.

Energy White Paper

In December 2020, the UK Government published its Energy White Paper which provides further clarity around the Prime Minister's Ten Point Plan and introduces a strategy to achieve it.

Defence spending

In November 2020 UK Government announced the biggest programme of investment in British defence since the end of the Cold War with a £16.5bn increase above its 2019 manifesto commitment to be spent over the next four years. This includes a multi-year settlement to allow the Ministry of Defence to invest in next-generation military capability, building on the previously pledged increase in defence spending.

Devolved authorities

UK Government is investing in numerous local infrastructure programmes in addition to its Levelling Up fund. These programmes aim to increase connectivity, upgrade local road and rail networks and strengthen local environmental protections with record levels of investment in strategic roads, rail, broadband and flood defences.

Regulated and private investment

In addition to UK Government's commitments, the scale of private sector investment in infrastructure is also increasing:

- In the water market the regulator, Ofwat, has approved investment programmes for the water companies amounting to £51.0bn over the next five years to improve water quality standards, supply resilience, decarbonisation and efficiency of operations; and
- In energy, the UK Government estimates its Ten Point Plan will stimulate further significant private investment by 2030 across energy, buildings, transport, innovation and the natural environment. In addition, Ofgem has confirmed its major investment programme into Britain's energy infrastructure from 2021-26 (RIIO-2) with £30.0bn upfront funding to deliver a clean and reliable energy system over and above the Ten Point Plan.

Transforming performance

UK Government is also demanding that our industry transforms the way infrastructure programmes are delivered in the UK to be faster, greener and better. This will be achieved through wide-ranging reforms improving the way projects are chosen, procured and delivered, and the greater use of cutting-edge construction technology. Costain was directly involved in creating, and is a signatory to, the UK Government's Construction Playbook which sets out its proposals for this transformation.

Strategy and evolution of our business

We have made good progress implementing our Leading Edge strategy, aligning our services to meet the changing needs of our clients across the markets which are benefiting most from long term strategic investment programmes. As we broaden our offer from purely complex construction to one which also incorporates more innovative consultancy and digital capabilities, we become increasingly valuable to our clients resulting in a higher level of profitability while at the same time reducing our overall risk profile.

The progress we have made to date, in particular the additional work we have secured over the past 18 months gives us confidence that we will achieve our medium-term strategic objective of 6-7% divisional margins with 55% of profits derived from our higher margin services.

The growth of the business and increase in margins is being delivered through:

- *Complex construction programme delivery*
Costain continues to build a strong position on the strategic long term (5 to 10 year) capital investment programmes for our clients. Through these programmes we are implementing improved ways of working; delivering safer, faster, greener, better, and more efficient construction solutions, both reducing risk and increasing margins in line with our targets.
- *Value and implementation orientated consultancy.*
Leveraging our programme delivery skills and expertise we are securing new work as a consultant and advisor, unlocking value for our clients, and ensuring the solutions are delivered effectively. These higher margin consultancy frameworks and contracts, with now over 1,000 consultants deployed, will deliver margins within our targeted range.
- *Digital performance improvement*
Through leveraging our client relationships, insight, and digital expertise we are improving performance and

productivity by delivering digital solutions including improved ways of working, automated services and new technology centric solutions, which will deliver margins in our targeted range.

Details of the contracts secured and being delivered are included within the Operational Review.

As part of our strategy to improve profitability, we are also on track to meet our operational efficiency targets aimed at delivering £20.0m of annualised efficiencies by the end of 2024. We will be over half-way to achieving this target at the end of 2021, which will enhance our competitiveness and business efficiency, with some of these efficiencies shared with our clients as well as reinvesting in the development of our business.

Everyone at Costain is focused on ensuring all projects are delivered to plan and project risks are managed effectively. This absolute focus alongside the delivery of our strategic plan is the bedrock to delivering the improved performance we expect next year and over the years ahead.

People

Our people are essential to the success of our business and we are proud to have such a highly skilled and experienced employee base of c3,100 people, including over 400 chartered professionals with a diverse range of capabilities and c80 graduates and c115 apprentices on a structured development programme.

Diversity and inclusion remain a business imperative for us and we were very proud to be named as a Times Top 50 Employers for Women for a third year running. During the year, we stood in solidarity with our black colleagues, showing support for the Black Lives Matter movement. We signed up to the CBI 'Change the Race Ratio' and Business In the Community's 'Race at Work' pledge. In addition, we are a proud signatory of the Valuable 500, a global initiative to raise awareness of disability inclusion and commit businesses to action on this important topic.

Environment, social purpose and governance (ESG)

Costain is committed to leading on conducting business responsibly and this is a business imperative for the Group. The safety of our people and the general public is our number one priority. We have maintained a world-leading safety performance, with only 10 reportable accidents occurring in over 31 million hours of work. Our accident frequency rate (AFR) of 0.03 continues to lead the industry and we are pleased to report that we had no major environmental incidents in 2020. In February 2020 we published our Climate Change Action Plan which set out the Group's commitment to deliver low carbon solutions to every client by 2023 and to be net zero by 2035 at the latest without offsetting. In delivering our Responsible Business Commitments, the Costain business was included in the FTSE4Good Index for the first time, demonstrating our strong Environmental, Social and Governance (ESG) practices.

Board

On 19 June 2020, Bishoy Azmy joined the Board as non-independent non-executive director and representative of ASGC, which has a 15.15% shareholding in the Company following the capital raising completed in 2020. David McManus, non-executive director, stepped down from the Board on 19 June 2020 after six years of service.

Helen Willis was appointed chief financial officer on 30 November 2020 succeeding Anthony Bickerstaff who stepped down from the Board on the same date after 14 years in the role.

Tony Quinlan has been appointed to the Board as a non-executive director with effect from 1 February 2021. As announced on 27 January 2021, Jane Lodge, senior independent director and chair of the audit committee, will be stepping down from the Board after nine years of service at the conclusion of the Company's 2021 AGM to be held on 6 May 2021 and it is intended Tony Quinlan will succeed Jane as chair of the audit committee after the AGM.

Dividend

The Group does not recommend a dividend for 2020. The Board recognises the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Outlook

Looking ahead, while mindful of the macro-economic uncertainties, we are confident in delivering growth in profits and margins this year. Costain is in a strong position with a high volume of secured long-term programmes and a positive market outlook, in particular the UK Government's commitment to invest in infrastructure to support the levelling up of our economic activity and decarbonisation of our environment.

DIVISIONAL REVIEW

Our strategy has positioned Costain to benefit from the key investment priorities, with an increasing proportion of the new business being from higher margin services. The table below (non-exhaustive) demonstrates our alignment to the UK's strategic national investment programmes.

Key strategic national investment programmes	Costain's contract alignment to strategic national investment programmes
Strategic Highway Networks (Highways England - RIS2)	<ul style="list-style-type: none"> • Complex Programme delivery <ul style="list-style-type: none"> ◦ M1 smart motorway programme ◦ A14 Integrated Delivery Partnership ◦ Regional Delivery Programme - A1, A12, A19, A30, ◦ Smart Motorway Alliance • Maintenance contracts, areas 12 & 14 • Consultancy partner <ul style="list-style-type: none"> ◦ SPaTS2 • Digital frameworks - TMT II
HS2	<ul style="list-style-type: none"> • HS2 Enabling works and HS2 S1 and S2 Main works • Consultancy partner on Phase 2

Ofwat Regulated Water Investment	<ul style="list-style-type: none"> • Thames Tideway Tunnel • AMP 7 capital delivery frameworks - Thames Water, Severn Trent Water and Southern Water • Strategic Pipeline Alliance with Anglian Water, including digital twin • United Utilities managed maintenance services programme • Consultancy <ul style="list-style-type: none"> ○ Yorkshire Water Technical Services Framework and Assurance Services ○ United Utilities Manchester Resilience programme ○ Thames Water PMO ○ Asset optimisation consultancy for Southern Water ○ South Staffs Water consultancy and asset management services ○ Welsh Water Hy-Value project
Network Rail CP6	<ul style="list-style-type: none"> • Gatwick Station upgrade • Design Services Framework
Investment in local infrastructure Devolved Authorities	<ul style="list-style-type: none"> • Lancashire County Council Preston Western Distributor Road • East Sussex County Council highway services asset management programme • Bradford Council street lighting - project management/consultancy • TFL A40 Westway and Hammersmith Bridge and Professional Services Framework
Central Government	<ul style="list-style-type: none"> • Crown Commercial Services Management Consultancy Framework • DOS4 Central Government Digital Framework • Government G-Cloud 12 Framework - consultancy/digital
Green Industrial Revolution	<ul style="list-style-type: none"> • Sellafield Decommissioning Delivery Partner • Cadent CMO • Cadent FEEDs • South Wales Industrial Cluster - decarbonisation work • Hydrogen design service contracts • INEOS Breagh Gas plant FEED • Pale Blue Dot - Acorn Carbon Capture FEED • EDF Project Controls Framework
Defence Equipment Programme	<ul style="list-style-type: none"> • AWE - Project MENSA • Devonport Royal Dockyard P3M consultancy services and Delivery Partner roles • Dreadnought Alliance

Transportation

<i>£m</i>	<i>2020 Adjusted¹</i>	<i>2020 Statutory</i>	<i>2019 Adjusted¹</i>	<i>2019 Statutory</i>
Revenue	724.2	674.1	740.6	720.6
Operating profit/(loss)	20.1	(30.3)	29.7	9.7

¹ Refer to financial statements notes 3 and 4

The division has a forward order book of £3.1bn (2019: £3.1bn), which includes our Regional Delivery Partnership (RDP) position of £1.1bn and a preferred bidder position on the Smart Motorways Alliance with allocated work of £1.0bn.

Notable contract wins in 2020 include: the Smart Motorway Alliance (£1.3bn), RDP addition of A30 (£250m) and Specialist Professional and Technical Services framework (SPaTS2) for Highways England; commencement of phase 1 of the Main Works Civils Contract joint venture for HS2 (£1.4bn); a smart street lighting project for Bradford Council helping them deliver their targeted efficiency programme and Network Rail's Design Services Framework.

Highways

As a strategic partner for Highways England, we opened the flagship A14 Cambridge to Huntingdon project early and to budget. This project combats congestion, improves safety and unlocks regional growth by connecting people in the region. On RDP, which is delivering schemes set out in the Road Investment Strategy through a longer-term, integrated approach to improve benefits and eliminate waste, we are continuing to deliver the A19 Testo's scheme and have started work on the adjacent Downhill Lane Junction scheme. We have also mobilised the A30 contract and we continue to develop innovative solutions with Highways England on three road improvement contracts on the A1 and the A12 widening.

Costain has worked with Highways England for many years to improve the safety, capacity and journey experience on the nation's strategic road network. As well as delivering smart motorways as part of the Smart Motorway Alliance, we are providing highways maintenance services on the M1 and M62 smart motorways in Yorkshire and Humber as part of our Area 12 contract. We are delivering R&D projects to support the continuing development of digital roads and we successfully completed our 'Connected Digital Roads' project, which explored opportunities for integrating smart motorway technology with connected vehicle technology to enhance the benefits of smart motorways. In addition, we continue to support Highways England's operations division with a number of asset management contracts.

We continue to support devolved investment in infrastructure. We are working with East Sussex County Council on its highways services asset management programme, Lancashire County Council on the Preston Western Distributor Road to improve connectivity and economic growth in the region and Bradford City Council on its green street lighting programme.

In developing our position as a valued implementation-biased consultant, we are working with Transport for London (TfL) in consultancy roles on Hammersmith Pedestrian Bridge and the A40 Westway upgrade. We continue to support the Department for Transport as a prime supplier on its STARTwo consultancy framework, under which we offer advice to the Government on a range of strategic, nationally important transportation issues. Working with Highways England through the SPaTS2 framework, we are supporting the shaping of the future roads network and improved methods of programme delivery. Our technology centre continues to develop and implement new systems to meet the needs of an increasingly digital strategic road network.

Rail

In this period, due to the impact of COVID-19 on Crossrail's budget and programme, our joint venture mutually agreed settlement and termination on Crossrail's Bond Street station. Work continues on the systems and technology required for commissioning the Elizabeth Line, and we have secured, by client request, a one year extension on this contract to help the client successfully deliver the new railway. As this is published, we are working hand in hand with Crossrail to deliver Paddington and secure opening deadlines for the station.

Our activity on High Speed 2, Britain's low carbon, high capacity railway is progressing well and growing significantly. We are delivering the Enabling Works and have mobilised the Phase 1 Main Civils Contracts on two major sections of the route. Our consulting team has continued to support the design work associated with the Hybrid Bill for Phase 2a and the development of the route for Phase 2b.

The upgrade of Gatwick Airport Station for Network Rail to improve capacity of this critical UK transportation hub is progressing well. We continue to work with Network Rail on our reliable, solar powered, wireless, radar-based warning system (Meerkat) and this will be deployed across the majority of Network Rail's remote level crossings in 2021.

Pushing the pace on digitisation and innovation to drive better, faster and greener delivery of infrastructure, we are working together with key partner SAP and a consortium of industry leading enterprises (such as Transport for London (TfL), HE, HS2 and Network Rail) called the 'Transport Infrastructure Efficiency Strategy Living Lab' (TIES Living Lab) to create a demonstrator for a new cloud-based data platform called the Intelligent Infrastructure Control Centre (IICC).

Aviation

Despite early success in securing consultancy frameworks for Manchester Airports Group, Heathrow Airport Limited and Gatwick Airport, we have adjusted the focus of our aviation business as the industry is in stasis due to COVID-19, reaching out to regional airports and widening our offering to border issues and alternative fuel usages such as hydrogen.

Central government

Costain has built a new portfolio of work with central government and continues to win and deliver important and influential services to key clients in this sector. We delivered throughout 2020 as a technical and commercial partner to the Department for Transport on highly complex time sensitive and critical projects facing the UK economy during COVID-19 and in preparation for BREXIT. In addition to this work we have also undertaken strategic consulting assignments for Infrastructure and Projects Authority, the Cabinet Office and for the Department for Business, Energy and Industrial Strategy to lay the foundations for building back a better, more sustainable Britain in line with the SPEED Strategy.

Natural Resources

<i>£m</i>	<i>2020 Adjusted¹</i>	<i>2020 Statutory</i>	<i>2019 Adjusted¹</i>	<i>2019 Statutory</i>
<i>Revenue</i>	345.1	303.1	429.4	429.4
<i>Operating profit/(loss)</i>	5.7	(43.6)	15.4	15.4

¹ Refer to financial statements notes 3 and 4

As at 31 December 2020, the division had a forward order book of £1.1bn (2019: £1.1bn), reflecting wins of £0.4bn in 2020.

Notable contract wins across the range of our broader services include the Strategic Pipeline Alliance for Anglian Water; the Technical Services Framework for Yorkshire Water; the AMP7 PMO contract for Thames Water; the programme management consultancy for Cadent and P3M consultancy and delivery partner roles for Babcock at Devonport Royal Dockyard.

Water

We are focused on helping our clients respond to the Ofwat regulatory requirements for water companies, enabling them to meet stretching performance targets and efficiency challenges in the period to 2025. We have secured positions with our broadest ever number of clients as we move into AMP7. We continue our complex capital delivery programme delivery with Severn Trent Water, Southern Water and Thames Water, driving efficient and innovative solutions such as asset optimisation. We are appointed as sole Maintenance Service Provider for United Utilities, providing overall management and delivery of United Utilities' larger-scale water and wastewater asset maintenance activities across the entirety of its network. Our appointment on Yorkshire Water's Technical Services Framework will see us providing a broad range of integrated consultancy and digital services to support our client in driving efficient transformation and optimisation of its water and wastewater assets during the first four years of AMP7. We are working alongside Anglian Water in its Strategic Pipeline Alliance to develop an enterprise-ready digital twin which will optimise management of the water network throughout the lifecycle of the new strategic pipeline and provide a much better, more stable, 24/7 service to all of its customers. We provide consultancy services to Thames Water as PMO, driving efficient delivery across its whole AMP7 programme. We also continue to provide consultancy and asset management services to South Staffs Water. We are working to support the UK water sector to achieve net zero carbon by 2030. In collaboration with Welsh Water, we have been awarded funding by Innovate UK for the Hy-Value project, demonstrating significant progress towards converting sewage-derived biogas into zero-emission fuel.

We are now finalising works on the AMP6 five-year programmes for Thames Water, Severn Trent Water and Southern Water. Our AMP6 contract with Thames Water includes an element of incentivisation, aligned to the client's objectives, estimated through the life of the contract and finalised at the end of the programme.

The Thames Tideway project, on which we are in a joint venture to deliver the east section, continues to progress well. We have recently reached an important milestone on the project, with both tunnel boring machines launched in 2020 and overall completion is scheduled for 2024.

Energy

We continue to drive the transformation of our energy sector with a renewed market focus on expanding our consultancy services in decarbonisation and maximising existing asset performance.

In 2020, we secured leading roles in the future decarbonisation of the UK through three UK carbon capture and storage cluster schemes, as well as delivering a number of firsts in the UK decarbonisation space; first trial of hydrogen into regional distribution network; first in network gas compression for Biogas; first carbon capture scheme; and first microgrid and resilience as a service project for Scottish and Southern

Electricity Networks. We continued our important roles in both the South Wales and Scotland industrial clusters and demonstrated the feasibility of the concept of hydrogen 'deblending' for a first of its kind programme that brings together all the gas distribution networks to collaboratively develop innovative hydrogen solutions that will decarbonise energy for heat, transport, industry and power generation. While the pace of the UK transitioning to a decarbonised energy network is slower than expected, we have secured key positions which allow us to continue to support our clients today, while working with them to shape and deliver the energy networks of the future.

In addition, in 2020, Costain has provided strategic planning and programme management to Cadent as part of its 10 year capital investment programme. This contract builds on the established partnership Costain has with Cadent as one of its partners overseeing the HS2 gas main diversions. We are also Cadent's strategic partner in the transition to the decarbonisation of energy networks including the hydrogen economy through the North West Hydrogen Alliance and the OptiNet project to research gas compression technology.

Our Sellafield decommissioning framework and EDF Project Controls framework contracts continue to perform in line with expectations.

Defence

In 2020, Costain strengthened its market position as a valued consultant with a number of key client wins. Today, we are involved in the Continuous at Sea Deterrent programme at several levels, working with defence primes including AWE, Rolls Royce and BAE and directly with the Ministry of Defence via the Crown Commercial Services framework. In addition, we are providing P3M consultancy services and delivery partner roles for Babcock at Devonport Royal Dockyard. Our programme management contract for AWE continues to meet performance expectations, allowing us to secure opportunities to support AWE on additional projects.

OTHER FINANCIAL INFORMATION

Other items and adjusted profit

To aid understanding of the underlying performance of the Group, adjusted operating profit and adjusted profit before tax have been used as alternative performance measures. These measures exclude items which are considered to be one-off and unusual in nature or related to accounting treatment of acquisitions and fall into two categories:

1. the contract adjustments of £94.7m on the A465 and Peterborough & Huntingdon contracts detailed below as well as the £5.0m final settlement charge against a contract (ASF South) that completed five years ago; and
2. 'other items' of £10.3m, which are shown in a separate column in the consolidated income statement include amortisation of acquired intangible assets, deferred consideration treated as an employment expense, impairments and profits and losses on sales of non-core assets (impairment of non-core assets £1.2m, profits on the sale of non-core assets in Zimbabwe £1.0m and Spain £0.4m, the sale of 'Building Schools for the Future' interests £1.6m) and a £9.0m impairment of goodwill in our natural resources division, one-off costs associated with advice received in renegotiating the Group's bank facilities £1.2m and a £0.9m charge relating to GMP equalisation of certain transfers of pension liabilities following another Lloyds pension scheme court ruling in late 2020.

Peterborough & Huntingdon Contract

On 29 June 2020, Costain announced that a termination and settlement agreement (the "Agreement") had been reached with National Grid to cease work on the Peterborough & Huntingdon gas compressor project (the "Contract") following a significant change in scope. The Agreement includes a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

In its interim results for the six months ended 30 June 2020, Costain recorded a charge to the income statement of £49.3m reflecting the cash position at termination. The legal process is ongoing and all adjudications will be filed by December 2021. Supported by external advice, Costain believes it has a strong entitlement to retain, as a minimum, the reported position, with no further cash outflow.

Under the terms of the Agreement, the cumulative outcome for Costain of these adjudications could range from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect Costain's banking arrangements) of up to a maximum of £57.3m. Any such cash adjustments would be made in the first quarter of 2022.

A465 Contract

As announced on 17 February 2021, a settlement agreement was entered into with the Welsh Government in relation to the A465 contract. The financial terms of the settlement are in line with the provision made by the Group at the half-year of £45.4m. As a result of the settlement, the Company has certainty of the final account sum payable by the Welsh Government to the Company, including further milestone payments. Work on the contract is nearing completion, and the Company continues to be responsible for the delivery and the management of associated project risks for the remaining works, which are scheduled to be completed in September 2021.

ASF South

Following an extensive contract review, a decision was taken to take a one-off charge of £5.0m to settle a legacy contract with Highways England where works were completed in 2016.

Sale of non-core assets

Alcaidesa

In August 2020, the Group sold its marina concession for £4.75m, the disposal of which completes the Group's strategy to divest its non-core business assets in Spain. The aggregate loss on the sale was £0.2m, including an impairment charge in the first half of the year. Revenue in this non-core division in the period was £1.2m (2019: £5.6m) with a £0.1m operating loss (2019: £0.7m).

Legacy asset disposals

In the first half of the year, the Group completed the sale of its legacy company that held property assets in Zimbabwe for £1.0m (net of costs), which as the assets were held at no value represents the profit on the disposal. In August 2020, the

Group also completed the sale of its equity share in its two remaining 'Building Schools for the Future' partnership companies for a combined consideration of £3.7m. The Group's full year results include the profit of £1.6m from the sale.

Net financial expense

Net finance expense amounted to £4.3m (2019: £3.7m). The interest payable on bank overdrafts, loans and other similar charges was £4.1m (2019: £3.3m) and the interest income from bank deposits and other loans and receivables amounted to £0.6m (2019: £0.9m). In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £0.2m (2019: £0.1m income) and the interest expense on lease liabilities of £1.0m (2019: £1.3m) under IFRS16. 2019 included an unwind of discount on deferred consideration of £0.1m.

Tax

The Group has a tax credit of £18.1m (2019: £3.7m credit) giving an effective tax rate of 18.8%. The 2020 tax credit arose from recognising a deferred tax asset in respect of losses that will be utilised against future taxable profits. We expect the effective tax rate to remain close to the statutory tax rate of 19% until 2023, when it will increase to 25% as announced in the recent Budget.

Debt, cash conversion

The Group had a positive net cash balance of £102.9m as at 31 December 2020 (2019: £64.9m); comprised of a Costain cash balance of £89.8m (2019: £97.4m), cash held by joint operations of £61.1m (2019: £83.5m) and borrowings of £48.0m (before arrangement fees of £1.2m) (2019: £116.0m). Approximately £17.0m of the net cash balance (2019: £35.0m) reflects positive timing of receipts at the year-end which reversed in the early part of 2021. During the year, the Group's average month-end net cash balance was £73.8m (2019: £41.2m) improving to £94.4m in the second-half.

The cash inflow in the period reflects the positive cash flow from the capital raising, operations and asset sales offset by operating outflows on P&H and A465, working capital movements, and associated pension deficit contributions.

Contract bonding and banking facilities

The Group has in place banking and bonding facilities from banks and surety bond providers to meet the current and projected usage requirements. The Group has banking facilities of £179.0m with its relationship banks with a maturity date of 24 September 2023. These facilities are made up of a £131.0m revolving credit facility and a £48.0m term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £320.0m. Utilisation of the total bonding facilities on 31 December 2020 was £112.3m (31 December 2019: £122.0m).

Pensions

As at 31 December 2020, the Group's pension scheme deficit in accordance with IAS 19, was £5.6m (2019: £4.9m surplus).

Based on the actuarial valuation as at 31 March 2019, the Company has in place a deficit reduction plan, agreed with the pension scheme Trustee, which requires a contribution of £10.2m per annum (increasing annually with inflation). In addition, as previously implemented, the Group will continue to make an additional contribution so that total deficit contributions match the total dividend amount paid by the Company each year.

DIRECTORS REPORT

Going concern

The Directors have reviewed the budgets for 2021 and the projections for 2022 developed during the 2020 annual strategic planning cycle. They have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities. They have also assessed the ongoing impact on the Group's trading arising from the UK's departure from the EU, which is not anticipated to be significant in the context of the Group's operations. Our projects have been operational through the majority of the COVID-19 lock down period and this is expected to continue. Based on this, the Directors are satisfied that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. For this reason, they confirm that it is appropriate to adopt the going concern basis in preparing the financial statements.

Principal risks and uncertainties

The Board has conducted a thorough assessment of the principal risks facing the Group during the year, including those that would threaten the successful and timely delivery of its strategic priorities, future performance, solvency and liquidity. A full discussion can be found at the end of this document and will be set out in our Annual Report and Accounts.

Responsibility statement

The responsibility statement below has been prepared in connection with (and will be set out in) the Group's Annual Report and Accounts for the year ended 31 December 2020 (the 'Annual Report and Accounts').

Each of the persons who is a Director at the date of approval of the Annual Report and Accounts confirms that to the best of his or her knowledge:

- The Group financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and of the Group taken as a whole;
- The Strategic report and the Directors' report in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy.

A list of current directors and their respective responsibilities is maintained on the Costain website at www.costain.com.

For and on behalf of the Board

Alex Vaughan
Chief Executive Officer

Helen Willis
Chief Financial Officer

16 March 2021

Cautionary statement

This report contains forward-looking statements. These have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. The Directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The Directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December

	Notes	2020			2019		
		Before other items	Other items	Total	Before other items	Other items	Total
		£m	£m	£m	£m	£m	£m
Group revenue	4	978.4	-	978.4	1,155.6	-	1,155.6
Cost of sales before other items		(1,027.0)	-	(1,027.0)	(1,105.1)	-	(1,105.1)
Arbitration award on historical building project		-	-	-	-	(9.7)	(9.7)
Cost of Sales		(1,027.0)	-	(1,027.0)	(1,105.1)	(9.7)	(1,114.8)
Gross (loss)/profit		(48.6)	-	(48.6)	50.5	(9.7)	40.8
Administrative expenses before other items		(33.1)	-	(33.1)	(32.6)	-	(32.6)
Impairment of Alcaidesa marina		-	(0.6)	(0.6)	-	(5.9)	(5.9)
Impairment of other investment		-	(0.6)	(0.6)	-	-	-
Profit on sales of interests in joint ventures and associates		-	1.6	1.6	-	-	-
Profit/(loss) on disposal of subsidiary undertakings		-	1.4	1.4	-	(3.0)	(3.0)
Refinancing advisory fees		-	(1.2)	(1.2)	-	-	-
Pension GMP equalisation charge	12	-	(0.9)	(0.9)	-	-	-
Amortisation of acquired intangible assets	9	-	(1.0)	(1.0)	-	(2.3)	(2.3)
Impairment of goodwill	9	-	(9.0)	(9.0)	-	-	-
Employment related and other deferred consideration		-	-	-	-	(0.2)	(0.2)
Administrative expenses		(33.1)	(10.3)	(43.4)	(32.6)	(11.4)	(44.0)
Group operating (loss)/profit		(81.7)	(10.3)	(92.0)	17.9	(21.1)	(3.2)
Share of results of joint ventures and associates		0.2	-	0.2	0.3	-	0.3
(Loss)/profit from operations	4	(81.5)	(10.3)	(91.8)	18.2	(21.1)	(2.9)
Finance income	5	0.8	-	0.8	1.0	-	1.0
Finance expense	5	(5.1)	-	(5.1)	(4.6)	(0.1)	(4.7)
Net finance expense		(4.3)	-	(4.3)	(3.6)	(0.1)	(3.7)
(Loss)/profit before tax		(85.8)	(10.3)	(96.1)	14.6	(21.2)	(6.6)
Taxation	6	17.5	0.6	18.1	(0.1)	3.8	3.7
(Loss)/profit for the year attributable to equity holders of the parent		(68.3)	(9.7)	(78.0)	14.5	(17.4)	(2.9)
(Loss)/earnings per share							
Basic	7			(36.7)p			(2.3)p
Diluted	7			(36.7)p			(2.3)p

The impact of business disposals in either year was not material and, therefore, all results are classified as arising from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

Year ended 31 December

	2020	2019
	£m	£m

Loss for the year	(78.0)	(2.9)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	0.2	(1.4)
Exchange differences on translation transferred to the income statement	(1.2)	(3.7)
Net investment hedge:		
Effective portion of changes in fair value during year	0.1	1.6
Net changes in fair value transferred to the income statement	0.4	2.0
Cash flow hedges :		
Effective portion of changes in fair value during year	(0.3)	(0.4)
Net changes in fair value transferred to the income statement	0.5	(0.8)
Total items that may be reclassified subsequently to profit or loss	(0.3)	(2.7)
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit (obligations)/asset	(19.9)	(7.0)
Tax recognised on remeasurement of retirement benefit (obligations)/asset	3.8	1.2
Total items that will not be reclassified to profit or loss	(16.1)	(5.8)
Other comprehensive expense for the year	(16.4)	(8.5)
Total comprehensive expense for the year attributable to equity holders of the parent	(94.4)	(11.4)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Intangible assets	9	52.1	59.0
Property, plant and equipment	10	39.9	44.1
Equity accounted investments		0.4	2.5
Retirement benefit asset		-	4.9
Trade and other receivables		3.5	2.1
Deferred tax		23.6	4.6
Total non-current assets		119.5	117.2
Current assets			
Inventories		0.6	1.3
Trade and other receivables		218.7	247.6
Taxation		0.2	5.5
Cash and cash equivalents	11	150.9	180.9
Total current assets		370.4	435.3
Total assets		489.9	552.5
Liabilities			
Non-current liabilities			
Retirement benefit obligations	12	5.6	-
Other payables		1.1	0.7
Interest bearing loans and borrowings		39.6	48.0
Lease liabilities		20.8	17.2
Total non-current liabilities		67.1	65.9
Current liabilities			
Trade and other payables		246.0	247.4
Interest bearing loans and borrowings		7.2	68.0
Lease liabilities		12.5	12.8
Provisions for other liabilities and charges		0.6	0.7
Total current liabilities		266.3	328.9
Total liabilities		333.4	394.8
Net assets		156.5	157.7
Equity			
Share capital	13	137.5	54.1
Share premium		16.4	16.4
Translation reserve		0.6	1.1
Hedging reserve		(0.3)	(0.5)
Retained earnings		2.3	86.6
Total equity		156.5	157.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	Hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2019	53.5	15.0	2.6	0.7	-	110.5	182.3

Loss for the year	-	-	-	-	-	(2.9)	(2.9)
Other comprehensive expense	-	-	(1.5)	(1.2)	-	(5.8)	(8.5)
Issue of ordinary shares under employee share option plans	0.3	0.4	-	-	-	(0.2)	0.5
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.7)	(0.7)
Equity-settled share-based payments	-	-	-	-	-	0.5	0.5
Dividends paid	0.3	1.0	-	-	-	(14.8)	(13.5)
At 31 December 2019	54.1	16.4	1.1	(0.5)	-	86.6	157.7
At 1 January 2020	54.1	16.4	1.1	(0.5)	-	86.6	157.7
Loss for the year	-	-	-	-	-	(78.0)	(78.0)
Other comprehensive (expense)/ income	-	-	(0.5)	0.2	-	(16.1)	(16.4)
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.2)	(0.2)
Equity-settled share-based payments	-	-	-	-	-	0.9	0.9
Capital raise (note 13)	83.4	-	-	-	9.1	-	92.5
Transfer	-	-	-	-	(9.1)	9.1	-
At 31 December 2020	137.5	16.4	0.6	(0.3)	-	2.3	156.5

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Notes	2020 £m	2019 £m
Cash flows from/(used by) operating activities			
Loss for the year		(78.0)	(2.9)
Adjustments for:			
Share of results of joint ventures and associates		(0.2)	(0.3)
Finance income	5	(0.8)	(1.0)
Finance expense	5	5.1	4.7
Taxation	6	(18.1)	(3.7)
Impairment of Alcaidesa marina		0.6	5.9
Impairment of other investment		0.6	-
Profit on sales of interests in joint ventures and associates		(1.6)	-
(Profit)/loss on disposal of subsidiary undertakings		(1.4)	3.0
Pension GMP equalisation charge		0.9	-
Depreciation of property, plant and equipment	10	15.0	17.7
Amortisation of intangible assets	9	10.5	2.6
Employment related and other deferred consideration		-	0.2
Shares purchased to satisfy employee share schemes		(0.2)	(0.7)
Share-based payments expense		0.9	0.5
Cash (used by)/from operations before changes in working capital and provisions		(66.7)	26.0
Decrease in inventories		0.7	0.1
Decrease in receivables		25.5	30.2
Decrease in payables		(0.1)	(63.5)
Movement in provisions and employee benefits		(10.4)	(16.3)
Cash used by operations		(51.0)	(23.5)
Interest received		0.8	1.0
Interest paid		(5.1)	(4.6)
Taxation received/(paid)		8.3	(5.1)
Net cash used by operating activities		(47.0)	(32.2)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		0.2	0.2
Additions to property, plant and equipment		(0.5)	(3.8)
Additions to intangible assets		(3.6)	(3.1)
Proceeds of disposals of property, plant and equipment and intangible assets		0.3	0.3
Repayment of loans by joint ventures and associates		-	0.1
Proceeds of sales of interests in joint ventures and associates		3.7	-
Acquisition related deferred consideration		-	(1.5)
Proceeds of sales of subsidiary undertakings		4.6	11.8
Net cash from investing activities		4.7	4.0
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		92.5	0.5
Ordinary dividends paid		-	(13.5)
Repayments of lease liabilities		(12.1)	(13.6)
Drawdown of loans		71.5	70.0
Repayment of loans		(139.0)	(23.6)
Net cash from financing activities		12.9	19.8
Net decrease in cash and cash equivalents		(29.4)	(8.4)
Cash and cash equivalents at beginning of the year	11	180.9	189.3
Effect of foreign exchange rate changes		(0.6)	-
Cash and cash equivalents at end of the year	11	150.9	180.9

Notes to the financial statements

1 Basis of preparation

Costain Group PLC ("the Company") is a public limited company domiciled in England and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 31 December 2020 comprise the Group and the Group's interests in associates, joint ventures and joint operations and have been prepared and approved by the

directors in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 16 March 2021. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 and 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered in due course.

The auditor has reported on these accounts. Their report for 2020 was (i) unqualified and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Their report for the accounts of 2019 was (i) unqualified, (ii) contained a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to fully comply with IFRS.

The accounting policies have been applied consistently by the Group to each period presented in these financial statements.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2020, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. Having undertaken a rigorous assessment of the financial forecasts, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, has adopted the going concern basis for the preparation of the financial statements.

In assessing the going concern assumptions, the Board has reviewed the base case plans. They have assessed the ongoing impact on the Group's trading arising from the UK's departure from the EU, which is not anticipated to be significant in the context of the Group's operations. Our projects have been operational through the majority of the COVID-19 lock down period and this is expected to continue. The Board has identified severe but plausible downsides and after applying these downside scenarios, the Board concluded that there is liquidity headroom in a reasonable worst case scenario, headroom on the committed facilities and that headroom on the associated financial covenants is adequate.

Alternative performance measures

Income statement presentation - Other items

In order to aid understanding of the underlying and overall performance of the Group, certain amounts are shown in the consolidated income statement in a separate column headed 'Other items'. Items are included under this heading where the Board considers them to be of a one-off and unusual nature or related to the accounting treatment of acquisitions. These results present underlying profit and EPS, which is a Non-GAAP measure. Other items include:

- amortisation of acquired intangibles, employment related deferred consideration, impairment charges on the Alcaidesa marina and profits and losses on sales of residual businesses;
- in 2020, the goodwill impairment, the pension GMP equalisation charge, finance advisory costs associated with the capital raise and the bank facilities, the impairment of a minor stake in a hotel company investment and the profit on sale of the Group's remaining interests in "Buildings Schools for the Future" partnership companies; and
- in 2019, the one-off exceptional costs of an arbitration award in respect of the remedial works deemed required to the roof in relation to a building contract completed in 2006.

The tax impact of the above is shown on the taxation line below the other items.

The Group also has non-GAAP adjusted profit and earnings per share measures, which exclude both other items and the three significant contract adjustments, and an adjusted revenue measure, that excludes the revenue element of the three contract adjustments (note 3).

All these items are adjusted because they are not long term in nature and, hence, will not reflect the long-term performance of the Group.

2 Significant areas of judgment and estimation

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of estimation and judgement arise from the accounting for long-term contracts under IFRS 15 'Revenue from Contracts with Customers', the carrying value of goodwill and acquired intangible assets, the assumptions used in the accounting for defined benefit pension schemes under IAS 19 'Employee benefits', the recognition of deferred tax assets in relation to tax losses and the items classified as 'other items' and contract adjustments.

Long-term contracts

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

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

During the course of the contract, there is often significant change to the scope of the works and this has an impact on the programme and costs on the contract. The amount of resulting compensation events can be substantial and at any time these are often not fully agreed with the customer due to the timing and requirements of the contractual process. Also, many will relate to work yet to be undertaken or completed. Therefore, assessments are based on an estimate of the potential cost impact of the compensation events.

The Group's five largest compensation events positions included in contract assets at the year-end are summarised in aggregate below. In 2019, the most significant amounts related to the A465 and the Peterborough & Huntingdon contracts both of which contracts are discussed in note 3. Neither of these contracts are included in the 2020 analysis. The Peterborough & Huntingdon contract is discussed separately below.

	2020 £m	2019 £m
Overall contract value	1,135.6	1,334.0
Revenue in year	176.9	281.3
Total estimated end of contract compensation events	83.1	472.1
Total estimated unagreed end of contract compensation events	51.3	238.6
Total unagreed compensation events valued at year end and included in contract assets	22.5	45.7

The financial impact of changes to the value of compensation events finally agreed will depend on the precise terms of the contract and the interaction with incentive arrangements, such as pain/gain mechanisms and bonus or KPI arrangements, and any assessments made about costs disallowed under the contract. If the estimated value of the unagreed end of contract compensation events in relation to the currently estimated change in these contracts was increased or decreased by 10%, the impact on the financial results over the life of the contract could be an increase or decrease of up to £7.0m (2019: up to £15.0m). Additional compensation events for further change may also arise over the remaining contract period.

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

Management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year could require material adjustment. Given the pervasive impact of judgements and estimates on revenue, cost of sales and related balance sheet amounts, it is difficult to quantify the impact of taking alternative assessments on each of the judgements above.

On 29 June 2020, Costain announced that a termination and settlement agreement (the "Agreement") had been reached with National Grid to cease work on the Peterborough & Huntingdon gas compressor project (the "Contract") following a significant change in scope. The Agreement includes a legal process, through adjudications, to agree up to £80.0m of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

In its interim results for the six months ended 30 June 2020, Costain recorded a charge to the income statement of £49.3m reflecting the cash position at termination. The legal process is ongoing and all adjudications will be filed by December 2021. Supported by external advice, Costain believes it has a strong entitlement to retain, as a minimum, the reported position, with no further cash outflow.

Under the terms of the Agreement, the cumulative outcome for Costain of these adjudications could range from an additional cash receipt of up to a maximum of £50.0m to a cash payment (which would not affect the Group's banking arrangements) of up to a maximum of £57.3m. Any such cash adjustments would be made in the first quarter of 2022.

Carrying value of goodwill and intangible assets

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires estimation and judgement, principally, in respect of operating margins, growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values.

The carrying value of development expenditure is reviewed against the expected future cash flows that will be generated from that asset. Development costs of products for sale are assessed against contracted sales and internal sales forecasts.

Defined benefit pension schemes

Defined benefit pension schemes require significant estimates in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in note 12.

Deferred tax

Included in deferred tax assets is an asset for tax losses recorded in the year. The asset is recognised on the basis that the losses will be used against future taxable profits of the Group over the next six years.

Other items

Management has used judgement to determine the items classified as other items and to determine the contract adjustments set out in note 3.

3 Reconciliation of reported revenue and operating (loss)/profit to adjusted revenue and operating profit

Adjusted revenue, operating profit and earnings per share are being used as non-GAAP performance measurements. The adjustments exclude the impact of significant one-off changes in the accounting treatments of three contracts, Peterborough & Huntingdon (P&H), the A465 Heads of the Valley road (A465) and the ASF South contracts, as described below, as well as the other items of £10.3m. The revenue adjustment represents the reversal of the contract asset recorded in the statement of financial position immediately prior to the write down. The Board considers the adjusted measures better reflect the underlying trading performance of the Group.

The Peterborough & Huntingdon contract charge followed the agreement with National Grid to mutually terminate the contract in June 2020. The position is described further in Significant areas of judgement and estimation in note 2.

At the date of termination, the Group had a contract asset of £42.0m associated with this contract and this was forecast to increase to £49.3m at the end of the works. Reflecting the commercial resolution process incorporated in the termination agreement and in accordance with IFRS 15, a one-off charge to the income statement of £49.3m was reflected to adjust the revenue recognised to the level of cash received and to cover the cost of remaining works. 2020 adjusted revenue includes £32.3m of revenue on Peterborough & Huntingdon up to the termination date.

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. At 30 June 2020, the Group had a contract asset of £45.4 million. The client had escalated a specific matter relating to the responsibility for design information for a specific retaining wall and whether it qualified as a compensation event to arbitration under the dispute resolution mechanism in the contract. While the issue was decided in the Group's favour by way of previous adjudication awards, the arbitrator found that responsibility for the design information rests with Costain and, consequently, the additional costs associated with the building of the retaining wall is not a compensation event under the contract. The arbitration award determined a matter of principle only, and not quantum, and was non-appealable. As a result of the decision, the Group adjusted the revenue recognised based on the level of cash received to date under the contract and reflected a write down of the £45.4m contract asset. Subsequently, the account has been agreed with the client in line with this write down. The Group will continue to fulfil its obligations under the contract, with completion scheduled in 2021. 2020 adjusted Group revenue includes £18.0m of revenue on the A465 contract.

The ASF South contract was in respect of works undertaken for Highways England that were completed in 2016. Following an extensive contract review, the Group has taken a one-off charge of £5.0m to close out this legacy contract.

Year ended 31 December 2020	Adjusted £m	P&H £m	A465 £m	ASF South £m	Before other items £m	Other items £m	Total £m
Revenue before contract adjustments	1,070.5	-	-	-	1,070.5	-	1,070.5
Contract adjustments	-	(42.0)	(45.4)	(4.7)	(92.1)	-	(92.1)
Group revenue	1,070.5	(42.0)	(45.4)	(4.7)	978.4	-	978.4
Cost of sales	(1,019.4)	(7.3)	-	(0.3)	(1,027.0)	-	(1,027.0)
Gross profit/(loss)	51.1	(49.3)	(45.4)	(5.0)	(48.6)	-	(48.6)
Administrative expenses before other items	(33.1)	-	-	-	(33.1)	-	(33.1)
Other items	-	-	-	-	-	(10.3)	(10.3)
Administrative expenses	(33.1)	-	-	-	(33.1)	(10.3)	(43.4)
Group operating profit/(loss)	18.0	(49.3)	(45.4)	(5.0)	(81.7)	(10.3)	(92.0)
Share of results of joint ventures and associates	0.2	-	-	-	0.2	-	0.2
Profit/(loss) from operations	18.2	(49.3)	(45.4)	(5.0)	(81.5)	(10.3)	(91.8)
Net finance expense	(4.3)	-	-	-	(4.3)	-	(4.3)
Profit/(loss) before tax	13.9	(49.3)	(45.4)	(5.0)	(85.8)	(10.3)	(96.1)
Taxation	(1.5)	9.4	8.6	1.0	17.5	0.6	18.1
Profit/(loss) for the period attributable to equity holders of the parent	12.4	(39.9)	(36.8)	(4.0)	(68.3)	(9.7)	(78.0)

Basic earnings/(loss)

per share **5.8p** **(36.7)p**

Year ended 31 December 2019	Adjusted £m	P&H £m	A465 £m	ASF South £m	Before other items £m	Other items £m	Total £m
Revenue before contract adjustment	1,175.6	-	-	-	1,175.6	-	1,175.6
Contract adjustment	-	-	(20.0)	-	(20.0)	-	(20.0)
Group revenue	1,175.6	-	(20.0)	-	1,155.6	-	1,155.6
Cost of sales	(1,105.1)	-	-	-	(1,105.1)	(9.7)	(1,114.8)
Gross profit/(loss)	70.5	-	(20.0)	-	50.5	(9.7)	40.8
Administrative expenses before other items	(32.6)	-	-	-	(32.6)	-	(32.6)
Other items	-	-	-	-	-	(11.4)	(11.4)
Administrative expenses	(32.6)	-	-	-	(32.6)	(11.4)	(44.0)
Group operating profit/(loss)	37.9	-	(20.0)	-	17.9	(21.1)	(3.2)
Share of results of joint ventures and associates	0.3	-	-	-	0.3	-	0.3
Profit/(loss) from operations	38.2	-	(20.0)	-	18.2	(21.1)	(2.9)
Net finance expense	(3.6)	-	-	-	(3.6)	(0.1)	(3.7)
Profit/(loss) before tax	34.6	-	(20.0)	-	14.6	(21.2)	(6.6)
Taxation	(3.9)	-	3.8	-	(0.1)	3.8	3.7
Profit/(loss) for the period attributable to equity holders of the parent	30.7	-	(16.2)	-	14.5	(17.4)	(2.9)
Basic earnings/(loss) per share	25.1p						(2.3)p

4 Operating segments

The Group has two core business segments: Natural Resources and Transportation plus the non-core business Alcaidesa in Spain. The core segments are strategic business units with separate management and have different core customers or offer different services. This information is provided to the Chief Executive who is the chief operating decision maker. The segments are discussed in the divisional review section of this preliminary announcement.

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

2020	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Adjusted revenue	345.1	724.2	1.2	-	1,070.5
Contract adjustments	(42.0)	(50.1)	-	-	(92.1)
Group revenue	303.1	674.1	1.2	-	978.4
Segment profit/(loss)					
Adjusted operating profit	5.7	20.1	(0.1)	(7.7)	18.0
Contract adjustments	(49.3)	(50.4)	-	-	(99.7)
Operating loss before other items	(43.6)	(30.3)	(0.1)	(7.7)	(81.7)
Share of results of joint ventures and associates	0.2	-	-	-	0.2
Loss from operations before other items	(43.4)	(30.3)	(0.1)	(7.7)	(81.5)
Other items:					
Impairment of Alcaidesa marina	-	-	(0.6)	-	(0.6)
Impairment of other investment	-	-	-	(0.6)	(0.6)
Profit on sales of interests in joint ventures and associates	1.6	-	-	-	1.6
Profit on disposal of subsidiary undertakings	-	-	0.4	1.0	1.4
Refinancing advisory fees	-	-	-	(1.2)	(1.2)
Pension GMP equalisation charge	-	-	-	(0.9)	(0.9)

Amortisation of acquired intangible assets	(0.7)	(0.3)	-	-	(1.0)
Impairment of goodwill	(9.0)	-	-	-	(9.0)
Loss from operations	(51.5)	(30.6)	(0.3)	(9.4)	(91.8)
Net finance expense					(4.3)
Loss before tax					(96.1)

2019	Natural Resources	Transportation	Alcaidesa	Central costs	Total
	£m	£m	£m	£m	£m
Segment revenue					
Adjusted revenue	429.4	740.6	5.6	-	1,175.6
Contract adjustments	-	(20.0)	-	-	(20.0)
Group revenue	429.4	720.6	5.6	-	1,155.6
Segment profit/(loss)					
Adjusted operating profit	15.4	29.7	(0.7)	(6.5)	37.9
Contract adjustments	-	(20.0)	-	-	(20.0)
Operating profit/(loss) before other items	15.4	9.7	(0.7)	(6.5)	17.9
Share of results of joint ventures and associates	0.3	-	-	-	0.3
Profit/(loss) from operations before other items	15.7	9.7	(0.7)	(6.5)	18.2
Other items:					
Exceptional costs of arbitration award on historical building project	(9.7)	-	-	-	(9.7)
Impairment of Alcaidesa marina	-	-	(5.9)	-	(5.9)
Loss on disposal of subsidiary undertaking	-	-	(3.0)	-	(3.0)
Amortisation of acquired intangible assets	(1.4)	(0.9)	-	-	(2.3)
Employment related and other deferred consideration	(0.2)	-	-	-	(0.2)
Profit/(loss) from operations	4.4	8.8	(9.6)	(6.5)	(2.9)
Net finance expense					(3.7)
Loss before tax					(6.6)

5 Net finance expense

	2020	2019
	£m	£m
Interest income from bank deposits	0.5	0.7
Interest income on loans to related parties	0.1	0.2
Interest income on the net assets of the defined benefit pension scheme	0.2	0.1
Finance income	0.8	1.0
Interest payable on interest bearing bank loans, borrowings and other similar charges	(4.1)	(3.3)
Interest expense on lease liabilities	(1.0)	(1.3)
Unwind of discount on deferred consideration	-	(0.1)
Finance expense	(5.1)	(4.7)
Net finance expense	(4.3)	(3.7)

Other similar charges includes arrangement and commitment fees payable. Interest income on loans to related parties relates to shareholder loan interest receivable from investments in equity accounted joint ventures and associates.

6 Taxation

	2020	2019
	£m	£m
On loss for the year		
UK corporation tax at 19.0% (2019: 19.0%)	(1.9)	1.1
Adjustment in respect of prior years	3.0	1.9
Current tax credit for the year	1.1	3.0
Deferred tax expense for the current year	19.7	(1.2)
Adjustment in respect of prior years	(2.7)	1.9
Deferred tax credit for the year	17.0	0.7
Tax credit in the consolidated income statement	18.1	3.7

2020
£m

2019
£m

Tax reconciliation		
Loss before tax	(96.1)	(6.6)
Taxation at 19.0% (2019: 19.0%)	18.3	1.3
Amounts qualifying for tax relief and disallowed expenses	(1.3)	(1.2)
Tax decrease from other tax effects	0.6	-
Rate adjustment relating to deferred taxation and overseas profits and losses	0.2	(0.2)
Adjustments in respect of prior years	0.3	3.8
Tax credit in the consolidated income statement	18.1	3.7

7 Loss per share

The calculation of earnings per share is based on a loss of £78.0m (2019: loss £2.9m) and the number of shares set out below.

	2020 Number (millions)	2019 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	212.8	107.6
Dilutive potential ordinary shares arising from employee share schemes	2.9	0.2
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	215.7	107.8

The 2019 shares number has been restated following the capital raise in 2020.

8 Dividends

	Dividend per share pence	2020 £m	2019 £m
Final dividend for the year ended 31 December 2018	10.00	-	10.7
Interim dividend for the year ended 31 December 2019	3.80	-	4.1
Amount recognised as distributions to equity holders in the year		-	14.8
Dividends settled in shares		-	(1.3)
Dividends settled in cash		-	13.5

Consistent with the rationale for the equity raise, the Company paid no final dividend in respect of the year ended 31 December 2019, therefore resulting in a total dividend paid for the prior year being the interim dividend, of 3.8 pence per share. No dividends were paid or proposed in respect of the year ended 31 December 2020.

9 Intangible assets

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2019	54.1	15.4	9.7	7.7	86.9
Additions	-	-	-	3.1	3.1
At 31 December 2019	54.1	15.4	9.7	10.8	90.0
At 1 January 2020	54.1	15.4	9.7	10.8	90.0
Additions	-	-	-	3.6	3.6
At 31 December 2020	54.1	15.4	9.7	14.4	93.6
Accumulated amortisation					
At 1 January 2019	-	12.5	8.9	7.0	28.4
Charge in year	-	1.8	0.5	0.3	2.6
At 31 December 2019	-	14.3	9.4	7.3	31.0
At 1 January 2020	-	14.3	9.4	7.3	31.0
Charge in year	-	0.7	0.3	0.5	1.5
Impairment	9.0	-	-	-	9.0
At 31 December 2020	9.0	15.0	9.7	7.8	41.5
Net book value					
At 31 December 2020	45.1	0.4	-	6.6	52.1
At 31 December 2019	54.1	1.1	0.3	3.5	59.0
At 1 January 2019	54.1	2.9	0.8	0.7	58.5

Goodwill has been allocated to the applicable cash generating units of the transportation segment (£15.5 million (2019: £15.5 million)) and the natural resources segment (£29.6 million (2019: £38.6 million)).

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

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows for the transportation CGU was 12.4% and for the natural resources CGU was 12.5%. In 2019, the discount rates used for the two CGUs were transportation 10.9% and natural resources 10.2%.

At 31 December 2020, based on the internal value in use calculations, management concluded that the recoverable value of the transportation cash generating units exceeded its carrying amount with substantial headroom on goodwill. Accordingly, in the view of the directors there is no reasonably foreseeable change in a key assumption that would result in an impairment charge. In respect of natural resources, the sensitivity of the assessment to a lower revenue and/or underlying operating margins has resulted in an impairment of the goodwill by £9.0 million, reducing the amount allocated to natural resources to £29.6 million.

10 Property, plant and equipment

	Land & Buildings £m	Plant & Equipment £m	Right-of-use assets		Total £m
			Land & Buildings £m	Vehicles, plant & equipment £m	
Cost					
At 1 January 2019	32.1	32.2	20.0	13.0	97.3
Currency movements	(1.1)	(0.2)	-	-	(1.3)
Additions	0.1	3.7	1.7	12.1	17.6
Disposal of subsidiary undertakings	(18.4)	(1.0)	-	-	(19.4)
Disposals	(0.2)	(2.4)	(2.2)	(3.9)	(8.7)
At 31 December 2019	12.5	32.3	19.5	21.2	85.5
At 1 January 2020	12.5	32.3	19.5	21.2	85.5
Currency movements	0.8	0.3	-	-	1.1
Additions	-	0.5	1.2	19.1	20.8
Disposal of subsidiary undertakings	(12.5)	(4.0)	-	-	(16.5)
Disposals	(0.2)	(2.1)	(0.2)	(10.0)	(12.5)
At 31 December 2020	0.6	27.0	20.5	30.3	78.4
Accumulated depreciation					
At 1 January 2019	3.8	20.5	-	-	24.3
Currency movements	(0.3)	(0.1)	-	-	(0.4)
Charge in year	0.8	2.9	4.6	9.4	17.7
Impairment	5.9	-	-	-	5.9
Disposal of subsidiary undertakings	(0.5)	(0.4)	-	-	(0.9)
Disposals	(0.2)	(2.1)	(0.3)	(2.6)	(5.2)
At 31 December 2019	9.5	20.8	4.3	6.8	41.4
At 1 January 2020	9.5	20.8	4.3	6.8	41.4
Currency movements	0.6	0.1	-	-	0.7
Charge in year	-	2.7	4.3	8.0	15.0
Impairment	0.6	-	-	-	0.6
Disposal of subsidiary undertakings	(10.0)	(1.9)	-	-	(11.9)
Disposals	(0.1)	(1.9)	(0.2)	(5.1)	(7.3)
At 31 December 2020	0.6	19.8	8.4	9.7	38.5
Net book value					
At 31 December 2020	-	7.2	12.1	20.6	39.9
At 31 December 2019	3.0	11.5	15.2	14.4	44.1
At 1 January 2019	28.3	11.7	20.0	13.0	73.0

11 Cash and cash equivalents

Cash and cash equivalents are analysed below and include the Group's share of cash held by joint operations of £61.1m (2019: £83.5m).

	2020 £m	2019 £m
Cash and cash equivalents	150.9	180.9
Borrowings - current	(7.2)	(68.0)
Borrowings - non-current	(39.6)	(48.0)
Net cash	104.1	64.9

The borrowings of £46.8m are net of arrangement fees of £1.2m.

12 Pensions

A defined benefit pension scheme is operated in the UK and a number of defined contribution pension schemes are in place in the UK and overseas. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension charge in the income statement was £12.7m comprising £12.9m included in operating costs less £0.2m interest income included in net finance expense (2019: £12.3m, comprising £12.4m in operating costs less £0.1m interest income included in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2019 and this was updated to 31 December 2020 by a qualified independent actuary. At 31 December 2020, there were 2,869 retirees and 2,730 deferred members. The weighted average duration of the obligations is 17.1 years.

	2020 £m	2019 £m	2018 £m
Present value of defined benefit obligations	(886.5)	(812.1)	(752.7)
Fair value of scheme assets	880.9	817.0	748.5
Recognised (liability)/asset for defined benefit obligations	(5.6)	4.9	(4.2)

Movements in present value of defined benefit obligations

	2020 £m	2019 £m
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At 1 January	812.1	752.7
Past service cost - GMP equalisation charge	0.9	-
Interest cost	16.3	20.6
Remeasurements - demographic assumptions	(2.9)	(7.5)
Remeasurements - financial assumptions	99.0	74.6
Remeasurements - experience adjustments	(4.6)	9.0
Benefits paid	(34.3)	(37.3)
At 31 December	886.5	812.1

Movements in fair value of scheme assets

	2020 £m	2019 £m
At 1 January	817.0	748.5
Interest income	16.5	20.7
Remeasurements - return on assets	71.5	69.1
Contributions by employer	10.6	16.3
Administrative expenses	(0.4)	(0.3)
Benefits paid	(34.3)	(37.3)
At 31 December	880.9	817.0

Expense recognised in the income statement

	2020 £m	2019 £m
Administrative expenses paid by the pension scheme	(0.4)	(0.3)
Administrative expenses paid directly by the Group	(1.7)	(1.7)
GMP equalisation charge	(0.9)	-
Interest income on the net liabilities/assets of the defined benefit pension scheme	0.2	0.1
	(2.8)	(1.9)

Fair value of scheme assets

	2020 £m	2019 £m
Global equities	125.0	162.4
Multi-asset growth funds	118.4	162.2
Multi-credit fund	139.8	160.3
LDI plus collateral	421.4	251.8
PFI Investments	44.7	51.0
Property	15.7	17.7
Cash	15.9	11.6
	880.9	817.0

Principal actuarial assumption (expressed as weighted averages)

	2020 %	2019 %
Discount rate	1.35	2.05
Future pension increases	2.85	2.85
Inflation assumption	2.95	2.95

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2020 and 31 December 2019 is:

	2020		2019	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	22.3	24.1	22.3	24.2
Non-retirees currently aged 45	23.3	25.3	23.6	25.7

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

	Pension liability £m	Pension cost £m
Increase discount rate by 0.25%, decreases pension liability and reduces pension cost by	35.8	0.5
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	30.6	0.4
Increase life expectancy by one year, increases pension liability and increases pension cost by	41.7	0.6

As highlighted above, the defined benefit scheme exposes the Group to actuarial risks such as longevity, interest rate, inflation and investment risks. The LDI portfolio is designed to respond to changes in gilt yields in a similar way to a fixed proportion of the liabilities. With the LDI portfolio, if gilt yields fall, the value of the investments will rise to help partially match the increase in the trustee valuation of the liabilities arising from a fall in the gilt yield-based discount rate. Similarly, if gilt yields rise, the value of the matching asset portfolio will fall, as will the valuation of the liabilities because of an increase in the discount rate. The leverage within the LDI portfolio means the equivalent of 95 per cent of the value of the assets is sensitive to changes in interest rates and inflation and mitigates the equivalent movement in the liabilities.

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2019. In March 2020, the valuation and an updated deficit recovery plan were agreed with the scheme Trustee resulting in cash contributions of £10.2m for each year commencing 1 April 2020 (increasing annually with inflation) until the deficit is cleared, which would be in 2029 on the basis of the assumptions made in the valuation and agreed recovery plan.

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

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

Defined contribution schemes

Several defined contribution pensions are operated. The total expense relating to these plans was £9.9m (2019: £10.4m).

13 Share capital

	2020		2019	
	Number (millions)	Nominal value £m	Number (millions)	Nominal value £m
Issued share capital				
Shares in issue at beginning of year - ordinary shares of 50p each, fully paid	108.3	54.1	107.0	53.5
Issued in year (see below)	166.7	83.4	1.3	0.6
Shares in issue at end of year - ordinary shares of 50p each, fully paid	275.0	137.5	108.3	54.1

The Company's issued share capital comprised 274,949,741 ordinary shares of 50 pence each as at 31 December 2020.

On 7 May 2020, the Company announced details of a proposed Firm Placing and Placing and Open Offer (the "Capital Raising") to raise gross proceeds of £100m (£92.5m after expenses), approximately £80m by way of a Firm Placing of 133,348,799 ordinary shares and approximately £20m by way of a Placing and Open Offer of 33,317,868 ordinary shares. The Capital Raising was approved by the Company's shareholders on 27 May 2020. On 29 May 2020, 166,666,667 ordinary shares of 50 pence each were issued in connection with the Capital Raising at an offer price of 60 pence per share. The capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

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

14 Related party transactions

The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and joint operations, in relation to the sales of construction services and materials and the provision of staff and with The Costain Pension Scheme. The total value of these services in 2020 was £160.5m (2019: £218.5m) and transactions with The Costain Pension Scheme are included in Note 11.

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Our Principal Risks

Principal Risk	Description and impact	Controls and key mitigations
1. Prevent and effectively manage a major accident, hazard, or incident	Costain operates in natural, complex and hazardous environments. Failure to manage the inherent risk and hazards, including pandemics, may result in illness, loss of life or significant damage to the environment. Failure to manage this risk could result in reputational damage, loss of business and financial penalties. Risk trend: Neutral (FY19: Neutral) Excellent controls and practices have reduced the incident rate, but we always remain vigilant and undertake continuous improvements in this area.	Safety, Health and Environment Management policies and procedures. Ongoing reviews and improvement of our Safety, Health and Environment performance through routine continuous improvement processes. The Costain behavioural management programme. Wellbeing, safety and environment strategy and plans.
2. Accelerate the deployment of our higher margin services	The effective implementation of Costain's Leading Edge strategy is critical to the Group's ability to accelerate the deployment of our higher margin services alongside our complex programme delivery. Failure to manage this risk could have an adverse effect on our business, operating results, and shareholder value. Risk trend: Increasing (FY19: Neutral) The financial impact of the issues with two long standing contracts illustrates the importance of delivering our Leading Edge strategy.	Detailed implementation plan, with timetabled deliverables, clear performance measures and accountable Executive Board sponsor. Annual business Budget includes performance measures and actions linked to the delivery of the strategy. Work winning budget aligned to investment that supports our strategy. Clear communications plan tailored to each of our key stakeholders (internal and external) outlining how our Leading Edge strategy enables our purpose to improve people's lives by being safer, better, greener, faster and more efficient in delivering major infrastructure projects.
3. Maintain a strong balance sheet	A strong balance sheet is a fundamental requirement to qualify for and support the contract sizes and duration required by our clients. Failure to manage this risk could effect our ability to achieve our business goals and our resilience to withstand economic downturns. Risk trend: Neutral (FY19: Increasing) Strengthened balance sheet, enabling the Group to capitalise on the growing infrastructure market opportunities.	Treasury function experienced in the management and oversight of the bank and surety bonding facilities to meet finance requirements. A robust joint venture partner selection criterion: all partnerships and alliances signed off by the Board. Monitoring and management of amounts receivable. Effective balance sheet reconciliation process. Continued focus on net asset growth with key areas for continuous development.
4. Secure new work	Costain's future growth and profitability is dependent on our ability to secure new work in our competitive marketplace. To be successful we need to maintain strong client relationships and broaden our service offering by delivering innovative solutions across complex delivery, digital and consulting activities. Risk trend: Neutral (FY19: Increasing) Changes made in 2020 (see pages 22 and 23 of the Annual Report), have enabled us to react to and address our clients' priorities.	Executive investment panel ensuring strategic focus on Costain's target markets and prioritisation of resources and activity. Customer relationship management system - to identify, manage and review all key stakeholders, ensuring that key relationships are proactively identified and maintained. Sales transformation programme in place - ensuring we have the right people, with the right skills empowered to deliver opportunities in line with our growth strategy. Close client relationships enabling us to understand and shape clients' needs, respond proactively to changes and ensure our work winning team are fit for purpose.

<p>5. Culture and people</p>	<p>The successful implementation of our strategy is dependent on our ability to attract and retain talent, grow the capabilities and performance of our employees and maintain a high performing, ethical and caring culture where our team can be at their best.</p> <p>Risk trend: Neutral (FY19: Neutral)</p>	<p>In-house recruitment team, focused on identifying and recruiting the right people for Costain.</p> <p>A fair remuneration policy monitored via the central reward team and annual pay gap reporting.</p> <p>A defined people strategy based on culture, inclusion, engagement and wellbeing.</p> <p>Learning and development budget aligned to the Leading Edge strategy and business requirements.</p> <p>Leadership development programmes to enable empowerment, assurance and performance outcomes.</p> <p>Thrive plans in place for each project and functional team to help all our team be at their best.</p>
<p>6. Deliver projects effectively</p>	<p>Failure to enter into contracts that are aligned with our risk appetite or deliver projects to the agreed time, budget and quality could result in financial loss, regulatory and contractual breaches and loss of reputation with our clients and investors.</p> <p>Risk trend: Neutral (FY19: Neutral)</p>	<p>Clear contract negotiation guidelines, with any deviations requiring approval from the Executive Board investment panel.</p> <p>Working to our Operational Excellence Model and Costain Way requirements and guidelines.</p> <p>Ensuring a robust change control process is in place across all projects.</p> <p>Effective risk and design management process in place to provide early warning of potential issues.</p>
<p>7. Manage the legacy defined benefit pension scheme</p>	<p>Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to our capital base and do not adversely impact our balance sheet.</p> <p>Risk trend: Neutral (FY19: Neutral)</p>	<p>A third-party pension expert provides independent advice.</p> <p>Monitoring the funding position of the scheme via quarterly funding updates provided by scheme's investment consultant.</p> <p>Investment performance monitored and input to the scheme's investment strategy.</p> <p>Regular monitoring in conjunction with the trustee of asset performance, pensions regulations, Company covenant and liability management.</p>
<p>8. Ensure that our technology is robust, our systems are secure and our data protected</p>	<p>Our ability to enable safe, secure, and resilient business operations (including finding, winning, and delivering work supported by efficient corporate services) is dependent on the delivery of our core IT strategy. The delivery of this strategy is also key to our ability to safely and securely acquire, host, use, and dispose of Costain, client, and third party data.</p> <p>Risk trend: Neutral (FY19: Neutral)</p> <p>The increased cyber threat is offset by increased investment and a continuous focus on security.</p>	<p>Our core IT strategy integrates information systems, personnel and physical aspects to prevent, detect and investigate information security threats and incidents.</p> <p>Process in place to engage with key technology partners and suppliers, to ensure potentially vulnerable systems are identified and updated.</p> <p>Our architecture design provides the appropriate protections and distance between project systems and our core Costain systems.</p> <p>Annual penetration tests and 24 hour threat monitoring by reputable third parties.</p> <p>A secure environment for our internal and client data across projects enabled by a menu of digital core products provided by our Smart Delivery Platform.</p>
<p>9. Anticipate and respond to changes in client circumstances</p>	<p>We have seen changes in the business operations and investment priorities of our core clients and clients challenged by ever evolving policy, funding, operational and regulatory changes. Failure to anticipate the changes that are affecting our clients and respond effectively, could restrict our ability to grow margins and increase market share.</p> <p>Risk trend: Neutral (FY19: Neutral)</p>	<p>Client service and perception surveys focused on our ability to provide foresight to help navigate emerging trends and feedback accurate and real time insights for action.</p> <p>Our Gartner partnership provides independent market, trend, sector, client and competitor analysis.</p> <p>Sales transformation programme is driving the executive investment panel protocols to enable risk-controlled faster growth.</p> <p>Innovation leaders are embedded in all sectors and accounts.</p>

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