22 August 2018

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

Results for the half-year ended 30 June 2018

Costain, the smart infrastructure solutions company, announces another good first half performance with progression in Group margin generating an increase in underlying operating profit. The Group remains on course to deliver full year results in line with the Board's expectations and announces an 8% increase in the interim dividend.

	HY 2018	HY 2017	FY 2017
Revenue			
- including share of JVs and associates	**£772.9m**	**£874.5m**	**£1,728.9m**
- reported	**£758.7m**	**£847.8m**	**£1,684.0m**
Operating profit			
- underlying[1]	**£22.8m**	**£21.2m**	**£48.7m**
- reported	**£21.0m**	**£18.7m**	**£44.3m**
Profit before tax			
- underlying[1]	**£21.4m**	**£18.3m**	**£43.4m**
- reported	**£19.5m**	**£15.7m**	**£38.9m**
Basic earnings per share			
- underlying[1]	**16.6p**	**14.4p**	**34.8p**
- reported	**15.1p**	**12.2p**	**31.1p**
Net cash balance[2]	**£77.7m**	**£87.5m**	**£177.7m**
Dividend per share	**5.15p**	**4.75p**	**14.0p**

1. Before other items; amortisation of acquired intangible assets and employment related deferred consideration.
2. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings.

Highlights

- **Another good performance**
  - increase in Group margin generating underlying operating profit[1] up 8% to £22.8 million (HY 2017: £21.2 million)
  - revenue, including share of joint ventures and associates, of £772.9 million (HY 2017: £874.5 million)
  - net cash[2] balance of £77.7 million (HY 2017: £87.5 million) with average month-end net cash of £90.8 million (HY 2017: £97.3 million).

- **Evolving into the UK's leading smart infrastructure solutions company**
  - proactively aligning the Group with the fast-changing market environment
  - differentiated by offering the range of integrated technology enabled services increasingly required by clients
  - planned expansion to a new enlarged technology centre
  - one third of our people are now in consultancy or technology roles.

- **Confident outlook**
  - higher quality order book of £3.7 billion, of which over 90% continues to be repeat business (30 June 2017: £3.7 billion)
  - over £1.4 billion of revenue secured for FY 2018 at 30 June 2018 (30 June 2017: over £1.5 billion secured for FY 2017)
  - interim dividend increased by 8% to 5.15 pence per share (2017: 4.75 pence).

Andrew Wyllie CBE, chief executive, commented:

"We delivered another good performance in the first half of the year. The progression in Group margin generated growth in underlying operating profit enabling an 8% increase in the interim dividend.

"This performance is due to our differentiation as we evolve into the UK's leading smart infrastructure solutions company. The shape and nature of our activities continues to develop, reflecting our clients' changing needs and their demand for integrated solutions to improve the performance and capacity of their assets.

"Our higher quality order book provides good visibility for the Group's future performance and we are on course to deliver full year results in line with the Board's expectations."

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There will be a presentation to analysts today at 09:30 at Instinctif Partners, 65 Gresham Street, EC2V 7NQ. To register your attendance please contact christine.galloway@instinctif.com

A short animation summarising the results is available at www.costain.com

Notes to Editors

Costain helps to improve people's lives by deploying technology-based engineering solutions to meet urgent national needs across the UK's energy, water and transportation infrastructures. We have been shaping the world in which we live for the past 150 years.

The Group's 'Engineering Tomorrow' strategy involves focusing on blue chip clients in chosen sectors whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements.

Costain's 4,000 people are committed to high performance and safe delivery. They are delivering a broad range of innovative services including consultancy, technology, asset optimisation and complex delivery services across a range of high profile contracts in the UK incorporating the whole life cycle of our clients' assets.

For more information visit www.costain.com

CHIEF EXECUTIVE'S STATEMENT

I am pleased to report that Costain delivered another good performance in the first half of the year, the result of proactively aligning the business in a rapidly changing market environment to meet the evolving requirements of our clients.

The most significant aspect of the rapid change is the revolutionary deployment of technology by clients across the UK's energy, water and transportation infrastructures to increase network capacity, improve customer service and optimise performance. This is having a profound impact on the market and is also creating a wide range of exciting new opportunities for Costain.

These results again evidence our successful focus on strategic relationships with those blue-chip clients who require Costain to deliver a broad range of integrated services on longer-term collaborative contracts. Over 90% of our contracts are on a 'target cost, cost reimbursable' basis which, for complex investment programmes, provides clients with maximum flexibility and lowers our risk profile.

Strategic update

We are operating in a dynamic and rapidly changing market environment. Significant demographic, economic and social trends are having a deep impact on the performance and service required from the UK's energy, water and transportation infrastructures. For example, the National Infrastructure Assessment published last month contemplates close to 100% adoption of electric new vehicle sales in the UK by 2030. These trends are causing urgent infrastructure needs and the solutions to address them are increasingly complex and technology enabled.

Moreover, we must deliver solutions in highly regulated and legislated environments, where the focus is on increasing existing network capacity, improving customer service and ensuring security of supply. Therefore, as well as enhancing network performance, our solutions must also demonstrate value-for-money and be achieved within clients' regulated budgets.

This rapidly-changing environment is having a very material bearing on all market participants. It is creating a wide range of new opportunities for us as we look to deliver ever more innovative solutions to meet the challenges ahead. As an example, Connected and Autonomous Vehicles (CAVs) and their enabling infrastructure represent a growing market opportunity expected to be worth circa £11 billion per annum in the UK by 2030.

The single biggest factor in our continuing success will be our ability to further embrace the revolution taking place in the use and deployment of technology. That is why we have been transforming Costain into the UK's leading smart infrastructure solutions company, embedding technology across everything we do.

We are aligning our business development activity with the changing spend patterns of our clients. As an example, Network Rail announced a 25% increase in spending to £47 billion in Control Period 6, commencing next year, but has also indicated that spending will be targeted towards asset enhancement and the 'Digital Railway' rather than large capital projects. This common client trend is having a direct impact on the nature and scope of contracts within our quality order book.

During the period, Costain developed further the strength and experience of its most important asset: its people. We have 1,300 people working across consultancy or technology roles, representing one third of our total head count.

We now have over 600 chartered professionals across a wide range of disciplines, over 170 graduates working towards becoming chartered and over 70 apprentices on a structured development programme. We also sponsor 24 PhD students who are undertaking leading-edge and targeted research at renowned universities including Cambridge, Imperial College and Edinburgh.

Further progress has been made to ensure that the Costain team is diverse and inclusive: for the first time in our history more than half of our 2018 graduate intake was female, and in April we were delighted to be listed in The Times Top 50 Employers for Women.

Along with our engineering centre in Manchester, where over 300 of our people are based, we currently have research and development relationships with 15 leading universities. We announced earlier this year our planned expansion into a new enlarged technology centre in Somerset reflecting the rapidly growing demand for technology-enabled solutions.

These changing client trends are why we are also continuing to invest in our skills, services and capabilities, both organically and by targeted acquisition.

This differentiation is ensuring that Costain remains an essential choice for the strategic relationships required by our clients on their long-term collaborative multi-billion pound investment programmes. Our offering, comprising integrated technology, consultancy, asset optimisation and complex delivery services, keeps Costain relevant to our clients, and their rapidly changing requirements.

Trading and financial performance

Revenue, including the Group's share of joint ventures and associates, reduced 11.6% to £772.9 million in the first half of the year (2017: £874.5 million) and the increase in Group margin resulted in underlying operating profit growing by 8% to £22.8 million (2017: £21.2 million).

The increase in the Group's operating profit benefits from a good return from the Infrastructure division and a significant improvement in the Natural Resources division where a healthier return from the broad range of services is being delivered. The reduction in revenue and increase in the Group's underlying operating profit margin reflects the changing mix of the Group's activities in line with strategy.

Net finance expense amounted to £1.6 million (2017: £3.1 million), with the decrease due to a lower interest cost on the net liabilities of the pension scheme.

Underlying profit before tax, which represents profit before acquired intangible amortisation and employment related deferred consideration, increased by 16.9% to £21.4 million (2017: £18.3 million).

The Group's effective rate of tax was 17.4% (2017: 18.3%), slightly below the statutory tax rate primarily due to the benefit of R&D tax credits.

Underlying basic earnings per share increased to 16.6 pence (2017: 14.4 pence). Statutory reported basic earnings per share were 15.1 pence (2017: 12.2 pence).

Order book

Costain's strong market position, reputation for innovation and wide range of integrated services enabled us to secure over £600 million of new contract awards and extensions to existing contracts during the first half of the year.

Consequently, the Group's order book at 30 June 2018 stood at £3.7 billion (30 June 2017: £3.7 billion), continuing to provide good visibility for the Group's future performance. Although the absolute size of the order book remains unchanged, we consider it to be higher quality as the shape and nature of the individual contracts continues to evolve reflecting our changing strategic market positioning.

For example, in the first half of the year we have completed a number of major capital projects and secured a number of contracts related to the testing of autonomous and connected vehicles on the UK road network, and our first pure technology contract for Network Rail. This reflects the changing nature of the spending profile of our major clients.

The strategic nature of Costain's long-term client relationships has once again ensured that over 90% of the order book comprises repeat business.

As at 30 June 2018, the Group had secured over £1.4 billion of revenue for 2018 (30 June 2017: over £1.5 billion secured for 2017).

The order book at 30 June also provides good long-term visibility with over £0.85 billion of revenue secured for 2019 (June 2017: over £0.9 billion secured for 2018), and over £2.1 billion secured for 2020 and beyond.

In addition, the Group has a preferred bidder position of circa £400 million (2017: over £400 million).

Cash position

The Group continues to have a robust net cash position which at 30 June 2018 was £77.7 million (2017: £87.5 million).

The position reflects positive cash flow from operations, working capital movements, dividend payments and associated pension deficit contributions. As expected, the net cash position has reduced from the very high level reported at the end of 2017, following the working capital impact of the reversal of the positive timing of receipts at the year-end.

The average month-end net cash was £90.8 million for the period (2017: £97.3 million) with the average month-end net cash balance for the full year expected to be circa £80 million.

In addition to its net cash balance, the Group has flexible financing in place to support its future growth with total banking facilities of £191.0 million, which mature in June 2022, and £320 million of committed and uncommitted bonding facilities.

Capital allocation

A key element in the successful implementation of the Group's strategy is the efficient allocation of capital.

The Board regularly reviews the appropriate allocation with regard to the following priorities:

- ensuring that the Group can effectively exploit available organic and acquisition opportunities, deliver on its ongoing obligations, including making regular returns to shareholders, and address the Group's legacy pension contribution commitments

- ensuring an appropriate mix of equity, banking and bonding facilities to appropriately align the composition and structure of the Group's funding with its prevailing strategic and investment priorities; and

- maintaining a strong and flexible balance sheet, typically with a net cash position, while being prepared to take on modest leverage if circumstances warrant

The Board believes that its approach to the optimal deployment of capital generates value for all stakeholders on an efficient and equitable basis.

Pension scheme

As at 30 June 2018, the surplus on the Group's legacy Costain Pension Scheme in accordance with IAS 19 was £17.1 million (June 2017: deficit of £43.5 million). The significant improvement in the position is a combination of employer contributions, better than expected asset returns and positive changes in the market-based discount and inflation rate assumptions used.

Based on the actuarial valuation as at 31 March 2016, the company has in place a deficit reduction plan, agreed with the pension scheme Trustee, which requires a contribution of £9.6 million per annum (increasing annually with inflation).

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. In this regard, an additional contribution of £5.0 million was paid in the first half of the year at the time the final dividend payment was made.

The next triennial valuation review is due as at 31 March 2019.

Interim Dividend

The Board has declared an 8% increase in the interim dividend to 5.15 pence per share (2017: 4.75 pence per share). The dividend will be paid on 19 October 2018 to shareholders on the register as at the close of business on 14 September 2018.

The Board recognises the importance of regular dividends to shareholders and has reviewed its dividend policy following the Group's continued strong performance. Reflecting the historic and expected future pay-out ratio, going forward the Group will target dividend cover of around 2.5 times underlying earnings. The Board is committed to growing the dividend in line with earnings over the medium term.

Operational review

Under our 'One Costain' operating model the Group has two core operating and reporting divisions within the business: Infrastructure and Natural Resources.

Infrastructure

The division, which operates in the highways, rail and nuclear markets delivered revenue (including share of joint ventures and associations) of £587.0 million (2017: £694.1 million) and underlying operating profit of £21.5 million (2017: £24.8 million). The revenue and profit reduction results from a lower level of large capital project activity in the first half of 2018 compared to the same period last year. The margin achieved also reflects the timing of profit recognition and returns across a range of contracts and we expect the division's margin to return to within the target range of 4% - 5% in the second half of the year.

The level of tendering activity, targeted on opportunities in line with our strategic focus, is high and the order book at 30 June 2018 had increased to £2.9 billion (30 June 2017: £2.8 billion). Several technology contracts were secured in the first half in addition to the M6 J21a-26 smart motorway contract for Highways England.

Highways

Costain continues to contribute to increasing capacity, improving journey times and enhancing safety across the UK's strategic road network. For Highways England we have continued to transform significant stretches of the M1 into smart motorways. Also, for Highways England the strategically important A14 corridor is being improved with progress being made on the new Expressway.

Our operation and maintenance contracts for Highways England on Area 12 (Yorkshire and Humberside), Area 4 (Kent and Sussex) and Area 14 (North East England) are performing in line with expectations.

In the period we have seen the addition of several technology enabled smart infrastructure appointments to our portfolio with our contribution to the Midlands Future Mobility Connected Autonomous Vehicle (CAV) test bed in the West Midlands and the award of the Motorway Incident Detection (MIDAS) technology system contract.

We were also awarded a contract by Highways England to work in collaboration with them, the Department for Transport, Transport for London and Kent County Council to design, install and implement one of the UK's first pilot connected vehicle corridors on a live road, known as the A2M2 connected corridor. This flagship contract will help promote the UK as market leader in technology.

Our asset management contract for East Sussex County Council and our work to develop the Preston Western Distributor Road for Lancashire County Council are progressing as planned.

For the Welsh Government we are continuing to make progress on the technically-complex A465 Heads of the Valleys, due to be completed in 2020 and we are in a process with our client to resolve the effect of additional scope, and the associated cost and schedule impact. We have also successfully completed the All Wales Technology contract, are nearing completion on the M4 Brynglas tunnel technology upgrade and we are providing professional services to support the delivery of the M4 Corridor around Newport through the public inquiry.

Rail

Costain has delivered significant milestones in support of Network Rail to enhance and improve the nation's rail network. This included the much-needed London Bridge Station redevelopment, which was celebrated at the official opening ceremony, led by the Duke of Cambridge along with the Secretary of State for Transport.

Also, for Network Rail, works have been completed on the Crossrail on-network Anglia contract which has been subject to significant change, and we are now in commercial discussions on the final account for the contract. Work to conclude the Kent Multi-Functional framework for Network Rail is progressing as planned.

While much of the planned National Electrification programme has been curtailed, we have continued to deliver on our existing contracts in the Midlands and on the West Coast Mainline. Having concluded our initial contract on the electrification of the Edinburgh to Glasgow corridor we have also achieved significant milestones on the follow-on Stirling Dunblane Alloa programme. These contracts will deliver journey time improvements and reduce the carbon footprint of this mode of transport.

For London Underground, discussions continue to finalise the account for the completed Bond Street Station Upgrade, and the Bakerloo Line link to the Elizabeth Line at Paddington is nearing completion.

For Crossrail, which will be known as the Elizabeth Line, progress is being made to complete the contracts at Paddington and Bond Street stations. Our system-wide contracts to deliver the track and electrification systems are also moving towards completion as planned.

Reflecting the evolution of our business, we were appointed by the Crown Commercial Service to provide consultancy services as part of its management consultancy framework for a broad range of infrastructure schemes and projects.

We are continuing to see growth in our activity on the HS2 Southern Area enabling works contract, particularly around Euston station. We are also progressing with the early stages of our two main works contracts with the development of detailed design, schedule and cost forecasts. The HS2 scheme is expected to deliver significant enhancement to the capacity of the rail network.

Nuclear

Costain has continued to play an important role in nuclear new build, decommissioning and security. Our programme management contract for AWE is progressing well and our work at Sellafield on the Decommission Delivery Partner framework is making a positive contribution towards the decommissioning of the nation’s legacy nuclear facilities.

For EdF at Hinkley Point, having successfully completed our remaining obligations on the marine and infrastructure contracts, we are concentrating on completing the temporary jetty. This contract has been affected by scope increase and weather delays and we are working with EdF to resolve the associated cost implications.

Elsewhere for EdF, our project controls support contract to EdF Energy across their existing fleet of nuclear power stations is going well and making a contribution to the efficient operation of the plants.

Natural Resources

The Natural Resources division, which operates in the water, power and oil & gas markets, made further significant progress during the period. Revenue (including share of joint ventures and associations) was £183.1 million (2017: £177.7 million) with an underlying operating profit of £4.7 million (2017: £0.2 million).

The significant improvement in the performance reflects growth in profits from the water and power sector activities and the margin, although presently impacted by lower contributions from the oil & gas operations, is increasing as expected towards the medium term underlying target margin of 4% - 5% for the division.

The division had a forward order book at 30 June 2018 of £0.8 billion (30 June 2017: £0.9 billion), with the reduction reflecting the latter stages of our five-year framework contracts awarded for the regulated AMP 6 cycle in the water sector.

Water

The Group is now in year four of the five-year AMP 6 programmes for Thames Water, Severn Trent and Southern Water. We are supporting these clients to improve and maintain water quality standards, enhance supply resilience and meet anticipated demographic shifts. These programmes are performing well and are using our full range of integrated capabilities to deliver improved customer service, innovative solutions and significant total expenditure efficiency savings.

Our joint venture for the east section of the Thames Tideway project is also progressing well. This major project will form an integral part of the modernisation of London's Victorian sewerage system and will improve water quality in the River Thames, providing capacity to cope with the demands of the city well into the 22nd century.

In Glasgow, Costain is improving water quality and resilience of supply through the delivery of the Shieldhall Tunnel for Scottish Water, reducing flooding issues in the city's wastewater network. The scheme is now operational and we are continuing to work with the client to agree the final account to reflect the programme, scope and cost changes on the contract.

Bid activity for AMP 7, the next five-year regulatory period commencing in 2020, is well underway with several clients seeking contracts with early engagement to help develop their business plans.

Power

Costain is playing a role in ensuring that the UK has a secure and resilient energy mix.

The Peterborough and Huntingdon compressor stations project, where Costain is designing and managing its delivery, will increase system resilience and reduce overall risk on the National Transmission System by replacing ageing assets. This is National Grid's largest current upgrade project to comply with the Industrial Emissions Directive and Pollution Prevention and Control regulations.

We are providing project services for the replacement of the Humber Estuary Crossing for National Grid. The River Humber pipeline is a strategically important asset, connecting the gas import facility at Easington on the Yorkshire coast and which provides 70–100 million cubic metres of natural gas per day to the national network.

Costain also provides asset management services and programme management for Interconnector contracts with Cadent and National Grid, as well as service contracts to other leading Energy operators.

Oil & Gas

Work has completed on the Hydrochloric Acid Dosing Plant and Condensate Mercury Removal System for Total's Edradour-Glenlivet facility and the Stella field development programme for Ithaca.

We continue to provide ongoing support services to Total and Phillips 66 at their Immingham refineries, as well as programme development services and design services to key energy operators both on and off-shore in the UK.

In the period we have continued to secure new contracts for our gas process technology service offering and a number of strategic development consultancy services. This includes the appointment by Infrastrata PLC for the FEED design on their Islandmagee gas storage facility in Northern Ireland, which will significantly increase the UK's gas storage capacity.

The market remains subdued but there has been a noticeable increase in new business opportunities as clients restructure their operations and investment projects to accommodate prevailing market conditions.

Alcaidesa

Alcaidesa is a non-core activity in Spain in which Costain owns operating assets of two golf courses with an associated parcel of land, and a 624-berth marina concession adjacent to Gibraltar. Revenue in the period was £2.8 million (2017: £2.7 million) and a breakeven result in the period, reflecting increased activity levels (2017: £0.5 million loss). We continue to review our options for this non-core asset.

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's medium term performance, and the factors that mitigate these risks, are set out on pages 44-49 of the Group's Annual Report for 2017, a copy of which is available from our website www.costain.com.

Summary and outlook

We delivered another good performance in the first half of the year. The progression in Group margin generated growth in underlying operating profit enabling an 8% increase in the interim dividend.

This performance is due to our differentiation as we evolve into the UK's leading smart infrastructure solutions company. The shape and nature of our activities continues to develop, reflecting our clients' changing needs and their demand for integrated solutions to improve the performance and capacity of their assets.

Our higher quality order book provides good visibility for the Group's future performance and we are on course to deliver full year results in line with the Board's expectations.

Andrew Wyllie CBE
Chief Executive
22 August 2018

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December		2018 Half-year unaudited			2017 Half-year unaudited			2017 Year audited		
	Notes	**Underlying £m**	**Other items £m**	**Total £m**	Underlying £m	Other items £m	Total £m	Underlying £m	Other items £m	Total £m
Revenue including share of joint ventures and associates	3	**772.9**	**-**	**772.9**	874.5	-	874.5	1,728.9	-	1,728.9
Less: Share of revenue of joint ventures and associates		**(14.2)**	**-**	**(14.2)**	(26.7)	-	(26.7)	(44.9)	-	(44.9)
Group revenue		**758.7**	**-**	**758.7**	847.8	-	847.8	1,684.0	-	1,684.0
Cost of sales		**(714.6)**	**-**	**(714.6)**	(806.8)	-	(806.8)	(1,596.2)	-	(1,596.2)
Gross profit		**44.1**	**-**	**44.1**	41.0	-	41.0	87.8	-	87.8
Administrative expenses before other items		**(21.3)**	**-**	**(21.3)**	(19.8)	-	(19.8)	(39.1)	-	(39.1)
Amortisation of acquired intangible assets		**-**	**(1.5)**	**(1.5)**	-	(1.6)	(1.6)	-	(3.2)	(3.2)
Employment related deferred consideration		**-**	**(0.3)**	**(0.3)**	-	(0.9)	(0.9)	-	(1.2)	(1.2)
Total Administrative expenses		**(21.3)**	**(1.8)**	**(23.1)**	(19.8)	(2.5)	(22.3)	(39.1)	(4.4)	(43.5)
Group operating profit		**22.8**	**(1.8)**	**21.0**	21.2	(2.5)	18.7	48.7	(4.4)	44.3
Share of results of joint ventures and associates		**0.1**	**-**	**0.1**	0.1	-	0.1	0.3	-	0.3
Profit from operations	3	**22.9**	**(1.8)**	**21.1**	21.3	(2.5)	18.8	49.0	(4.4)	44.6
Finance income		**0.3**	**-**	**0.3**	0.3	-	0.3	0.4	-	0.4
Finance expense		**(1.8)**	**(0.1)**	**(1.9)**	(3.3)	(0.1)	(3.4)	(6.0)	(0.1)	(6.1)
Net finance expense	4	**(1.5)**	**(0.1)**	**(1.6)**	(3.0)	(0.1)	(3.1)	(5.6)	(0.1)	(5.7)
Profit before tax		**21.4**	**(1.9)**	**19.5**	18.3	(2.6)	15.7	43.4	(4.5)	38.9
Taxation	5	**(3.7)**	**0.3**	**(3.4)**	(3.2)	0.3	(2.9)	(6.9)	0.6	(6.3)
Profit for the period attributable to equity holders of the parent		**17.7**	**(1.6)**	**16.1**	15.1	(2.3)	12.8	36.5	(3.9)	32.6
Earnings per share										
Basic	6	**16.6p**	**(1.5)p**	**15.1p**	14.4p	(2.2)p	12.2p	34.8p	(3.7)p	31.1p
Diluted	6	**16.3p**	**(1.5)p**	**14.8p**	14.0p	(2.1)p	11.9p	34.2p	(3.6)p	30.6p

During the period, previous period and previous year the impact of business disposals was not material and, therefore, all results are classified as arising from continuing operations.

Condensed consolidated statement of comprehensive income and expense

Half-year ended 30 June, year ended 31 December	**2018 Half-year unaudited £m**	2017 Half-year unaudited £m	2017 Year audited £m
Profit for the period	**16.1**	12.8	32.6
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(0.1)**	0.7	0.5
Net investment hedge			
• Effective portion of changes in fair value during period	**0.2**	(0.5)	(0.7)
• Net changes in fair value transferred to the income statement	**-**	-	0.2
Cash flow hedges:			
• Effective portion of changes in fair value during period	**(1.8)**	0.5	(1.4)
• Net changes in fair value transferred to the income statement	**0.3**	(0.8)	0.3
Total items that may be reclassified subsequently to profit or loss	**(1.4)**	(0.1)	(1.1)
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit obligations	**31.4**	23.7	39.2
Tax recognised on remeasurement of defined benefit obligations	**(5.9)**	(4.6)	(7.4)
Total items that will not be reclassified to profit or loss	**25.5**	19.1	31.8
Other comprehensive income for the period	**24.1**	19.0	30.7
Total comprehensive income for the period attributable to equity holders of the parent	**40.2**	31.8	63.3

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2017	52.1	8.8	2.3	1.9	34.5	99.6
Profit for the period	-	-	-	-	12.8	12.8
Other comprehensive income/(expense)	-	-	0.2	(0.3)	19.1	19.0
Issue of ordinary shares under employee share option plans	0.1	0.2	-	-	-	0.3
Shares purchased to satisfy employee share schemes	-	-	-	-	(1.2)	(1.2)
Equity-settled share-based payments	-	-	-	-	1.2	1.2
Dividend paid (note 7)	0.2	1.6	-	-	(8.8)	(7.0)
At 30 June 2017 - unaudited	52.4	10.6	2.5	1.6	57.6	124.7
Profit for the period	-	-	-	-	19.8	19.8
Other comprehensive income/(expense)	-	-	(0.2)	(0.8)	12.7	11.7
Issue of ordinary shares under employee share option plans	0.4	1.4	-	-	-	1.8
Shares purchased to satisfy employee share schemes	-	-	-	-	(0.2)	(0.2)
Equity-settled share-based payments	-	-	-	-	1.0	1.0
Dividend paid (note 7)	-	0.1	-	-	(4.9)	(4.8)
At 31 December 2017 - audited	52.8	12.1	2.3	0.8	86.0	154.0
Adoption of IFRS 15 Revenue from Contracts with Customers *	**-**	**-**	**-**	**-**	**(4.6)**	**(4.6)**
Restated total equity at the beginning of the financial year	**52.8**	**12.1**	**2.3**	**0.8**	**81.4**	**149.4**
Profit for the period	**-**	**-**	**-**	**-**	**16.1**	**16.1**
Other comprehensive income/(expense)	**-**	**-**	**0.1**	**(1.5)**	**25.5**	**24.1**
Issue of ordinary shares under employee share option plans	**0.3**	**0.2**	**-**	**-**	**-**	**0.5**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**(1.3)**	**(1.3)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**1.3**	**1.3**
Dividend paid (note 7)	**0.1**	**1.0**	**-**	**-**	**(9.8)**	**(8.7)**
At 30 June 2018 - unaudited	**53.2**	**13.3**	**2.4**	**(0.7)**	**113.2**	**181.4**

* See note 14 for details regarding the adoption of IFRS 15 Revenue from Contracts with Customers

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December		**2018 Half-year unaudited £m**	2017 Half-year unaudited £m	2017 Year audited £m
Assets				
Non-current assets				
Intangible assets	8	**60.0**	64.2	62.5
Property, plant and equipment	8	**40.7**	41.2	43.0
Investments in equity accounted joint ventures		**0.3**	0.3	0.3
Investments in equity accounted associates		**0.7**	0.6	0.8
Loans to equity accounted associates		**1.6**	1.7	1.6
Retirement benefit asset	9	**17.1**	-	-
Other receivables		**7.2**	4.1	4.9
Deferred tax asset		**3.2**	9.2	10.1
Total non-current assets		**130.8**	121.3	123.2
Current assets				
Inventories		**1.3**	3.9	1.4
Trade and other receivables		**345.0**	343.6	287.8
Cash and cash equivalents		**158.1**	167.8	248.7
Total current assets		**504.4**	515.3	537.9
Total assets		**635.2**	636.6	661.1
Equity				
Share capital	11	**53.2**	52.4	52.8
Share premium		**13.3**	10.6	12.1
Foreign currency translation reserve		**2.4**	2.5	2.3
Hedging reserve		**(0.7)**	1.6	0.8
Retained earnings *		**113.2**	57.6	86.0
Total equity attributable to equity holders of the parent		**181.4**	124.7	154.0
Liabilities				
Non-current liabilities				
Retirement benefit obligations	9	**-**	43.5	23.9
Other payables		**3.5**	0.7	1.3
Interest bearing loans and borrowings		**60.5**	30.1	60.6
Provisions for other liabilities and charges		**-**	0.4	-
Total non-current liabilities		**64.0**	74.7	85.8
Current liabilities				
Trade and other payables		**364.0**	382.0	402.5
Taxation		**4.3**	3.9	7.1
Interest bearing loans and borrowings		**19.9**	50.2	10.4
Provisions for other liabilities and charges		**1.6**	1.1	1.3
Total current liabilities		**389.8**	437.2	421.3
Total liabilities		**453.8**	511.9	507.1
Total equity and liabilities		**635.2**	636.6	661.1

* See note 14 for details regarding the adoption of IFRS 15 Revenue from Contracts with Customers

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	**2018 Half-year unaudited £m**	2017 Half-year unaudited £m	2017 Year audited £m
Cash flows from operating activities			
Profit for the period	**16.1**	12.8	32.6
Adjustments for:			
Share of results of joint ventures and associates	**(0.1)**	(0.1)	(0.3)
Finance income	**(0.3)**	(0.3)	(0.4)
Finance expense	**1.9**	3.4	6.1
Taxation	**3.4**	2.9	6.3
Depreciation of property, plant and equipment	**2.0**	2.2	3.9
Amortisation of intangible assets	**1.7**	1.9	3.7
Employment related deferred consideration	**0.3**	0.9	1.2
Share-based payments expense	**1.5**	1.2	2.7
Shares purchased to satisfy employee share schemes	**(1.3)**	(1.2)	(1.4)
Cash from operations before changes in working capital and provisions	**25.2**	23.7	54.4
Decrease/(increase) in inventories	**0.1**	(0.3)	0.2
(Increase)/ decrease in receivables	**(64.1)**	(41.0)	14.2
(Decrease)/increase in payables	**(39.6)**	(17.0)	3.4
Movement in provisions and employee benefits	**(9.5)**	(6.8)	(12.4)
Cash (used by)/from operations	**(87.9)**	(41.4)	59.8
Interest received	**0.1**	0.4	0.3
Interest paid	**(1.1)**	(1.2)	(3.2)
Taxation paid	**(4.2)**	(1.8)	(5.3)
Net cash (used by)/from operating activities	**(93.1)**	(44.0)	51.6
Cash flows from investing activities			
Dividends received from joint ventures and associates	**0.2**	0.1	0.1
Additions to property, plant and equipment	**(0.3)**	(0.5)	(1.8)
Additions to intangible assets	**-**	(0.1)	(0.3)
Proceeds of disposals of property, plant and equipment	**0.6**	-	0.2
Proceeds of disposals of intangible assets	**0.8**	-	-
Repayment of loans to joint ventures and associates	**-**	-	0.1
Acquisition related deferred consideration	**-**	(0.9)	(2.4)
Net cash from/(used by) investing activities	**1.3**	(1.4)	(4.1)
Cash flows from financing activities			
Issue of ordinary share capital	**0.5**	0.3	2.2
Ordinary dividends paid	**(8.7)**	(7.0)	(11.9)
Drawdown of loans	**20.0**	10.0	70.7
Repayment of loans	**(10.5)**	-	(70.0)
Net cash from/(used by) financing activities	**1.3**	3.3	(9.0)
Net (decrease)/increase in cash, cash equivalents and overdrafts	**(90.5)**	(42.1)	38.5
Cash, cash equivalents and overdrafts at beginning of the period	**248.7**	210.2	210.2
Effect of foreign exchange rate changes	**(0.1)**	(0.3)	-
Cash, cash equivalents and overdrafts at end of the period	**158.1**	167.8	248.7

Notes to the interim financial statements

1. General information

Costain Group PLC (the Company) is a public limited company incorporated in the United Kingdom. The address of its registered office and principal place of business is Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB.

The condensed consolidated interim financial statements are presented in pounds sterling, rounded to the nearest hundred thousand.

The comparative figures for the financial year ended 31 December 2017 are not the Company's full statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors 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.

2. Statement of compliance

This interim financial information for the half-year ended 30 June 2018 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The accounting policies, presentation and methods of computation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union except for the adoption of new and amended standards as set out below. They do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2017.

New standards adopted by the Group

The adoption of IFRS 15 Revenue from Contracts with Customers has required an adjustment to brought forward reserves. The Group has also adopted IFRS 9 Financial Instruments which did not have any quantitative impact on the financial results.

The impact of the adoption of these standards and the new accounting policies is discussed in note 14.

Impact of standards issued but not yet effective, and therefore not applied in these financial statements

IFRS 16 Leases was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and financial leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases.

The standard will primarily affect the accounting for the Group's operating leases and hire charges. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16 and expects to disclose a range of estimates for the quantitative impact prior to initial adoption. It is not practicable to provide a reasonable estimate of the effect of IFRS 16 or to conclude on the transition approach to be taken until the detailed reviews have been completed.

The standard is mandatory for first interim periods with annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Except for IFRS 16, the directors do not currently anticipate that the adoption of any other 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.

Going concern
After making enquiries and reviewing the latest forecasts, the directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim financial statements.

Income statement presentation - Other items

In order to aid understanding of the underlying and overall performance of the Group, certain amounts are shown in the consolidated income statement in a separate column headed 'Other items'. Items are included under this heading where the Board considers them to be of a one-off and unusual nature or related to the accounting treatment of acquisitions, this includes amortisation of acquired intangibles and employment related deferred consideration. These are adjusted because they are not long term in nature and, hence, will not reflect the long-term performance of the Group.

Principal risks and significant areas of judgement and estimation

The Group’s principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2017. The Directors consider that the significant areas of judgement made by management that have significant effect on the Group’s performance and estimates with a significant risk of material adjustment in the second half of the year are unchanged from those identified on page 120 of the Annual Report for the year ended 31 December 2017.

The Board approved the unaudited interim financial statements on 22 August 2018.

3. Business segment information

The Group has two core business segments: Natural Resources and Infrastructure plus 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.

Half-year ended 30 June 2018	**Natural Resources £m**	**Infrastructure £m**	**Alcaidesa £m**	**Central costs £m**	**Total £m**
External revenue	**180.2**	**575.7**	**2.8**	**-**	**758.7**
Share of revenue of JVs and associates	**2.9**	**11.3**	**-**	**-**	**14.2**
Total segment revenue	**183.1**	**587.0**	**2.8**	**-**	**772.9**
Group operating profit/(loss)	**4.7**	**21.5**	**-**	**(3.4)**	**22.8**
Share of results of JVs and associates	**0.1**	**-**	**-**	**-**	**0.1**
Profit/(loss) from operations before other items	**4.8**	**21.5**	**-**	**(3.4)**	**22.9**
Other items:					
Amortisation of acquired intangible assets	**(0.4)**	**(1.1)**	**-**	**-**	**(1.5)**
Employment related deferred consideration	**(0.3)**	**-**	**-**	**-**	**(0.3)**
Profit/(loss) from operations	**4.1**	**20.4**	**-**	**(3.4)**	**21.1**
Net finance expense					**(1.6)**
Profit before tax					**19.5**

Half-year ended 30 June 2017	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £m
External revenue	172.8	672.3	2.7	-	847.8
Share of revenue of JVs and associates	4.9	21.8	-	-	26.7
Total segment revenue	177.7	694.1	2.7	-	874.5
Group operating profit/(loss)	0.2	24.8	(0.5)	(3.3)	21.2
Share of results of JVs and associates	0.1	-	-	-	0.1
Profit/(loss) from operations before other items	0.3	24.8	(0.5)	(3.3)	21.3
Other items:					
Amortisation of acquired intangible assets	(0.5)	(1.1)	-	-	(1.6)
Employment related deferred consideration	(0.9)	-	-	-	(0.9)
Profit/(loss) from operations	(1.1)	23.7	(0.5)	(3.3)	18.8
Net finance expense					(3.1)
Profit before tax					15.7

Year ended 31 December 2017	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £m
External revenue	333.5	1,345.2	5.3	-	1,684.0
Share of revenue of JVs and associates	10.4	34.5	-	-	44.9
Total segment revenue	343.9	1,379.7	5.3	-	1,728.9
Group operating profit/(loss)	4.8	52.2	(1.4)	(6.9)	48.7
Share of results of JVs and associates	0.3	-	-	-	0.3
Profit/(loss) from operations before other items	5.1	52.2	(1.4)	(6.9)	49.0
Other items:					
Amortisation of acquired intangible assets	(1.1)	(2.1)	-	-	(3.2)
Employment related deferred consideration	(1.2)	-	-	-	(1.2)
Profit/(loss) from operations	2.8	50.1	(1.4)	(6.9)	44.6
Net finance expense					(5.7)
Profit before tax					38.9

4. Net finance expense

Finance expense includes the interest cost on the net liabilities of the pension scheme of £0.2 million (2017 half-year: £0.9 million, 2017 year: £1.8 million).

5. Taxation

Half-year ended 30 June, year ended 31 December	**2018 Half-year £m**	2017 Half-year £m	2017 Year £m
UK corporation tax	**(1.4)**	(2.3)	(8.9)
Deferred tax	**(2.0)**	(0.6)	2.6
Tax expense in the condensed consolidated income statement	**(3.4)**	(2.9)	(6.3)
Effective tax rate	**17.5%**	18.3%	16.2%

The tax charge is based on the estimated effective tax rate for the full year.

6. **Earnings per share**

The calculation of earnings per share is based on profit for the period of £16.1 million (2017 half-year: £12.8 million, 2017 year: £32.6 million) and the number of shares set out below:

	2018 Half-year m	2017 Half-year m	2017 Year m
Weighted average number of shares in issue for basic earnings per share calculation	**106.0**	104.4	104.7
Dilutive potential ordinary shares arising from employee share schemes	**2.8**	3.1	2.0
Weighted average number of ordinary shares in issue for fully diluted earnings per share calculation	**108.8**	107.5	106.7

7. Dividends

	Dividend per share pence	**Half-year ended 30 June 2018 £m**	Half-year ended 30 June 2017 £m	Year ended 31 December 2017 £m
Final dividend for the year ended 31 December 2016	8.40	**-**	8.8	8.8
Interim dividend for the year ended 31 December 2017	4.75	**-**	-	4.9
Final dividend for the year ended 31 December 2017	9.25	**9.8**	-	-
Amount recognised as distributions to equity holders in the period		**9.8**	8.8	13.7
Dividends settled in shares		**(1.1)**	(1.8)	(1.9)
Dividends settled in cash		**8.7**	7.0	11.8

The proposed interim dividend of 5.15 pence (2017: 4.75 pence) has not been included as a liability in these interim financial statements because it had not been approved at the period end date. The dividend totalling £5.5 million will be paid on 19 October 2018 to shareholders on the register at the close of business on 14 September 2018. A scrip dividend alternative will be offered.

8. Non-current assets

During the interim period, the Group spent £0.3 million on plant and equipment and £Nil on software and development (2017 half-year: £0.5 million on plant and equipment and £0.1 million on software and development, 2017 year: £1.8 million on plant and equipment and £0.3 million on software and development).

9. Retirement benefit obligations

	2018 Half-year £m	2017 Half-year £m	2017 Year £m
Present value of defined benefit obligations	**(759.6)**	(805.9)	(803.4)
Fair value of scheme assets	**776.7**	762.4	779.5
Recognised asset/(liability) for defined benefit obligations	**17.1**	(43.5)	(23.9)

The Group has recognised an asset on the basis that 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.

Movement in present value of defined benefit obligations:	**2018 Half-year £m**	2017 Half-year £m	2017 Year £m
Opening balance	**803.4**	827.5	827.5
Interest cost	**9.9**	10.9	21.9
Remeasurements – demographic assumptions	**-**	15.0	16.8
Remeasurements – financial assumptions	**(42.6)**	4.1	6.9
Remeasurements – experience assumptions	**6.1**	(34.2)	(34.5)
Benefits paid	**(17.2)**	(17.4)	(35.2)
Closing balance	**759.6**	805.9	803.4

Movement in fair value of scheme assets:	**2018 Half-year £m**	2017 Half-year £m	2017 Year £m
Opening balance	**779.5**	754.0	754.0
Interest income	**9.7**	10.0	20.1
Remeasurements – return on assets	**(5.1)**	8.6	28.4
Contributions by employer	**9.9**	7.2	12.5
Administrative expenses	**(0.1)**	-	(0.3)
Benefits paid	**(17.2)**	(17.4)	(35.2)
Closing balance	**776.7**	762.4	779.5

The following actuarial assumptions have been used in the IAS 19 valuations of the Group's defined benefit pension scheme, which was closed to new members in May 2005 and to future accrual in September 2009 (expressed as weighted averages):

	2018 Half-year %	2017 Half-year %	2017 Year %
Discount rate	**2.80**	2.60	2.50
Future pension increases	**2.90**	3.05	2.90
Inflation assumption	**3.00**	3.10	3.10

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 Group's defined benefit scheme:

	Pension liability £m
Increase discount rate by 0.25%, decreases pension liability by	(30.5)
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	(26.4)
Increase life expectancy by one year, increases pension liability by	28.1

10. Financial instruments

The Group's centralised function manages financial risk, principally arising from liquidity and funding risks and movements in foreign currency rates, in accordance with policies agreed by the Directors. At 30 June 2018, the Group had foreign currency contracts designated as cash flow hedges of future transactions over a period of up to 3 years as summarised below and interest rate swaps that fix the effective LIBOR rate of £60.0 million of borrowings to June 2021. The carrying value represents the fair value of the contract; the cash flows represent the pounds sterling commitments. There were no ineffective hedges at the reporting date.

Foreign exchange contracts	**2018 Half-year**		2017 Half-year		2017 Year	
	Carrying amount £m	**Cash flows £m**	Carrying amount £m	Cash flows £m	Carrying amount £m	Cash flows £m
Purchases	**(0.9)**	**(15.5)**	2.1	(26.3)	1.3	(17.5)
Sales	**0.1**	**3.0**	(0.2)	6.3	(0.1)	(3.2)
	(0.8)	**(12.5)**	1.9	(20.0)	1.2	(20.7)
Interest rate swaps	**0.1**	**(1.6)**	-	-	(0.2)	(1.8)
	(0.7)	**(14.1)**	1.9	(20.0)	1.0	(22.5)

The Group's investment in Alcaidesa Holding SA is hedged by euro currency contracts which mitigate the foreign currency risk arising from the subsidiary's net assets. The value of the forward sale contracts at 30 June 2018 was €28.0 million (2017 half-year €30.0 million, 2017 year €28.0 million). No ineffectiveness was recognised from the net investment hedge.

11. Share capital

Issued capital as at 30 June 2018 amounted to £53.2 million (2017 half-year: £52.4 million, 2017 year: £52.8 million) and comprised 106,406,408 ordinary shares of 50 pence each.

The Company announced on 18 May 2018 that shareholders had, pursuant to the Scrip Dividend Scheme, elected to receive 266,271 ordinary shares of 50 pence each in the Company in lieu of cash in respect of all or part of their final dividend for the year ended 31 December 2017.

The Company operates a Long-Term Incentive Plan and a Share Deferral Plan, together with a legacy Deferred Share Bonus Plan, under which directors and senior employees can receive awards of shares subject to defined performance targets being achieved by the Group. The 2015 LTIP award vested in March 2018 resulting in the issue of 500,000 ordinary shares of 50 pence each. Full details of these plans are disclosed in the annual financial statement.

During the period, the Company issued 86,814 ordinary shares of 50 pence each following the exercise of share options granted to employees under the Company's Savings Related Share Option Scheme (relating to the 2014 three-year grant).

12. Related party transactions

Details of transactions between the Group and The Costain Pension Scheme are included in Note 9. There have been no other changes in the nature of related party transactions since the last annual financial statements as at and for the year ended 31 December 2017.

13. Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. At 30 June 2018, amounts drawn under the bonding facilities amounted to £99.2 million (2017 half-year £87.6 million, 2017 year £97.0 million).

There are contingent liabilities in respect of performance bonds and other undertakings, including joint arrangements and legal claims arising, all in the ordinary course of business. None are anticipated to result in material liabilities except as already provided.

14. Impact of adoption of new accounting standards

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

IFRS 9 Financial Instruments - impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 did not result in changes to the Group's accounting policies nor adjustments to the amounts recognised in the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers - impact of adoption

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in some changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospective approach and has restated the brought forward reserves as at 1 January 2018.

As disclosed in the 2017 Annual Report, under IFRS 15, revenue will be spread over the expected life of each individual performance obligation rather than in line with the total costs profile. The main change for Costain from the adoption of IFRS 15 is the separation of individual, distinct performance obligations within its framework and multiple revenue stream type contracts. This change results in a reduction in revenue recognised in periods prior to 1 January 2018 and a corresponding decrease in the amounts recoverable on contracts in the statement of financial position of £5.7 million and has been reflected by a decrease in opening retained earnings as at 1 January 2018 of £4.6 million, net of current tax. It will reverse over the remaining periods of the contracts. During the period, the Group recognised additional revenue and operating profit of £0.7 million (£0.6 million net of tax) as a result of the adoption of IFRS 15.

There is no impact on the commercial activities, lifetime profitability or cash flows of the Group, as a result of the adoption of this accounting standard.

IFRS 15 Revenue from Contracts with Customers - Accounting policy applied from 1 January 2018

The Group recognises revenue when control over the service or product is transferred to the customer and revenue is measured at the fair value of the consideration received or receivable, net of value added tax. Where the consideration is variable, the amount recognised is highly probable not to suffer a significant reversal in future.

The principal source of revenue relates to work on the UK's infrastructure across transportation, water and energy. Over 95% arises under long-term contracts, which require delivery of a specified item to the customer, increasingly involve a technology element, with a large element the works undertaken on the customer's land and perhaps taking a number of years to complete. The majority are structured in a cost reimbursement form, typically with incentive and penalty arrangements. Generally, the works specified within the contract are integrated and the customer procures the one complete package, which may incorporate design, engineering and advisory work into the scope. Where a contract comprises distinct performance obligations, each is accounted separately. Other design, advisory and consulting contracts requiring production of a specified scope or provision of other services, some of which may lead to the construction of the designed product, can be structured as inter-dependant or stand-alone contracts and the resulting performance obligations will depend on how the customer procures the contract.

Group revenue includes the Group's share of revenue of joint operations.

(a) Long-term contracts

Revenue arises from increase in the value of work performed and the value of services provided during the year. Where the outcome of an individual long-term contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs are recognised by reference to the stage of completion of the contract activity at the statement of financial position date. Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs. Contract costs are recognised as expenses in the period in which they are incurred.

Compensation events, variations and claims, gain from pain/gain arrangements and other bonus assessments are included in revenue where it is highly probable that the amount, which can be measured reliably will be recovered from the customer and will not reverse. Pain from pain/gain arrangements is included where incurred or expected to be incurred. When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred, where it is probable those costs will be recoverable.

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

Contract work in progress is stated at cost plus profit recognised to date less a provision for foreseeable losses and less amounts billed and is included in amounts due from customers for contract work. Cost includes all expenditure related directly to specific projects and an appropriate allocation of fixed and variable overheads based on normal operating capacity. Amounts valued and billed to customers are included in trade receivables. Where cash received from customers exceeds the value of work performed, the amount is included in credit balances on long-term contracts.

(b) Other revenue
Revenue from other services contracts is recognised when the service is provided and revenue from the sale of land is recognised when title has been transferred to the buyer. The revenue recognised is the amount that can be measured reliably and is highly probable to flow to the Group and not reverse. Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total rental income on a straight-line basis over the term of the lease.

15. Cautionary forward-looking statements

These results contain forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Responsibility Statement of the Directors in respect of the interim financial report

Each of the directors of Costain Group PLC confirms, to the best of his or her knowledge, that:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Paul Golby CBE – Chairman

Andrew Wyllie CBE – Chief Executive

22 August 2018

Independent review report to Costain Group PLC

Report on the Condensed consolidated interim financial statements for the half-year

Our conclusion
We have reviewed Costain Group PLC's Condensed consolidated interim financial statements (the "interim financial statements") for the half-year end 30 June 2018 of Costain Group PLC. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed
The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 30 June 2018;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income and expense for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Results for the half-year ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors
The Results for the half-year ended 30 June 2018, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Results for the half-year ended 30 June 2018 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Results for the half-year ended 30 June 2018 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

22 August 2018

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. Shareholders who wish to limit the amount of unsolicited mail they receive can contact:

The Mailing Preference Service

Freepost 29 (LON20771)

London W1E 0ZT

Company's Registrar

The Company's Registrar is Equiniti, who are located at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. For enquiries regarding your shareholding, please telephone 0371 384 2250. If you are calling from outside the UK, please telephone +44(0) 121 415 7047. Lines are open 08.30am to 05.30pm, Monday to Friday. You can also view up to date information about your shareholdings by visiting the shareholder website at www.shareview.co.uk. Please ensure that you advise Equiniti promptly of any change of name or address.

Scrip dividend scheme

A scrip dividend alternative will be offered in respect of the interim dividend, enabling shareholders to receive new ordinary shares instead of cash if they so wish. Those shareholders who have already elected to join the scrip dividend scheme will automatically have their interim dividend sent to them in this form. Shareholders wishing to join the scheme for the interim dividend (and all future dividends) should return their completed mandate form to the Registrar, Equiniti, by 28 September 2018. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website www.costain.com or obtained from Equiniti by telephoning 0371 384 2268.

Dividend payments

If your dividend is not currently paid directly into your bank or building society account and you would like to benefit from this service, please contact Equiniti on 0371 384 2250 who will be pleased to assist. By receiving your dividends in this way, you can avoid the risk of cheques getting lost in the post.

ShareGIFT

The Orr Mackintosh Foundation (ShareGift) operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available on the ShareGift website www.sharegift.org and Equiniti can provide stock transfer forms on request. Donating shares to charity in this way gives rise neither to a gain nor a loss for Capital Gains Tax purposes. This service is completely free of charge.