Costain Group PLC

("Costain" or "the Group" or "the Company")

Results for the year ended 31 December 2019

Costain, the smart infrastructure solutions company, announces its results for the year ended 31 December 2019.

- **Underlying operating profit of £17.9 million** (2018: £52.5 million) in line with our revised expectations as set out in the trading update on 12 December 2019; the reduction in the year reflecting previously announced contract delays, a contract cancellation and the impact of the A465 contract arbitration outcome.

- **Continued momentum in securing new work**: £1.7 billion of new contract awards and extensions to existing contracts secured during the year, with the order book, as at 31 December 2019, standing at £4.2 billion.

- **New Leading Edge strategy in place**: accelerating the Group's deployment of higher margin services through leveraging our strong client relationships and reputation for complex programme delivery.

- **Strong market opportunities:** our markets have significant long-term committed investment programmes in place, with a focus on addressing the UK's strategic infrastructure needs and providing the Group with an annual c £23 billion addressable market.

- **Strengthening balance sheet**: planned equity raise of up to £100 million, fully underwritten by HSBC, Investec and Liberum on a standby basis, to strengthen the balance sheet and enable the Group to capitalise on the growing infrastructure market opportunities.

	2019	**2018**
Revenue		
- including share of JVs and associates	**£1,162.9m**	**£1,489.3m**
- reported	**£1,155.6m**	**£1,463.7m**
Operating profit/(loss)		
- underlying[1]	**£17.9m**	**£52.5m**
- reported[3]	**£(3.2)m**	**£43.1m**
Profit/(loss) before tax		
- underlying[1]	**£14.6m**	**£49.7m**
- reported[3]	**£(6.6)m**	**£40.2m**
Basic earnings per share		
- underlying[1]	**13.5p**	**38.2p**
- reported[3]	**(2.7)p**	**30.9p**
Net cash balance[2]	**£64.9m**	**£118.8m**
Dividend per share[4]	**3.8p**	**15.15p**

1. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off costs as shown on the income statement.
2. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings.
3. 2019 reported figures include the impact of the one-off cost of £9.7 million in respect of an arbitration award and a one-off aggregate charge of £8.9 million for the loss on disposal and asset impairment for the Group's non-core business assets in Spain as shown in the income statement.
4. This represents the interim dividend of 3.8 pence per share - the Company will pay no final dividend.

Alex Vaughan, chief executive officer, commented:

"2019 has been a year of transition for Costain as we began the implementation of our Leading Edge strategy to reshape and focus our business. Our underlying financial performance was impacted by delays to certain contract start dates and new awards, together with a contract cancellation and the loss resulting from the A465 arbitration. However, we are pleased that the Group has continued to secure significant new work during the year.

"Our Leading Edge strategy aligns our activities to meet our clients' changing needs, supporting a step change in our programme delivery performance and an acceleration in the deployment of our higher margin activities.

"The UK infrastructure markets are growing and developing rapidly, with increasing demand for innovative solutions to upgrade, enhance and decarbonise the nation's strategic infrastructure. This is a significant opportunity for our business and we are well placed, with our breadth of integrated services, to benefit from these market dynamics.

"Strengthening our balance sheet will enable us to capitalise on these opportunities and further enhance our capabilities."

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) no. 596/2014 (MAR).

The person who arranged the release of this announcement on behalf of Costain was Tracey Wood, general counsel and company secretary.

An on-demand webcast will be available on the Costain website from 2pm today. www.costain.com

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

CHAIR'S STATEMENT

It has been a year of change for Costain as we began to implement our Leading Edge strategy, more closely aligning our integrated services with our clients' changing, long-term infrastructure needs, and further position Costain as the smart infrastructure solutions partner of choice.

From a profit perspective, 2019 was disappointing for our Group and while much positive progress has been made, our financial performance was impacted by certain contract delays, a contract cancellation, and the loss resulting from the outcome of the A465 arbitration.

We have been encouraged by the level of new work which has been secured from across our blue-chip client base, adding a further £1.7 billion to our order book and demonstrating the continued demand for our integrated offer.

The positive infrastructure market outlook has been a driving force for our Leading Edge strategy, and we are pleased with the progress that is being made under Alex Vaughan's leadership and confident that it will support our ambition to achieve Group operating margins in the range of 6 to 7 per cent over the medium term.

A more stable political backdrop since the turn of the year gives greater certainty for our clients to commit to significant infrastructure investment and this is providing increasing opportunities for the Group. The recent commitment to the strategically important HS2 programme, for example, demonstrates the Government's commitment to long term infrastructure investment as part of the answer to rebalancing economic prosperity and growth around the UK.

To ensure we capitalise on these opportunities and further enhance our capabilities we are strengthening our balance sheet through our proposed underwritten equity raise.

Board and People

Alex Vaughan was appointed the Group's chief executive officer in May last year and he has since laid out the Leading Edge strategy, aligning the Group's services to meet the changing needs of our clients. He has set a clear vision for the business, which will drive long term shareholder value, and has also made a number of organisational and leadership changes to support the delivery of the strategy.

David McManus, non-executive director, has informed the Company that he intends to step down from the Board with effect from the conclusion of Costain's Annual General Meeting to be held on 7 May 2020. David will therefore not be standing for re-election at this year's AGM. We thank David for what will be six years of dedicated service to Costain, during which time he has made a very significant contribution to the Board.

Costain has a highly skilled and committed employee base of c 3,400 individuals who are the lifeblood of our business and critical to our success. I would like to thank them for their hard work and contribution during the year.

Environmental, Social Purpose and Governance

We deliver on our purpose to improve people's lives by making positive contributions to society, helping us to build a sustainable future. We have integrated the United Nation's Sustainable Development Goals into our responsible business commitment, recognising the role that Costain plays in working together with other organisations to address the global priorities by 2030 and to lead the decarbonisation of the UK's infrastructure.

Operating as a socially responsible business is integral to everything we do. To be leading edge, we need to be resilient to change and we are committed to working with our employees, clients, supply chain and all other stakeholders to ensure that we are sustainable for the future. Our Group-wide policies and processes support our responsible business matters. Our audit and training programmes ensure that these policies establish best practice for our employees and partners.

The Board maintains its commitments to the highest standards of governance and has taken steps during the year to consider and strengthen our approach to align with the UK Corporate Governance Code 2018. Further details of our approach to the 2018 Code are set out in the Governance Report.

Dividend

Recognising the importance to the Group of maintaining a strong and growing capital base, following the proposed equity raise, Costain will target a dividend cover of around three times underlying earnings, taking into account the free cash flow generated in the period.

Consistent with the rationale for the proposed equity raise, the Company will pay no final dividend in respect of the year ended 31 December 2019, therefore resulting in a total dividend paid for the year, including the interim dividend, of 3.8 pence per share (2018: 15.15 pence). The first dividend to be paid under the new policy is expected to be an interim dividend for the six months ending 30 June 2020, payable in October 2020.

Outlook

The market for complex infrastructure continues to evolve rapidly with increasing urgency to deliver innovative solutions as part of upgrading or enhancing the UK’s strategic infrastructure. The long-term nature of our client relationships and the trust they place in us to deliver for them provides us with the strongest possible platform to accelerate the deployment of our higher margin services alongside our complex programme delivery.

We are confident that our strategy, a stronger balance sheet and our differentiated proposition will best meet our clients’ changing requirements and deliver significant value for our shareholders.

Dr Paul Golby CBE
Chair
11 March 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

During the year we made significant progress in the strategic development of the Group to shape and re-focus our business and to capitalise on the attractive opportunities in our markets.

As outlined, financial performance in the year was impacted by several factors which resulted in a reduction in underlying operating profit and earnings per share. In June 2019, the Group experienced delays to the timing of a number of contract start dates and new awards, and a significant contract was cancelled, impacting expected profitability by c £16.0 million. In December 2019, the Group's profit was reduced by a further £20.0 million following the assessment of the impact of an arbitration decision on the A465 road contract.

This year we launched our new Leading Edge strategy, which places greater emphasis on leveraging our strong blue chip client relationships, and reputation for complex programme delivery, through an accelerated deployment of higher margin services including future-shaping strategic consultancy, consultancy and advisory services, asset optimisation and digital technology solutions. The strategy ensures the alignment of our services with the changing investment priorities of our clients.

Through a continued effort to drive growth, our ambition is to derive over half of our operating profit from higher margin services, targeting a blended divisional margin range of 6 to 7 per cent over the medium term. In 2019 the Group's business mix reflects approximately two thirds of underlying operating profit from complex programme delivery activities and one third derived from higher margin services delivering, excluding the A465 impact, a combined 3.9% underlying divisional margin (before other items, Alcaidesa and central costs) overall. Our ambition, over the medium term, is to increase the proportion of operating profit from higher margin services to 55%, with divisional margins in our new target range.

Over the course of last year, we secured £1.7 billion of new work, demonstrating that our integrated services continue to be in high demand from our clients. Our order book as at 31 December 2019 was £4.2 billion (including £1.1 billion in respect of HS2) and we have a good level of secured revenue for 2020 at c £940 million (compared to c £900 million at HY2019), which is also higher margin business overall.

At Costain we are committed to conducting our business responsibly and have aligned our purpose of improving peoples' lives to the United Nation's Sustainable Development Goals. Our three key areas of focus are creating a greener future, working towards being net zero carbon 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.

Strengthening the balance sheet

The Board believes there is a significant opportunity for the Group to capitalise on the growing infrastructure market opportunities available to us today, in line with our strategy. Also, having a strong balance sheet has become increasingly important to our clients and other stakeholders. For these reasons and to provide additional headroom in the current environment to effectively manage working capital flows in the business, the Board has concluded that it is in the best interests of the Group to raise up to £100 million of new equity to strengthen the Group's balance sheet.

Further details on the proposed capital raising, which has been fully underwritten on a standby basis, are contained in a separate announcement made today.

Trading and financial performance

Results

The term 'underlying' throughout this document excludes the following items: amortisation of acquired intangible assets and deferred consideration treated as an employment expense. In 2019 other items also include a one-off charge of £9.7 million in respect of an arbitration award in favour of Diamond Light Source Limited for the cost of remedial works deemed required to the roof at the National Synchrotron facility and a one-off aggregate *non-cash charge of £8.9 million for the loss on disposal and fair value adjustment for the Group's non-core business assets in Spain.*

Revenue, including the Group's share of joint ventures and associates, for the year was £1,162.9 million (2018: £1,489.3 million). The reduction in revenue resulted from a lower level of capital project activity, in line with the strategic change in mix of services, and the delay in contract starts and a contract cancellation. Underlying operating profit for the year was £17.9 million (2018: £52.5 million). As previously announced, this reflects a reduction of c £16.0 million for delayed contract starts and contract cancellation and a charge of £20.0 million following the A465 arbitration decision.

Underlying profit before tax was £14.6 million (2018: £49.7 million) and underlying basic earnings per share were 13.5 pence (2018: 38.2 pence). Reported loss before tax was £6.6 million (2018: £40.2 million profit before tax) and reported (loss)/earnings per share were (2.7) pence (2018: 30.9 pence).

Contract awards

The range of contracts we have secured reflects the progress being made in the transition in Costain's market positioning, the increasing breadth of our service offering and recognition as a leading and valued smart infrastructure solutions provider. Ongoing programmes and work within our order book include the following, demonstrating the breadth of our services:

- Formal contracts – construction delivery phase:
    - M1 smart motorway programme
    - A19 Testo's scheme
    - Thames Tideway Tunnel – East
    - Peterborough and Huntingdon (National Grid)
- Early contractor involvement (ECI phase):
    - HS2 Southern section main works
    - Highways England routes to market
    - M6 smart motorway
- Framework contracts:
    - Water AMP frameworks
    - Sellafield DDP framework
- Service based contracts:
    - United Utilities maintenance services
    - Highways England maintenance contracts, areas 4, 12 & 14
    - East Sussex highway services
- Consultancy and technology contracts:
    - Smart motorway signage
    - Connected vehicle technology
    - EDF project controls
    - National Grid hydrogen blending study
    - INEOS Breagh compression feed.

During the year we secured over 150 consultancy commissions across all sectors and in January 2020 we were for the first time recognised by the Financial Times as one of the UK's leading Management Consultancy companies.

Capital structure and cash position

A key element in the successful implementation of the Group's Leading Edge strategy is the efficient allocation of capital. The Board regularly reviews the appropriate capital structure for the Group and capital allocation with regard to ensuring that the Group can deliver on its ongoing obligations including addressing the legacy pension contribution commitments and making regular returns to shareholders, and effectively exploit available growth opportunities.

In addition, maintaining a strong and flexible balance sheet is a key requirement of clients in tendering large long-term contracts, is necessary to manage the increasing move in the sector to delivery in joint operations and use of project bank accounts, and supports the investment needed to deliver our Leading Edge strategy.

The Group continues to have a positive net cash position, which as at 31 December 2019 was £64.9 million (2018: £118.8 million). Of this, c £35.0 million (2018: £30.0 million) reflects positive timing of receipts and payments around the year end which reversed in the early part of 2020. Included within the Group's net cash position is £83.5 million of cash in joint operations (2018: £84.5 million). The average month-end net cash was £41.2 million for the period (2018: £77.1 million), of which £78.3 million was average month-end net cash in joint operations (2018: £83.4 million). Before taking the equity raise into account, the Group expects to maintain a positive average month-end net cash balance (including cash in joint operations) in 2020, increasing going forward.

The Group has total banking facilities in place of £187.0 million (which were £116.0 million drawn as at 31 December 2019 with month end average drawings during the year of £93.7 million), and £320.0 million of committed and uncommitted bonding facilities.

In 2019, the Group's net cash position was impacted by a number of market factors and performance on certain contracts:

- Market dynamics:

    - The Group has implemented revised processes to ensure that suppliers are paid promptly, with the average time taken to pay invoices reduced to 34 days, moving into line with sector best practice, from 58 days in the same period in 2018, reducing cash held by £15.0 million; and
    - Structural market changes, including the level of cash held in joint operations and project bank accounts, have increased the Group's general working capital requirements.

- Contract performance:

    - A465 contract: £37.0 million cash outflow in the year
    - Diamond arbitration: cash cost of £9.7 million in the year; and
    - Delays to the start of new contracts and a contract cancellation, reducing the level of profit in the year by c £16 million.

The completion of the capital raising will reset the structural cash position of the Group to the appropriate level to capture the opportunities available in the market.

Market overview

Costain is 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 strategic infrastructure.

These markets have significant long-term investment programmes underwritten by government policy, regulation, legislation and critical national need. They are evolving rapidly and positioned for accelerated growth responding to population increases, climate change, customers' expectations of improved service, ageing assets, and the need for greater efficiency and performance including a growing use of technology. All of these factors are causing our clients to change their business strategies and investment priorities.

The new UK Government has significantly increased its commitment to invest in long-term UK infrastructure projects, with its 2019 manifesto plan for "national renewal" underpinned by an additional £100 billion of infrastructure spend. Evidence of the scale of this developing investment programme includes:

- In **Transportation**: The UK Government is committed to investing in a fundamental upgrade of the UK's transport infrastructure. We expect that over the next five years more than £28.8 billion will be invested on

England's strategic and local road network, £5.5 billion will be spent in capital investment and renewals by Transport for London, around £125 billion on other rail investment and c £7 billion on increasing airport capacity in the UK.

- In **Water**: The regulator, Ofwat, is driving investment to improve water quality standards, supply resilience, decarbonisation and efficiency of operations. Water companies have pledged to spend more than £50 billion on improving services over the next five years.

- In **Energy**: It is estimated that £138 billion will be invested by 2028 in new UK energy infrastructure to meet forecast energy demands and the UK Government has now committed to the very significant investment required to deliver a net zero carbon target by 2050, which will transform energy generation in the UK.

- In **Defence**: The UK Government has committed £186 billion to a 10-year equipment and facilities upgrade programme.

We estimate that our addressable market in these sectors is c £23 billion per year, creating a significant growth opportunity for the Group. In addition, our major clients are changing the nature of their investment to meet and address these continuing challenges, with examples including:

- In a joined-up approach, UK Government, regulators and clients are demanding greater innovation to address these challenges, collectively spending in excess of £1 billion in the short and medium term with their suppliers to unlock new solutions.

- Investment to address the effects of the climate change crisis:
  - the water industry is investing £13 billion to reduce carbon emissions and improve supply resilience;
  - transport networks are investing to overcome extreme weather events including heatwaves, storms and flooding that damaged infrastructure and halted thousands of services across the UK in 2019.

- Enhancing asset management practices recognising that underlying infrastructure that will be used in 30 years' time already exists today, and it is therefore essential that these assets are most effectively and efficiently utilised, maintained and enhanced.

- Digital is widely seen as an all-encompassing solution for improved efficiency and enhanced performance and has already led to increasing levels of investment in Highways England's 'Digital Roads' programme, Network Rail's 'Digital Rail' programme, water companies' 'Digital Water' programmes and use the of smart meters within the energy sector.

In response to these changing needs, our clients are continuing to consolidate their supply chains as they seek to derive business improvement and transformation by working in more strategic and collaborative relationships. We have taken the steps to be capable of providing a broad range of services to our clients across design, programme delivery and operational support to meet their increasingly complex needs.

As a result, Costain is now one of a limited number of companies with the integrated consulting, digital technology, complex programme delivery and asset management capability that we believe is required to meet the needs of major UK clients in the rapidly developing multi-billion pound transportation, water, energy and defence markets.

Leading Edge strategy

Strategically we are well-positioned to benefit from these long-term positive market dynamics.

Our Leading Edge strategy, launched in 2019, closely aligns our services to meet the changing needs of our markets and clients and differentiates us through our long-term strategic client relationships, reputation for complex programme delivery and ability to meet their wider, evolving needs.

The ambition of our strategy is to broaden the services we provide to clients, step change our programme delivery performance, accelerate the deployment of higher margin activities and deliver a blended divisional operating profit margin of 6 to 7 per cent over the medium term.

The strategy positions our five key service offerings:

- Future-shaping strategic consultancy: shaping new solutions as a leading innovation partner and thought leader;
- Consultancy and advisory: supporting clients' business improvement as a valued advisor and consultant;
- Digital technology solutions: investing in technology and being an insightful digital technology integrator;
- Asset optimisation: optimising the performance of clients' existing assets; and
- Complex programme delivery: delivering complex capital programmes.

We have re-organised our divisional structure to create greater client focus and align with growing market opportunities, consolidating our activities into two core divisions of 'transportation' (rail, highways and aviation) and 'natural resources' (water, energy and defence).

New appointments to strengthen and broaden the management team included Nathan Marsh, who joined as chief digital officer in October 2019, Catherine Warbrick, who was promoted to Group HR director in August 2019 and Sue Kershaw, who will take up the position of managing director, transportation on 23 March 2020.

We are implementing our strategy through a programme of focused workstreams including the development of new skills and capabilities, working increasingly as One Costain, and enhancing the client outcomes we deliver through our services.

In addition, to improve business competitiveness and returns, we have put in place a programme of robotic process automation, reduction in management levels and improved operational effectiveness. This programme is expected to deliver £20.0 million per year in efficiency gains within three years to underpin investment in the business and support the implementation of our strategy.

Recognising the increasingly important role our digital technology capability has in meeting our clients' changing needs we have invested in a new technology centre in Somerset, strengthened our digital leadership and increased our involvement in leading research programmes. We will continue to invest in the development of solutions to help our clients improve their business performance and grow our business returns.

Having a strong pipeline of opportunities is important for the future of the business, but it is equally important to ensure that we agree contracts on terms which are acceptable from a profit and risk profile perspective for Costain and its shareholders. We have recently reviewed and updated our policies in this area to ensure that our new contracts reflect this. We have also improved our contract monitoring and administration procedures to better address scope of work changes and variations at an early stage.

People

We have a highly skilled and experienced employee base of c 3,400 people, including over 370 chartered professionals with a diverse range of capabilities, c 110 graduates developing their skills and 170 apprentices on a structured development programme. Our inclusion and wellbeing strategies ensure we support our teams to be at their best, and for the second year running we have been listed in the Times Top 50 Employers for Women and named as one of its 'Game Changers' for the actions we have taken on diversity.

Along with our engineering consultancy centre in Manchester where over 350 of our team are based, our technology centre in Somerset, houses c 150 of our technology specialists. This enables us to work collaboratively with our clients to develop pioneering technology solutions.

Environment, Social Purpose and Governance

In addition to providing leading edge solutions, operating responsibly and sustainably is a business imperative for Costain, and the safety of our people and the general public is our number one priority. Through the implementation of our WiiSE (wellbeing, safety and environment) strategy in 2019 we have maintained a world-leading safety performance, with only 19 reportable accidents occurring in over 41 million hours of work. This means our accident frequency rate (AFR) of 0.05 continues to lead the industry, with a 16% reduction in all accidents year-on-year and a 63% reduction over the past five years. I am also pleased to report that we had no major environmental incidents in 2019.

In 2019, we updated our Responsible Business Commitments and set the goals we aim to achieve. We will create a greener future and have published a detailed climate change action plan in which we commit to deliver low carbon whole life options for clients by 2023 and to be net zero carbon by 2035. We will also enhance the value that Costain contributes to society and ensure that Costain is a safe, inclusive and great place to work, where everyone can be at their best. Underpinning our commitments to responsible business are 10 actions that all of our people, partners and suppliers must factor into their decision making.

We are committed to building the best team at Costain and work hard to create a culture of inclusion where all employees are treated and valued equally. In 2019, our gender pay gap reduced for the third consecutive year to 23.65% (median) and we continue to work to address this further.

Operational review

Under our 'One Costain' operating model we have re-organised our divisional structure into two core divisions of 'transportation' and 'natural resources'.

Transportation

The transportation division had revenue in the year (including joint ventures and associates) of £722.9 million (2018: £1,004.1 million) and an underlying operating profit of £9.7 million (2018: £41.4 million). The revenue reduction results from the lower level of large capital project delivery compared to the prior year. The profit in the division has been impacted by the lower revenue, increased investment in work winning and technology capability and a charge of £20.0 million following the assessment of the adverse impact of an arbitration decision on the A465 contract. The underlying operating margin in the year was 1.3% (2018: 4.1%), increasing to 4.1% excluding the impact of the A465 charge.

As at 31 December 2019, the division had a forward order book of £3.1 billion (2018: £3.3 billion) including a £1.1 billion share of the HS2 southern section main works contracts.

Highways

The Government, through Highways England, has made a substantial investment in the highways sector during its first Road Investment Strategy (RIS) cycle which ends in March 2020. During this period, well over 100 new highway projects have been introduced by Highways England to tackle the challenges of safety, congestion, connectivity and climate change. This investment is set to continue into RIS 2 (2020-2025) which provides good visibility of earnings in this sector.

Our services in the highways sector cover the full range of our integrated capabilities to achieve the outcomes of enhancing safety, increasing capacity and reducing congestion on the UK's roads. We deliver for both national highway infrastructure operators such as Highways England and the Welsh Government and sub-regional and local government organisations including Transport for London and local authorities.

Costain is known as one of the UK's most experienced providers of smart motorway solutions, working with Highways England to deliver the physical infrastructure and also develop the camera, radar and electronic signage technologies needed to enable such schemes in a safe, reliable and sustainable way.

The highways market is expected to evolve quickly in the coming years as the need for improved connectivity between vehicles and infrastructure, together with the switch to greener fuels, places new demands on the providers and operators of highway networks. We are already responding to these challenges, playing a leading role in the Midlands Future Mobility testbed project, and the A2/M2 Connected Corridor project, where specially-equipped vehicles can interact directly with roadside infrastructure.

We continue to deliver large capital investment programmes on critical sections of the road network, including the A14 Cambridge to Huntingdon Improvement scheme, which remains on-budget and on-time for completion in 2020. Part of the scheme opened one year early to traffic in December 2019 and is already delivering benefits to road users and the local community.

To support improvements in increasing local capacity and connectivity we have commenced work on two new large schemes. In the North East, construction work has commenced on the A19 Testo's junction improvement work and in the North West we have commenced the Preston Distributor Road contract.

Work is continuing to complete the A465 Heads of the Valleys road on the fringe of the Brecon Beacons National Park, a complex and environmentally sensitive project, that will radically improve east-west communications and help to unlock the economic potential of the region. As previously reported, the project has experienced significant additional scope and we continue to look to resolve the associated impact on the cost and schedule in accordance with the contractual process. During the year, a specific contractual matter was determined at arbitration, which partially reversed the decision of a previous adjudication and was contrary to the legal advice received by the Group concerning the relevant provisions of the contract. As a consequence, an assessment of the implications of this determination has been made and the appropriate allowance included in the results for the year. The group is engaged in discussions with the Welsh Government to reach agreement on a financial settlement.

We are currently providing design, pre-construction and construction delivery services to Highways England through its Regional Delivery Partnerships in Northern England and the East of England and have commenced work on a scheme to improve sections of the A1 in Northumbria.

We also have four long term asset maintenance contracts working with Highways England and East Sussex County Council, helping our clients to optimise the life and performance of their existing infrastructure.

Within the highways sector there is a high level of work winning activity, and we are playing a key role in leading a number of innovation and technology-led solutions contracts to meet the changing needs of road-users and the country.

Rail

Network Rail, the operator of the mainline railway in the UK, has commenced its latest five-year Control Period (CP6) and in doing so has also been implementing a substantial change in its operating model, moving the business to one which puts its passengers first and is structured to complement having stronger aligned relationships with the train operating companies. This restructuring has had some impact on the market environment and the timing of the procurement of some services and schemes.

In 2019, we secured the delivery contract for Gatwick Station, a significant enhancement project in the South East of England, which is jointly funded by Network Rail, Gatwick Airport and the Department for Transport, and delivers improved capacity and connectivity for Gatwick Airport.

In partnership with Jacobs Engineering, we have secured a place on one of Network Rail's three multi-disciplinary national design and consultancy frameworks which provides Costain the opportunity to support Network Rail in shaping a number of its future business solutions.

During the year we completed a number of strategically important contracts including London Bridge Station, a flagship redevelopment for Network Rail, which is already transforming the journeys of the 50 million passengers who travel through this station every year; and in Scotland, the electrification project to upgrade the railway lines between Stirling, Dunblane and Alloa is substantially complete with the new fleet of electric trains entering service on time and now providing both performance and environmental benefits on this route.

Our work on High Speed 2 has continued to progress. Our enabling works contract in joint venture with Skanska for the southern section of the route has involved the significant preparatory works for the new railway. Under our main works contract in joint venture with Skanska and Strabag we have substantially completed design services for the southern section of the route with an expectation to commence construction in the first half of 2020.

Activities to complete Crossrail (the Elizabeth Line) have continued throughout the year at Bond Street and Paddington stations and on our extensive tunnel systems contract, in line with the supplemental agreements reached with the client.

We have continued to develop the ‘Meerkat’ system for unguarded level crossings in conjunction with Network Rail and expect to begin deploying the system in 2020. Meerkat is a technology developed by Costain that combines trackside radars, a photovoltaic charging system, and warning lights and sirens at pedestrian crossings. The aim of this system is to eliminate the accidental death or injury of those using unguarded crossings and represents a significant safety improvement for Network Rail, with potential to bring wider benefits to other rail clients.

Aviation

Our activities in aviation are focused on working across the key regional airport network to support improvements to enhance capacity and efficiency of operations. We have recently secured a number of consultancy opportunities including a technical services framework, carbon management and programme management services.

Natural Resources

The natural resources division had revenue in the year (including share of joint ventures and associates) of £434.4million in the year (2018: £479.8 million), with an underlying operating profit of £15.4 million (2018: £18.7 million), a net margin of 3.5% (2018: 3.9%). The reduction in revenue and profit reflects the lower level of activity in energy following the completion of our Hinkley contract and in water as we move from AMP6 to AMP7.

As at 31 December 2019 the division had a forward order book of £1.1 billion (2018: £0.9 billion), reflecting wins of £0.6 billion in 2019 including some significant contract awards within the regulated AMP7 cycle in the water sector. This higher quality order book will enable sustainable growth in margins.

Water

We are now in the final year of the AMP6 five-year programmes for Thames Water, Severn Trent Water and Southern Water. We are supporting these clients to improve water quality standards, enhance supply resilience, meet anticipated demographic shifts and address their Totex (capital and operational costs) efficiency challenges. These programmes are performing well and we are using our full range of integrated capabilities to deliver improved customer service, innovative solutions and achieve significant total whole life expenditure efficiency savings. 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. We are in constructive dialogue with the client to resolve this outstanding commercial matter.

The Thames Tideway project, on which we are in joint venture to deliver the east section, continues to progress well and will form an integral part of the modernisation of London’s Victorian sewerage system and significantly improve water quality in the River Thames, providing capacity to cope with the growing demands of the city well into the 22nd century. The tunnelling elements of the contract commenced in 2019 with overall completion scheduled for 2024.

Tender activity for AMP7 advisory, asset delivery programmes and capital maintenance programmes has continued through the year, with several key opportunities now secured. The focus has been to provide innovative solutions, exploiting our deep domain knowledge, expertise and digital technology solutions to optimise existing asset infrastructure. This has enabled us to secure long-term frameworks with new clients as well as continuing our trusted long-term relationships. As a result, the water sector has diversified its service offering and breadth of clients in line with our strategy:

- We were awarded a place on the capital delivery framework for AMP7 for Severn Trent Water and have now mobilised to undertake design construction and consultancy expertise to undertake renewal and refurbishment projects along with the detailed design and build of capital projects.
- We were also pleased to announce that we have been selected with our joint venture partner MWH to extend our relationship with Southern Water for the delivery of the AMP7 investment programme.
- Mobilisation started in June and delivery is now well underway for the management and delivery of asset maintenance services through our role as the sole Maintenance Service Provider for United Utilities.
- In line with our strategy we are delivering a broader range of consultancy services including an ECI contract with United Utilities to support its flagship Manchester and Pennines resilience project and specialist, targeted assurance for Yorkshire Water's AMP7 capital investment programme through our health and safety assurance consultancy framework contract in joint venture with Arup.

Energy

This year, we brought together our energy services and activity (previously reported as power, oil and gas and nuclear) to create an integrated energy team focused on supporting the decentralisation and decarbonisation of energy generation and transmission in the UK. The focus on our competitive positioning in the market has Costain targeting services to:

- Increasingly shape the future energy solutions, including unlocking the future of hydrogen production and transmission, carbon capture, and enhanced production techniques
- Exploiting our process engineering, programme management and digital skills in supporting our clients develop their new solutions and deliver programmes of work
- Supporting clients to optimise the performance of their existing infrastructure
- Deliver programmes of work through strategic frameworks.

This focus takes advantage of attractive market opportunities to grow our position, where we have a successful differentiated offer; and consequentially we are continuing to not pursue future EPC design and build contracts.

Throughout the year we continued to develop the hydrogen market in the UK. We secured several notable consultancy and advisory contracts, looking at carbon capture and storage as well as hydrogen blending, which is a pivotal enabler to unlocking the hydrogen economy.

We are working with Scottish and Southern Electricity Networks and E.ON to improve network resilience in rural parts of the UK by focusing on resilience as a service, in a first of its kind project in the UK. Following a successful bid into Ofgem's Network Innovation Competition (NIC), which provides funding of over £9.5 million, we are developing a leading-edge digital energy solution to maintain and improve reliability, providing customers with a low carbon, cost-effective and secure electricity supply.

Our contract for the upgrade of National Grid's Peterborough and Huntingdon compressor stations has experienced significant change and additional scope which has impacted on the forecast target cost and schedule for the completion of the works, expected in 2021. We, and the client, are working to an agreed project level escalation process that includes a requirement to demonstrate our entitlement regarding the compensation events. Costs on the project have doubled due to additional scope and at this stage only a limited proportion of the associated £90.0 million reforecast outturn cost has been formally agreed. Supported by external advice, we believe that we have strong entitlement to recover the costs to date and remaining costs to be incurred over the next 18 months.

In the period, we have continued to secure new consulting contracts for our gas process technology service offering and a number of strategic development consultancy services, with some £4.0 million of consultancy contracts for the energy market. This will see Costain shaping the future for sustainable operations and improved efficiencies at several UK onshore gas terminals by providing engineering design services. The contract awards also include topside modification projects for several subsea tie-backs in the North Sea, both at front-end engineering design (FEED) and pre-FEED phases as well as providing subsea engineering support to nuclear sector projects. Other work secured involves the pre-FEED for a carbon capture usage and storage project that includes the onshore and offshore dimensions.

We also continue to secure and provide a range of asset management, programme management, training, commercial, engineering and other advisory services for strategic contracts with National Grid and Cadent.

In the period, we have completed the marine jetty at Hinkley Point C and agreed the final account for the project. Our contract with EDF Energy to provide consulting and project controls services across their portfolio continues to grow and we continue to support the development of a programme management office in preparation for the defueling and decommissioning of the existing EDF nuclear reactor fleet. Our Sellafield decommissioning framework contract continues to perform in line with expectations and provides access to significant future revenue streams in support of the legacy clean-up mission.

Defence

Our focus in the defence market is to drive value for money outcomes and optimise delivery for our clients with improved ways of working across the defence equipment and infrastructure areas.

The development of the defence sector builds on work over recent years as a strategic advisor to clients such as DE&S, AWE, BAE Systems and Rolls Royce. This experience has provided us with a solid platform to grow in this market.

We continue to support our clients through improving complex programme management on major infrastructure schemes, project controls and delivery as well as providing vital assurance capability. For example, we continue to roll out programme, portfolio and project management (P3M) leadership training to key personnel at our clients' organisations and have introduced a digital enterprise platform for improved project controls on a major defence programme.

Our programme management contract for AWE continues to meet performance expectations, allowing us to secure further opportunities to support AWE on other projects. The recent annual Infrastructure Projects Authority review of the AWE project recognised the outstanding collaborative relationship between the Costain, client and contractor teams.

Alcaidesa

Revenue in this non-core division in the period was £5.6 million (2018: £5.4 million) with a £0.7 million operating loss (2018: £0.7 million operating loss).

In December 2019, the Group announced the sale of its ownership of two golf courses, land and a club house in Cadiz, Spain. The Group is also seeking a purchaser for its 624-Marina Concession. The disposal and potential sale will complete the Group's strategy to divest its non-core business assets in Spain.

Impact of Covid-19

We are closely monitoring the coronavirus situation, are following Government guidelines and sharing these with colleagues. We have robust business continuity procedures in place to cover all aspects of our operations in a scenario such as this which are regularly tested. We are prepared to take action to deal with this situation as it changes.

Summary and outlook

2019 has been a year of transition for Costain as we began the implementation of our Leading Edge strategy to reshape and focus our business. Our underlying financial performance was impacted by delays to certain contract start dates and new awards, together with a contract cancellation and the loss resulting from the A465 arbitration. However, we are pleased that the Group has continued to secure significant new work during the year.

Our Leading Edge strategy aligns our activities to meet our clients' changing needs, supporting a step change in our programme delivery performance and an acceleration in the deployment of our higher margin activities.

The UK infrastructure markets are growing and developing rapidly, with increasing demand for innovative solutions to upgrade, enhance and decarbonise the nation's strategic infrastructure. This is a significant opportunity for our business and we are well placed, with our breadth of integrated services, to benefit from these market dynamics.

Strengthening our balance sheet will enable us to capitalise on these opportunities and further enhance our capabilities.

Alex Vaughan
Chief Executive Officer
11 March 2020

CHIEF FINANCIAL OFFICER’S REVIEW

This review brings together the financial metrics of the Group and sets out the matters of financial significance.

Overview

In 2019, the Group’s financial performance was impacted by several factors which resulted in a reduction in underlying operating profit and earnings per share. In June 2019, the Group experienced delays to the timing of a number of contract start dates and new awards and a significant contract was cancelled, impacting expected profitability by c £16.0 million. In December 2019, the Group’s profit was reduced by a further £20.0 million following the assessment of the impact of an arbitration decision on the A465 contract.

Revenue, including share of joint ventures and associates, was £1,162.9 million for the year to 31 December 2019 (2018: £1,489.3 million). Reported revenue, excluding share of joint ventures and associates, was £1,155.6 million for the year (2018: £1,463.7 million). The reduction in revenue results from a lower level of capital project activity, in line with our strategic change in mix of activities, and the delay in contract starts and a contract cancellation.

The Group’s underlying operating profit was £17.9 million (2018: £52.5 million) with the reduction in the period due to the factors set out in the opening paragraph. Reported operating loss for the year was £(3.2) million (2018: £43.1 million reported operating profit), with the significant reduction due to the lower underlying operating profit and the adverse impact of other items as set out below.

Underlying profit before tax for the year was £14.6 million (2018: £49.7 million). Underlying basic earnings per share amounted to 13.5 pence (2018: 38.2 pence).

Reported loss before tax for the year was £(6.6) million (2018: £40.2 million reported profit before tax). Reported basic loss per share was (2.7) pence (2018: 30.9 pence earning per share).

The results of the Group’s operating divisions are considered in the operational review section and are shown in the segmental analysis in the financial statements. During the year, the Group's divisional structure has been re-organised to create greater client focus and align with growing market opportunities. The Group operates with two core divisions of 'transportation' (rail, highways and aviation) and 'natural resources' (water, energy and defence). The Group's segmental results are being presented on this new divisional basis, including a re-presentation of the 2018 divisional results.

Other items

To aid understanding of the underlying performance of the Group, throughout the annual report underlying operating profit and underlying profit before tax have been used. These measures exclude ‘other items’ which are considered to be one-off and unusual in nature or related to accounting treatment of acquisitions. These include amortisation of acquired intangible assets and deferred consideration treated as an employment expense. In 2019 other items also include a one-off charge of £9.7 million in respect of an arbitration award in favour of Diamond Light Source Limited for the cost of remedial works deemed required to the roof at the National Synchrotron facility and a one-off aggregate charge of £8.9 million for the loss on disposal and an impairment adjustment for the Group’s non-core business assets in Spain. In 2018, other items included an exceptional one-off pension charge in respect of a High Court ruling on the equalisation of Guaranteed Minimum Pensions (GMP) impacting UK companies with defined benefit schemes and a reassessment of the accounting treatment of Research and Development Expenditure Credits (RDEC). These ‘other items’ are shown in a separate column in the consolidated income statement.

Net finance expense

Net finance expense amounted to £3.7 million (2018: £3.2 million). The interest payable on bank overdrafts, loans and other similar charges was £3.3 million (2018: £3.1 million) and the interest income from bank deposits and other loans and receivables amounted to £0.9 million (2018: £0.4 million). In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £0.1 million (2018: £0.4 million cost) and an unwind of discount on deferred consideration of £0.1 million (2018: £0.1 million). The net finance expense in the 2019 financial statements also includes the interest expense on lease liabilities of £1.3 million following the adoption of the new accounting standard IFRS16.

Tax

The Group has a tax credit of £3.7 million for 2019 (2018: £7.4 million charge). The tax credit arose due to the release of a provision against overseas tax liabilities that were concluded during 2019 (£1.5 million shown in Other Items) and reassessment of provisions held against deferred tax assets which management now consider to be recoverable, together with permanent items and other prior year adjustments. It is anticipated that the effective tax rate will return to a normalised basis from 2020.

In 2018, the accounting treatment of research and development expenditure credits was changed to include the credits as grant income in operating profit (previously these were included as a deduction from the tax expense). Changes to estimates of prior year research and development expenditure credits were disclosed in operating profit as 'other items', giving rise to a credit of £2.6 million in 2018.

Dividend

Recognising the importance to the Group of maintaining a strong and growing capital base, following the proposed equity raise, Costain will target a dividend cover of around three times underlying earnings, taking into account the free cash flow generated in the period.

Consistent with the rationale for the proposed equity raise, the Company will pay no final dividend in respect of the year ended 31 December 2019, therefore resulting in a total dividend paid for the year, including the interim dividend, of 3.8 pence per share (2018: 15.15 pence). The first dividend to be paid under the new policy is expected to be an interim dividend for the six months ending 30 June 2020, payable in October 2020.

Shareholders' equity

Shareholders' equity decreased in the year to £157.7 million (2018: £182.3 million). The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements. The decrease in the year includes the re-measurement of the Group's legacy pension scheme defined benefit obligations to reflect current market-based assumptions and the final dividend payment for 2018.

The Board has concluded that it is in the best interests of the Group to raise up to £100 million to strengthen the Group's balance sheet. Further details on the proposed equity raise, which has been fully underwritten on a standby basis, are contained in a separate announcement made today.

New accounting standard – IFRS 16

The new accounting standard, IFRS 16 leases, is applicable to Costain's financial statements in 2019 and full details of the impact of the new standard are included in a note to the financial statements.

Pensions

As at 31 December 2019, the Group's pension scheme surplus in accordance with IAS 19, was £4.9 million (2018: £4.2 million deficit). The position of the scheme has improved in the year because the Company contributions and a liability reduction from using more recent mortality tables more than covered increases in net liabilities due to market movements and liabilities because of member experience over the year. The table below sets out the key details of the pension scheme deficit calculation:

	2019	2018

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

Principal actuarial assumptions (expressed as weighted averages)	%	%
Discount rate	2.05	2.80
Future pension increases	2.85	3.00
Inflation assumption	2.95	3.20

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 and an updated deficit recovery plan has been agreed with the Scheme Trustee. Under the terms of the plan, from 1 April 2020 to 31 January 2029, the Group is required to make: (i) cash contributions of £10.2 million per annum (increasing annually with the Consumer Price Index) (the "Shortfall Correction Contribution"); and (ii) if, in any year, the total dividend amount paid by Costain exceeds the Shortfall Correction Contribution, an additional contribution equal to such excess. Any additional payments in this regard would have the effect of reducing the recovery period in the agreed plan.

Guaranteed minimum pension (GMP) equalisation

On 26 October 2018, the High Court issued a judgement involving Lloyds Banking Group defined benefit pension schemes. The judgement concluded that the schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits. The judgement has implications for the majority of defined benefit schemes with liabilities before 1997, including the Costain Pension Scheme. In conjunction with Costain's actuarial advisers the best estimate of GMP equalisation to the Group was an increase of £8.6 million on the reported pension liabilities at 31 December 2018. This increase in liabilities represents a past service cost and was recorded as a pre-tax exceptional expense in the 2018 income statement, shown within 'other items'. From 2019 any change in relation to this additional liability is included within the remeasurement of retired benefits within the consolidated statement of comprehensive income and expense.

Contract estimates

A significant proportion of the Group's activities are undertaken via long-term contracts. The majority of these contracts are not fixed-price in nature and are based on arrangements which allow for change which is expected during the contract term through the award of compensation events. Management uses detailed contract valuations and cost forecasts when formulating its estimate of costs and revenues and its assessments of the expected outcome of each long term contractual obligation. This includes, among other things, consideration of the number of compensation events on the contract, changes in the design and construction requirements, and whether these all relate to the current obligation or create a new obligation, the impact of any third-party factors and progress to date on agreements with the client. Consideration is made of the extent to which events have impacted on the cost and programme to complete the contract and the associated level of estimation uncertainty and appropriate accounting treatment. In reviewing the contract estimates attention is also paid to past performance on contracts and the success or otherwise of resolving any contractual matters.

Project bank accounts

Several of the Group's contracts operate an arrangement with the client and suppliers, known as project bank accounts, whereby monies on the contract are paid into a separate bank account covered by a trust deed and distributed directly to all suppliers, including the Group, that join the trust deed. This is not a financing arrangement but is a form of payment administration, requested by the client, to provide transparency and security of payments to suppliers. The Group does not operate any supplier financing arrangements.

Cash flow and borrowings

The Group had a positive net cash balance of £64.9 million as at 31 December 2019 (2018: £118.8 million); comprised of a positive cash balance of £180.9 million (2018: £189.3 million), including cash held by joint operations of £83.5 million (2018: £84.5 million) and borrowings of £116.0 million (2018: £70.5 million). Approximately £35.0 million of the net cash balance (2018: £30.0 million) reflects positive timing of receipts at the year end which reversed in the early part of 2020.

The cash outflow in the period reflects the positive cash flow from operations and asset sale offset by working capital movements, dividend payments and associated pension deficit contributions. The cash balance also reflects the impact of the one-off charge in respect of the arbitration award in favour of Diamond Light Source Limited for the cost of remedial works deemed required to the roof at the National Synchrotron facility.

During the year, the Group's average month-end net cash balance was £41.2 million (2018: £77.1 million).

The Group has implemented revised processes to ensure that suppliers are paid promptly, with the average time taken to pay invoices reduced to 34 days from 58 days in the same period in 2018, with the associated working capital requirement also impacting the cash position during the period.

Order book

During the year, the Group secured several new contracts and extensions and the Group's order book was maintained at £4.2 billion (31 December 2018: £4.2 billion).

The order book is made up of an estimate of the value remaining on secured contracts, framework arrangements, service delivery arrangements and purchase orders. Several of the Group's contracts have an early contractor involvement (ECI) phase which involves planning activities and preparation pre-construction; in this case the order book also includes the estimated value of the associated construction activities.

Sale of non-core asset

In December 2019, the Group announced the sale of Alcaidesa Holding S.A.U. and its wholly owned subsidiary Alcaidesa Golf S.L.U. which own and operate two golf courses, land and a club house in Cadiz, Spain. The sale was made for a total consideration of €15.2 million and resulted in a loss on disposal of £3.0 million. The Group is also seeking a purchaser for its 624-Marina Concession and during the year has recorded an asset impairment of £5.9 million to reflect the estimated sale value. The disposal and potential sale will complete the Group's strategy to divest its non-core business assets in Spain.

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 £187.0 million with its relationship banks and has agreed that the maturity date will be extended to 30 September 2023, conditional on the completion of the proposed capital raising. These facilities are made up of a £131.0 million revolving credit facility and a £56.0 million term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £320.0 million. Utilisation of the total bonding facilities on 31 December 2019 was £122.0 million (31 December 2018: £102.7 million).

Treasury

The Group's treasury and funding activities are undertaken by a centralised treasury function. Its primary activities are to manage liquidity, funding and financial risk, principally arising from movements in interest rates and foreign currency exchange rates.

The Group's policy is to ensure that adequate liquidity and financial resources are available to support the

Group's growth and development, while managing these risks and not to engage in speculative transactions. Group Treasury operates as a service centre within clearly defined objectives and controls and is subject to periodic review by internal audit.

Liquidity risk

The Group finances its operations primarily by a mixture of working capital, funds from shareholders, retained profits and borrowings. The directors regularly monitor cash usage and forecast usage to ensure that projected financing needs are supported by adequate cash reserves or bank facilities.

Foreign currency exposure

Translation exposure: the results of the Group's overseas activities, mainly non-core activities in Spain, are translated into sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The balance sheets of overseas subsidiaries and investments are translated at foreign exchange rates ruling at the balance sheet date. The Group holds a currency hedge against the assets held in its Spanish subsidiary.

Transaction exposure: the Group has transactional currency exposures arising from overseas supply purchases for business in the UK and from subsidiaries' commercial activities overseas. Where appropriate, the Group requires its subsidiaries to use forward currency contracts to minimise any currency exposure unless a natural hedge exists elsewhere within the Group.

Interest rate risks and exposure

The Group enters into financial instruments, where necessary, to finance its operations. Various financial instruments (for example, trade receivables and trade payables) arise directly from the Group's operations. The main exposure to interest rate fluctuations within the Group's operations arises from surplus cash, which is generally deposited with the Group's relationship banks, and bank borrowings against part of which the Group holds the appropriate interest rate hedging arrangements.

Anthony Bickerstaff
Chief Financial Officer
11 March 2020

PRINCIPAL RISKS AND UNCERTAINTIES

The table below sets out the principal risks faced by the Company, examples of relevant controls and mitigating factors and movement in the risk trend.

Principal Risk	Description and impact	Controls and key mitigations	Trend
1 Prevent a major accident/hazard /incident	Costain operates in complex and hazardous environments. Failure to manage the inherent risks associated with those complex environments may result in a major accident, hazard or incident resulting in injury or loss of life to employees, sub-contractors, clients' employees, members of the public and/or damage to the environment.	Safety, health and environment (SHE) management policies and procedures. WiiSE strategy and plans. The Costain behavioural safety programme. Mandated accident and near miss reporting and embedding of lessons learned. SHE governance, monitoring and assurance.	Same
2 Delivery of the business strategy	Failure to deliver the new Leading Edge strategy could affect the Group's ability to develop and strengthen its brand in relation to higher margin services to new and existing clients. If the Group does not successfully implement the Leading Edge strategy or is required to spend more to achieve its strategic objectives, this could have a material adverse effect on its business, financial condition and operating results.	Clear strategy communicated throughout the business with an Executive Board sponsor of each workstream within the implementation plan. Detailed divisional three year business plans setting out pinpointed campaigns and actions to deliver the strategy. Appointment of chief digital officer to accelerate development of technology offering 'Becoming digital by default' allowing for increased competitiveness and accelerating digital growth.	Same
3 Maintaining a strong balance sheet	Maintaining a strong balance sheet is fundamental to demonstrate to clients that the Group has the financial capacity to support any particular contract size and duration. In addition, the Group has a number of facility agreements in place. The continued availability of these facilities is dependent on the Group maintaining a robust balance sheet.	Treasury function experienced in the management and oversight of the bank and surety bonding facilities to deliver finance requirements. A robust joint venture partner selection criteria; all partnerships and alliances signed off by the Board. Work winning contract sign-off processes and project monitoring to manage delivery risk. Monitoring and management of amounts receivable. Effective balance sheet reconciliation process. Continued focus on net asset growth, key areas for continuous development and sustainable pension management. Disposal of non-core businesses.	Up
4 Securing new work and contract renewals or cancellations	The success and profitability of the Group is dependent on its ability to identify and secure new work in the energy, water, transportation and defence markets. These markets are highly competitive and as a result the Group may fail to win new contracts in these chosen growth markets. Even where the Group has been successful in winning work, there may be a risk that such contracts are cancelled and/or have changes relating to the scope which may affect the expected revenue to be generated from the order book.	Effective implementation of the Leading Edge strategy aligning our services to meet our clients' changing needs. Evolve our service mix to increase divisional margins. Work as 'One Costain'.	Up
5 Culture and People	The development and motivation of our people and leaders are critical factors in the successful execution of our strategy. In addition, we require the right behaviours from our leaders and employees to deliver our business strategy in accordance with our culture and values.	People risk is monitored closely and a comprehensive workforce plan is in place to address the consultancy and technology resource requirements from the sectors and capabilities, building an external brand to attract these resources. Effective succession planning and competency assessments including an annual talent review process undertaken across the business. Learning and development spend aligned to the strategy eg consultancy, sales development programme. Group inclusion strategy in place with targets to improve diversity. Wellbeing targets included in WiiSE strategy and wellbeing steering group, people strategy under review.	Same
6 Delivery of projects effectively	The Group bids for and enters into a variety of contracts that span a number of years. Failure to deliver these projects effectively could adversely affect the contract margins that the Group seeks to achieve and also the Group's reputation, business, results of operations and future revenue streams. This may be affected by unexpected operational issues or difficulties resulting in delivery failures, additional unbudgeted work required to complete the project, and failure in the	Assessment of capabilities required for delivery and performance management of project delivery resources. Weekly/monthly performance review process incorporating standard reporting at project, sector, division and Group levels using PMO oversight.	Same

Principal Risk	Description and impact	Controls and key mitigations	Trend
	performance of obligations by joint venture partners, sub-contractors and service providers.	Divisional operating director accountability in addition to contract leaders. Work winning tender gate process with set delegated authorities including Investments Committee approvals. Risk/commercial assessments being undertaken prior to contract start. Monitoring supply chain with strategic and preferred supplier status. Central PMO established and used as a control process to target key and major programmes to improve programme delivery, confirm financial out-turns and identify any concerns affecting successful delivery. Implementation of additional reporting systems to enhance the management of consultancy and technology development.	
7 Management of our legacy defined benefit pension scheme	Failure to manage the legacy defined benefit pension scheme so that the liabilities are within a range appropriate to its capital base.	A third-party pensions expert provides independent advice. Monitor the funding position of the scheme via quarterly funding updates provided by scheme's investment consultant. Investment performance monitored and input to the scheme's investment strategy. Regular monitoring in conjunction with the trustee of asset performance, pensions regulations, Company covenant and liability management.	Same
8 Ensure that our technology is robust, our systems are secure and our data protected	It is critical that our technology is robust, our systems are secure and our data protected. Effectiveness, availability, integrity and security of IT systems and data are essential for Costain's operations.	An information security strategy integrates information systems, personnel and physical aspects to prevent, detect and investigate information security threats and incidents. Process in place to engage with key technology partners and suppliers to ensure potentially vulnerable systems are identified and updated. Annual penetration tests and 24-hour threat monitoring. Combining the ISO 27001:2013 accreditation to the annually reviewed Cyber Essentials Plus accreditation. Deploy information classification model into production use, classifying data as public, internal communication, confidential or highly confidential.	Same
9 Anticipate and respond to changes in client circumstances	Failure to recognise or understand clients' changing buying behaviours and requirements, particularly in emerging sectors or where we have new clients. In 2019 we have seen an increasing focus on climate change, delivering to budget and digitisation. A failure to understand and respond may result in a loss of market share or reputational damage.	Monitoring of competitors and clients via Costain intelligence. Implementation of focused marketing campaigns. Identification of a shaping service offering supported by divisional strategies. Use of external market advisors to maintain our situational awareness of changing market drivers. Capture client perception and net promoter score via assessment of service quality reviews.	Same

LONG-TERM VIABILITY AND GOING CONCERN STATEMENT

Assessing Costain's prospects and viability

As part of the Group's Leading Edge strategy and ambition to broaden our services, increasing the proportion of profit from higher value services, the Board maintains a sharp focus on assessing the Company's prospects and viability on a three-year basis.

Costain is one of the UK's leading smart infrastructure solutions companies, delivering integrated Leading Edge services to meet national needs across the UK's energy, water, transportation and defence markets. Our strategy is to focus on blue-chip clients whose major spending plans are underpinned by strategic national needs, regulatory commitments, legislation or essential performance requirements. Our integrated services are aligned with our clients' changing needs, driven by rapidly changing markets which offer the potential for sustainable long-term growth. Our addressable market is c £23 billion per annum, with a stronger backdrop to UK infrastructure with the new majority government.

Costain is strategically positioned for future growth with an established and trusted brand, long term strategic relationships with blue-chip clients, highly focused and experienced management team and a broadening mix of skills and diversity across our workforce.

Costain runs a rigorous annual business planning process, involving divisional and Group management, with Board input and oversight. This produces divisional and Group strategic plans, which in turn generate three-year financial plans with five-year strategic objectives, that drive the setting of in-year budgets. At the core of this process is the One Costain philosophy and while we operate with two divisions, we focus our resources on identifying and securing the most attractive opportunities across the markets in which we operate.

This business planning process, combined with the Group's approach to identifying, monitoring and managing risk, are a significant contributor to the assessment of the Group's prospects.

Factors in assessing long-term prospects

Strategy and business model

- Responsible business, committed to the highest SHE standards and to operating sustainably, ethically and inclusively
- A sustainable and growing market with c £23 billion per annum addressable spend and a stronger backdrop to UK infrastructure with the new majority government.
- Long-term strategic relationships with blue-chip clients leading to £4.2 billion order book encompassing a broader range of services and 90% repeat orders
- Focused Leading Edge strategy which aligns our integrated services to our clients' changing spend patterns, targeting an increase in the proportion of higher value services to enhance margins over the medium term.
- Proposed new equity capital raising of up to £100 million fully underwritten by HSBC, Investec and Liberum on a standby basis, to strengthen the balance sheet and enable the Group to capitalise on the growing infrastructure market opportunities
- A rigorous work winning gate process where we actively manage risk of client selection, opportunity and contract form, adopting the 'One Costain' philosophy
- Robust financial management; fundamental to win work, invest and drive sustainable business growth

Principal risks related to the Group's business model

The assessment of viability has been made considering the principal risks as detailed above and in the Annual Report.

Structured strategic and financial planning process

The Group's prospects are assessed through the annual strategic planning process, which involves the creation of five-year divisional business plans which are reviewed in detail by the Executive Board. To create these plans, each division assesses external factors – market spend and emerging trends, regulatory environment, legislative spend, strategic national needs and our clients' business plans, and internal factors – including capability, skills, technology and thought leadership.

This results in a set of objectives and a clear implementation plan, considering known and emerging risks and opportunities over a broader horizon. This includes a three-year financial plan, with five-year strategic objectives including targets for key accounts and strategic campaigns, resourcing and skills planning as well as research and development activity to support our clients to address complex infrastructure challenges. The Board scrutinises and monitors the strategic and financial plans.

Assessing the Group's viability

The assessment of viability has been made considering the Group's principal risks and testing several severe but plausible scenarios that could impact the Group. These downside scenarios reflect a combination of circumstances, including the potential impact of a significant decline in activity resulting from an inability to secure new work, loss of reputation from a major safety incident or data breach and associated fines, the impact on working capital decline arising from a major dispute on contract delivery, the loss of key management and inability to recruit the right capabilities, and a change in Government sentiment impacting investment and procurement programmes. The Board undertook this assessment in the context of macroeconomic and political risks affecting the UK economy, including Brexit.

The base case projections prepared for going concern and viability show adequate headroom for the group, stress testing this with an aggregation of severe and prolonged scenarios creates a downside case where the headroom on the committed facilities is adequate, but on the leverage covenant becomes limited. Therefore in order to provide greater flexibility and headroom, and for the Company to take advantage of market opportunity, the Board has concluded it would be prudent to take steps to conduct a capital raise to strengthen the balance sheet of the group.

Impact of Covid-19

We are closely monitoring the coronavirus situation, are following Government guidelines and sharing these with colleagues. We have robust business continuity procedures in place to cover all aspects of our operations in a scenario such as this which are regularly tested. We are prepared to take action to deal with this situation as it changes. We have considered the potential impact of Covid-19 in our scenario analysis.

Viability statement

Under the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provisions. Based on the results of this analysis, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2022, and, subject to shareholder approval, will be conducting a capital raise to strengthen the balance sheet of the group.

GOING CONCERN

The Group's going concern statement is detailed in note 1 of the consolidated financial statements.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED INCOME STATEMENT

Year ended 31 December		**2019**			2018		
	Notes	**Underlying**	**Other items**	**Total**	Underlying	Other items	Total
		£m	**£m**	**£m**	£m	£m	£m
Continuing operations							
Revenue including share of revenue of joint ventures and associates		**1,162.9**	**-**	**1,162.9**	1,489.3	-	1,489.3
Less: Share of revenue of joint ventures and associates		**(7.3)**	**-**	**(7.3)**	(25.6)	-	(25.6)
Group revenue		**1,155.6**	**-**	**1,155.6**	1,463.7	-	1,463.7
Cost of sales before other items		**(1,105.1)**	**-**	**(1,105.1)**	(1,373.8)	-	(1,373.8)
Arbitration award on historical building project		**-**	**(9.7)**	**(9.7)**	-	-	-
Cost of Sales		**(1,105.1)**	**(9.7)**	**(1,114.8)**	(1,373.8)	-	(1,373.8)
Gross profit/(loss)		**50.5**	**(9.7)**	**40.8**	89.9	-	89.9
Administrative expenses before other items		**(32.6)**	**-**	**(32.6)**	(37.4)	-	(37.4)
Impairment of Alcaidesa marina		**-**	**(5.9)**	**(5.9)**	-	-	-
Pension GMP equalisation charge		**-**	**-**	**-**	-	(8.6)	(8.6)
RDEC grant income		**-**	**-**	**-**	-	2.6	2.6
Loss on disposal of subsidiary undertakings		**-**	**(3.0)**	**(3.0)**	-	-	-
Amortisation of acquired intangible assets		**-**	**(2.3)**	**(2.3)**	-	(3.0)	(3.0)
Employment related and other deferred consideration		**-**	**(0.2)**	**(0.2)**	-	(0.4)	(0.4)
Administrative expenses		**(32.6)**	**(11.4)**	**(44.0)**	(37.4)	(9.4)	(46.8)
Group operating profit/(loss)		**17.9**	**(21.1)**	**(3.2)**	52.5	(9.4)	43.1
Share of results of joint ventures and associates		**0.3**	**-**	**0.3**	0.3	-	0.3
Profit/(loss) from operations	2	**18.2**	**(21.1)**	**(2.9)**	52.8	(9.4)	43.4
Finance income	3	**1.0**	**-**	**1.0**	0.4	-	0.4
Finance expense	3	**(4.6)**	**(0.1)**	**(4.7)**	(3.5)	(0.1)	(3.6)
Net finance expense		**(3.6)**	**(0.1)**	**(3.7)**	(3.1)	(0.1)	(3.2)
Profit/(loss) before tax		**14.6**	**(21.2)**	**(6.6)**	49.7	(9.5)	40.2
Taxation	4	**(0.1)**	**3.8**	**3.7**	(9.1)	1.7	(7.4)
Profit for the year attributable to equity holders of the parent		**14.5**	**(17.4)**	**(2.9)**	40.6	(7.8)	32.8
Earnings/(loss) per share							
Basic	5	**13.5p**	**(16.2)p**	**(2.7)p**	38.2p	(7.2)p	30.9p
Diluted	5	**13.5p**	**(16.2)p**	**(2.7)p**	37.4p	(7.2)p	30.2p

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

	2019	2018
	£m	£m
(Loss)/profit for the year	**(2.9)**	32.8
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(1.4)**	0.2
Exchange differences on translation transferred to the income statement	**(3.7)**	-
Net investment hedge:		
Effective portion of changes in fair value during year	**1.6**	0.1
Net changes in fair value transferred to the income statement	**2.0**	-
Cash flow hedges :		
Effective portion of changes in fair value during year	**(0.4)**	(0.1)
Net changes in fair value transferred to the income statement	**(0.8)**	-
Total items that may be reclassified subsequently to profit or loss	**(2.7)**	0.2
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset/(obligations)	**(7.0)**	13.3
Tax recognised on remeasurement of retirement benefit asset/(obligations)	**1.2**	(2.5)
Total items that will not be reclassified to profit or loss	**(5.8)**	10.8
Other comprehensive (expense)/income for the year	**(8.5)**	11.0
Total comprehensive (expense)/income for the year attributable to equity holders of the parent	**(11.4)**	43.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Intangible assets	7	**59.0**	58.5
Property, plant and equipment	8	**44.1**	40.0
Investments in equity accounted joint ventures		**0.4**	0.4
Investments in equity accounted associates		**0.6**	0.5
Loans to equity accounted associates		**1.5**	1.6
Retirement benefit asset		**4.9**	-
Other		**2.1**	3.6
Deferred tax		**4.6**	2.7
Total non-current assets		**117.2**	107.3
Current assets			
Inventories		**1.3**	1.5
Trade and other receivables		**247.6**	276.5
Taxation		**5.5**	-
Cash and cash equivalents	9	**180.9**	189.3
Total current assets		**435.3**	467.3
Total assets		**552.5**	574.6
Equity			
Share capital		**54.1**	53.5
Share premium		**16.4**	15.0
Translation reserve		**1.1**	2.6
Hedging reserve		**(0.5)**	0.7
Retained earnings		**86.6**	110.5
Total equity		**157.7**	182.3
Liabilities			
Non-current liabilities			
Retirement benefit obligations	10	**-**	4.2
Other payables		**0.7**	0.9
Interest bearing loans and borrowings		**48.0**	60.5
Lease liabilities		**17.2**	-
Total non-current liabilities		**65.9**	65.6
Current liabilities			
Trade and other payables		**247.4**	313.2
Taxation		**-**	2.6
Interest bearing loans and borrowings		**68.0**	10.0
Lease liabilities		**12.8**	-
Provisions for other liabilities and charges		**0.7**	0.9
Total current liabilities		**328.9**	326.7
Total liabilities		**394.8**	392.3
Total equity and liabilities		**552.5**	574.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	Hedging reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
At 1 January 2018	52.8	12.1	2.3	0.8	81.4	149.4
Profit for the year	-	-	-	-	32.8	32.8
Other comprehensive income/(expense)	-	-	0.3	(0.1)	10.8	11.0
Issue of ordinary shares under employee share option plans	0.5	1.6	-	-	(0.3)	1.8
Shares purchased to satisfy employee share schemes	-	-	-	-	(1.3)	(1.3)
Equity-settled share-based payments	-	-	-	-	2.3	2.3
Dividends paid	0.2	1.3	-	-	(15.2)	(13.7)
At 31 December 2018	53.5	15.0	2.6	0.7	110.5	182.3
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 income/(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**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December	Notes	2019	2018
		£m	£m
Cash flows from/(used by) operating activities			
Loss/(profit) for the year		**(2.9)**	32.8
Adjustments for:			
Share of results of joint ventures and associates		**(0.3)**	(0.3)
Finance income	3	**(1.0)**	(0.4)
Finance expense	3	**4.7**	3.6
Taxation	4	**(3.7)**	7.4
Loss on disposal of subsidiary undertakings		**3.0**	-
Impairment of Alcaidesa marina		**5.9**	-
Depreciation of property, plant and equipment		**17.7**	3.2
Amortisation of intangible assets		**2.6**	3.4
Employment related and other deferred consideration		**0.2**	0.4
Pension GMP equalisation charge		**-**	8.6
Shares purchased to satisfy employee share schemes		**(0.7)**	(1.3)
Share-based payments expense		**0.5**	2.9
Cash from operations before changes in working capital and provisions		**26.0**	60.3
Decrease/(increase) in inventories		**0.1**	(0.1)
Decrease in receivables		**30.2**	8.6
Decrease in payables		**(63.5)**	(90.9)
Movement in provisions and employee benefits		**(16.3)**	(15.8)
Cash used by operations		**(23.5)**	(37.9)
Interest received		**1.0**	0.4
Interest paid		**(4.6)**	(2.4)
Taxation paid		**(5.1)**	(8.2)
Net cash used by operating activities		**(32.2)**	(48.1)
Cash flows from/(used by) investing activities			
Dividends received from joint ventures and associates		**0.2**	0.5
Additions to property, plant and equipment		**(3.8)**	(1.0)
Additions to intangible assets		**(3.1)**	(0.3)
Proceeds of disposals of property, plant and equipment and intangible assets		**0.3**	2.1
Repayment of loans by joint ventures and associates		**0.1**	-
Acquisition related deferred consideration		**(1.5)**	-
Proceeds of sale of subsidiaries		**11.8**	-
Net cash from investing activities		**4.0**	1.3
Cash flows from/(used by) financing activities			
Issue of ordinary share capital		**0.5**	1.8
Ordinary dividends paid		**(13.5)**	(13.7)
Repayments of lease liabilities		**(13.6)**	-
Drawdown of loans		**70.0**	30.0
Repayment of loans		**(23.6)**	(30.5)
Net cash from/(used by) financing activities		**19.8**	(12.4)
Net decrease in cash and cash equivalents		**(8.4)**	(59.2)
Cash and cash equivalents at beginning of the year	9	**189.3**	248.7
Effect of foreign exchange rate changes		**-**	(0.2)
Cash and cash equivalents at end of the year	9	**180.9**	189.3

Notes to the financial statements

1 Basis of preparation

Costain Group PLC ("the Company") is a public limited company domiciled and incorporated in England and Wales. The consolidated financial statements of the Company for the year ended 31 December 2019 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 International Financial Reporting Standards as adopted by the EU ('Adopted IFRS') and their related interpretations and the Companies Act 2006 applicable to companies reporting under Adopted IFRS.

A duly appointed and authorised committee of the Board of Directors approved the preliminary announcement on 11 March 2020. The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 and 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered in due course. The auditor has reported on those accounts. Their report for 2019 was (i) unqualified, (ii) contains 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. Their report for the accounts of 2018 was (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying 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 set out below have been applied consistently by the Group and the Company to each period presented in these financial statements, except for the adoption of IFRS 16 Leases and IFRIC 23 Uncertainty over income tax treatments. A number of other new standards were effective from 1 January 2019 but they do not have a material effect on the Group's accounts. The impact of adoption of IFRS 16 is set out below.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken a rigorous assessment of the financial forecasts and with consideration of the anticipated net proceeds from the announced equity capital raise which the Board is confident will be approved.

Equity raise

The Company has proposed a new equity capital raise of up to £100 million, which has been fully underwritten on a standby basis.

Material uncertainties

The Board considers that the Group and the Company have adequate resources to remain in operation for the foreseeable future and therefore have continued to adopt 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, identified reasonable worst case downsides and anticipated receipt of proceeds from the capital raise. Applying these reasonable worst case downside scenarios the Board concluded that, whilst there is liquidity headroom, absent the anticipated net proceeds from the capital raise, in a reasonable worst case scenario, whilst the headroom on committed facilities is adequate, the headroom on the leverage covenant is limited.

The Board has concluded that to provide greater flexibility and headroom, and for the Company to take advantage of market opportunity, it would be prudent to take steps to conduct a capital raise to strengthen the balance sheet of the Group.

The Company has entered into a standby underwriting agreement to support a capital raise. Whilst the Board has a reasonable expectation that the Company and the Group will be able to operate as a going concern for the foreseeable future, in undertaking their assessment, the Board has considered the fact that a shareholder vote is required in order to raise additional capital, and that the standby underwriting agreement is subject to certain specific conditions which, although customary in nature, are outside the control of the Company.

Under accounting standards these events and conditions indicate a material uncertainty on the completion of the capital raise which may cast significant doubt about the Group’s and parent company’s ability to continue as a going concern. However, in the absence of the capital raise, there are a range of alternative actions that would be available to the Board, including entering into discussions in respect of an alternative financing plan with the Group’s lenders if required.

Therefore, the financial statements do not include any adjustments which would be required if the going concern basis of preparation is inappropriate. The Auditors’ report refers to this material uncertainty, and their opinion is not qualified or modified in this regard.

IFRS 16 Leases

IFRS 16 Leases replaces IAS 17 Leases along with three Interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases-Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The standard is mandatory for reporting periods beginning on or after 1 January 2019.

Prior to the adoption of IFRS 16, leases where substantially all of the risks and rewards of ownership were not transferred to the Group were classified as operating leases. Rentals under operating leases were charged to operating profit on a straight-line basis over the term of the lease. IFRS 16 addresses the accounting for leases and requires lessees to recognise all leases on balance sheet with limited exemptions. This results in the recognition of a right-of-use asset and corresponding liability on the balance sheet, with the associated depreciation and interest expense being recorded in the income statement over the lease period. Limited exemptions apply for short-term leases (leases with a term of 12 months or less) and low value leases.

The Group has applied the modified retrospective approach to the transition to IFRS 16, recognising the cumulative effect at the date of initial application (1 January 2019). On transition, for leases previously accounted as operating leases with a lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions in the standard to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16. The Group also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 and has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

Accounting policy

Where the Group is party to a lease, except for short-term leases or leases of low value assets, the Group recognises a right-of-use asset and a lease liability upon lease commencement. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which is located, less any lease incentives received.

The asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability associated with changes to the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate. The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

Impact of adoption of IFRS 16

On transition to IFRS 16, the Group recognised an additional £33.0 million of right-of-use assets and £33.0 million of lease liabilities at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.2%.

Lease liabilities
On adoption of IFRS 16, the Group recognised liabilities in relation to leases which had previously been classified as operating leases and short-term cancellable leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The following is a reconciliation of total operating lease commitments (2018 Annual Report note 24) at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	Land and buildings	**Other operating leases**	**Total**
	£m	**£m**	**£m**
Total committed operating lease commitments disclosed at 31 December 2018	18.1	9.0	27.1
Discounted using incremental borrowing rate	(1.6)	(0.4)	(2.0)
Recognition exemptions:			
- Leases of low value assets	-	(1.6)	(1.6)
- Hindsight adjustment of lease lengths	3.5	(0.2)	3.3
Lease payments not recognised	1.9	(2.2)	(0.3)
Non-committed operating leases recognised	-	6.2	6.2
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**20.0**	**13.0**	**33.0**
Comprising:			
Current lease liabilities			**13.4**
Non-current lease liabilities			**19.6**
Total lease liabilities			**33.0**

Right-of-use assets
The associated right-of-use assets were measured at amounts equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position as at 31 December 2018.

	£m
Land and buildings	**13.0**
Plant and equipment	**20.0**
Total right-of-use assets	**33.0**

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 judgement and estimation 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 and the assumptions used in the accounting for defined benefit pension schemes under IAS 19 'Employee benefits'.

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. Revenue is recognised to the extent that amounts forecast from compensation events, variations and claims are agreed or considered 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 at the year end are summarised in aggregate below. The most significant amounts in 2019 relate to the A465 and Peterborough and Huntingdon contracts.

	2019 £m	2018 £m
Overall contract value	**1,334.0**	1,376.6
Revenue in year	**281.3**	260.1
Total estimated end of contract compensation events	**472.1**	372.2
Total estimated unagreed end of contract compensation events	**238.6**	247.2
Total unagreed compensation events valued at year end	**45.7**	39.5

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 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 per cent, the impact on the financial results over the life of the contract could be an increase or decrease of up to £15.0 million (2018: up to £13.0 million). Additional compensation events for further change may also arise over the remaining contract period.

Our contract for the upgrade of National Grid's Peterborough and Huntingdon compressor stations has experienced significant change and additional scope which has impacted on the forecast target cost and schedule for the completion of the works, expected in 2021. We, and the client, are working to an agreed project level escalation process that includes a requirement to demonstrate our entitlement regarding the compensation events. Costs on the project have doubled due to additional scope and at this stage only a limited proportion of the associated £90 million reforecast outturn cost has been formally agreed. Supported by external advice, we believe that we have strong entitlement to recover the costs to date and remaining costs to be incurred over the next 18 months.

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.

Carrying value of goodwill and intangible assets
Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires estimation, principally, in respect of 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 are set out in note 7.

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 10.

IFRSs not applied

The following IFRSs having been endorsed, will be applicable from 1 January 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8.
- Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

The directors do not currently anticipate that the adoption of any standard or interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the Group in future periods.

2 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.

During the year, the Group transferred the nuclear business from within the Infrastructure segment to Natural Resources and the remaining Infrastructure segment has been renamed Transportation. The segment information reflects this change as effective at 1 January 2019 and comparative segmental information has been represented to reflect the current segments.

2019	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Group revenue	**429.4**	**720.6**	**5.6**	**-**	**1,155.6**
Share of revenue of joint ventures and associates	**5.0**	**2.3**	**-**	**-**	**7.3**
Total segment revenue	**434.4**	**722.9**	**5.6**	**-**	**1,162.9**
Segment profit/(loss)					
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 the sale or termination of operations	**-**	**-**	**(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)**

2018	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Group revenue	472.7	985.6	5.4	-	1,463.7
Share of revenue of joint ventures and associates	7.1	18.5	-	-	25.6
Total segment revenue	479.8	1,004.1	5.4	-	1,489.3
Segment profit/(loss)					
Operating profit/(loss) before other items	18.7	41.4	(0.7)	(6.9)	52.5
Share of results of joint ventures and associates	0.3	-	-	-	0.3
Profit/(loss) from operations before other items	19.0	41.4	(0.7)	(6.9)	52.8
Other items:					
Pension GMP equalisation charge	-	-	-	(8.6)	(8.6)
RDEC grant income	-	-	-	2.6	2.6
Amortisation of acquired intangible assets	(1.4)	(1.6)	-	-	(3.0)
Employment related and other deferred consideration	(0.4)	-	-	-	(0.4)
Profit/(loss) from operations	17.2	39.8	(0.7)	(12.9)	43.4
Net finance expense					(3.2)
Profit before tax					40.2

3 Net finance expense

	2019 £m	2018 £m
Interest income from bank deposits	**0.7**	0.3
Interest income on loans to related parties	**0.2**	0.1
Interest income on the net assets of the defined benefit pension scheme	**0.1**	-
Finance income	**1.0**	0.4
Interest payable on interest bearing bank loans, borrowings and other similar charges	**(3.3)**	(3.1)
Interest expense on lease liabilities	**(1.3)**	-
Unwind of discount on deferred consideration	**(0.1)**	(0.1)
Interest expense on the net liabilities of the defined benefit pension scheme	**-**	(0.4)
Finance expense	**(4.7)**	(3.6)
Net finance expense	**(3.7)**	(3.2)

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.

4 Taxation

	2019 £m	2018 £m
On profit for the year		
UK corporation tax at 19.0% (2018: 19.0%)	**1.1**	(6.6)
Adjustment in respect of prior years	**1.9**	3.7
Current tax credit/(expense) for the year	**3.0**	(2.9)
Deferred tax expense for the current year	**(1.2)**	(0.8)
Adjustment in respect of prior years	**1.9**	(3.7)
Deferred tax credit/(expense) for the year	**0.7**	(4.5)
Tax credit/(expense) in the consolidated income statement	**3.7**	(7.4)

	2019 £m	2018 £m
Tax reconciliation		
(Loss)/profit before tax	**(6.6)**	40.2
Taxation at 19.0% (2018: 19.0%)	**1.3**	(7.6)
Share of results of joint ventures and associates	**-**	0.1
Amounts qualifying for tax relief and disallowed expenses	**(1.2)**	0.1
Rate adjustment relating to deferred taxation and overseas profits and losses	**(0.2)**	-
Adjustments in respect of prior years	**3.8**	-
Tax credit/(expense) in the consolidated income statement	**3.7**	(7.4)

5 Earnings per share

The calculation of earnings per share is based on a loss of £2.9 million (2018: profit £32.8 million) and the number of shares set out below.

	2019 Number (millions)	2018 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**107.6**	106.3
Dilutive potential ordinary shares arising from employee share schemes	**0.2**	2.3
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**107.8**	108.6

6 Dividends

	Dividend per share pence	2019 £m	2018 £m
Final dividend for the year ended 31 December 2017	9.25	**-**	9.8
Interim dividend for the year ended 31 December 2018	5.15	**-**	5.4
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**	15.2
Dividends settled in shares		**(1.3)**	(1.5)
Dividends settled in cash		**13.5**	13.7

Consistent with the rationale for the proposed equity raise, the Company will pay no final dividend in respect of the year ended 31 December 2019, therefore resulting in a total dividend paid for the year, including the interim dividend, of 3.8 pence per share (2018: 15.15 pence).

7 Intangible assets

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2018	54.1	15.4	9.7	8.4	87.6
Additions	-	-	-	0.3	0.3
Disposals	-	-	-	(1.0)	(1.0)
At 31 December 2018	54.1	15.4	9.7	7.7	86.9
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**
Accumulated amortisation					
At 1 January 2018	-	10.2	8.2	6.7	25.1
Charge in year	-	2.3	0.7	0.4	3.4
Disposals	-	-	-	(0.1)	(0.1)
At 31 December 2018	-	12.5	8.9	7.0	28.4
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**
Net book value					
At 31 December 2019	**54.1**	**1.1**	**0.3**	**3.5**	**59.0**
At 31 December 2018	54.1	2.9	0.8	0.7	58.5
At 1 January 2018	54.1	5.2	1.5	1.7	62.5

8 Property, plant and equipment

	Land & Buildings £m	Plant & Equipment £m	Right-of-use assets Land & Buildings £m	Right-of-use assets Vehicles, plant & equipment £m	Total £m
Cost					
At 1 January 2018	32.9	32.7	-	-	65.6
Currency movements	0.4	0.1	-	-	0.5
Additions	-	1.0	-	-	1.0
Disposals	(1.2)	(1.6)	-	-	(2.8)
At 31 December 2018	32.1	32.2	-	-	64.3
At 1 January 2019	**32.1**	**32.2**	**-**	**-**	**64.3**
Adjustment on transition to IFRS 16	**-**	**-**	**20.0**	**13.0**	**33.0**
Restated at the beginning of the financial year	**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**
Accumulated depreciation					
At 1 January 2018	2.9	19.7	-	-	22.6
Currency movements	0.1	-	-	-	0.1
Charge in year	0.8	2.4	-	-	3.2
Disposals	-	(1.6)	-	-	(1.6)
At 31 December 2018	3.8	20.5	-	-	24.3
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**
Net book value					
At 31 December 2019	**3.0**	**11.5**	**15.2**	**14.4**	**44.1**
At 31 December 2018	28.3	11.7	-	-	40.0
At 1 January 2018	30.0	13.0	-	-	43.0

9 Cash and cash equivalents

Cash and cash equivalents are analysed below and include the Group's share of cash held by joint operations of £83.5 million (2018: £84.5 million).

	2019 £m	2018 £m
Cash and cash equivalents	**180.9**	189.3
Borrowings – current	**(68.0)**	(10.0)
Borrowings – non-current	**(48.0)**	(60.5)
Net cash/(debt)	**64.9**	118.8

10 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 £12.7 million comprising £12.8 million included in operating costs plus £0.1 million included in net finance expense (2018: £20.8 million, comprising £20.4 million in operating costs plus £0.4 million in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 01 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 2016 and this was updated to 31 December 2019 by a qualified independent actuary. At 31 December 2019, there were 2,870 retirees and 2,846 deferred members. The weighted average duration of the obligations is 16.4 years.

	2019 £m	2018 £m	2017 £m
Present value of defined benefit obligations	**(812.1)**	(752.7)	(803.4)
Fair value of scheme assets	**817.0**	748.5	779.5
Recognised asset/(liability) for defined benefit obligations	**4.9**	(4.2)	(23.9)

Movements in present value of defined benefit obligations

	2019 £m	2018 £m
At 1 January	**752.7**	803.4
Past service cost – GMP equalisation charge	**-**	8.6
Interest cost	**20.6**	19.6
Remeasurements – demographic assumptions	**(7.5)**	(20.7)
Remeasurements – financial assumptions	**74.6**	(25.9)
Remeasurements – experience adjustments	**9.0**	3.9
Benefits paid	**(37.3)**	(36.2)
At 31 December	**812.1**	752.7

Movements in fair value of scheme assets

	2019 £m	2018 £m
At 1 January	**748.5**	779.5
Interest income	**20.7**	19.2
Remeasurements – return on assets	**69.1**	(29.4)
Contributions by employer	**16.3**	15.7
Administrative expenses	**(0.3)**	(0.3)
Benefits paid	**(37.3)**	(36.2)
At 31 December	**817.0**	748.5

Expense recognised in the income statement

	2019 £m	2018 £m
Administrative expenses paid by the pension scheme	**(0.3)**	(0.3)
Administrative expenses paid directly by the Group	**(1.7)**	(1.7)
GMP equalisation charge	**-**	(8.6)
Interest income/(expense) on the net assets/liabilities of the defined benefit pension scheme	**0.1**	(0.4)
	(1.9)	(11.0)

Fair value of scheme assets

	2019 **£m**	2018 £m
Overseas equities	**-**	80.7
Global equities	**162.4**	52.4
Multi-asset growth funds	**162.2**	140.7
Multi-credit fund	**160.3**	90.8
LDI plus collateral	**251.8**	276.6
PFI Investments	**51.0**	51.6
Property	**17.7**	21.2
Cash	**11.6**	34.5
	817.0	748.5

Principal actuarial assumption (expressed as weighted averages)

	2019 **%**	2018 %
Discount rate	**2.05**	2.80
Future pension increases	**2.85**	3.00
Inflation assumption	**2.95**	3.20

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2019 and 31 December 2018 is:

	2019		2018	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Currently aged 65	**22.3**	**24.2**	22.4	24.3
Non-retirees currently aged 45	**23.6**	**25.7**	23.8	25.9

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	32.2	0.7
Decrease inflation, pension increases by 0.25%, decreases pension liability and reduces pension cost by	27.5	0.6
Increase life expectancy by one year, increases pension liability and increases pension cost by	34.0	0.7

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 £10.2 million 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 £10.4 million (2018: £9.8 million).

11 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 2019 was £218.5 million (2018: £255.3 million) and transactions with The Costain Pension Scheme are included in Note 10.

12 Forward-looking statements
The announcement contains certain forward-looking statements. The forward-looking statements are not intended to be guarantees of future performance but are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements.

13 Responsibility statements
The responsibility statement set out below has been prepared in connection with (and will be set out in) the Annual Report and Accounts for the year ended 31 December 2019.

“Each of the Directors of the Company confirms that, to the best of his or her knowledge:

- The Group accounts, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profits/losses of the Company (and of the Group taken as a whole); and

- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company (and of the Group taken as a whole), together with a description of the principal risks and uncertainties that they face."

The directors of the Company are Paul Golby (Non-Executive Chairman), Alex Vaughan (Chief Executive), Tony Bickerstaff (Chief Financial Officer), Jane Lodge (Independent Non-Executive Director), Alison Wood (Independent Non-Executive Director), David McManus (Independent Non-Executive Director) and Jacqueline de Rojas (Independent Non-Executive Director).

On behalf of the Board:

PAUL GOLBY
Chairman

ALEX VAUGHAN
Chief Executive

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