Interim Results

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Costain Group PLC
25 August 2021

Costain Group PLC

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

INTERIM RESULTS

RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2021

Costain, the smart infrastructure solutions company, announces its results for the half-year ended 30 June 2021.

Highlights

- **Improving profitability.** Operating profit[2] of £11.5m (HY20: £5.7m), in line with the Board's expectations
- **Operating effectively** with contracts delivering to plan
- **Continued momentum with £334.3m of new work secured** and clear bidding discipline and risk management in place
- **High level of tendering activity** reflecting the significant market opportunity
- **Positive cash generation and strong cash position**. Net cash of £113.0m, up from £102.9m at year end
- **Broadening our decarbonisation expertise** across Transportation, Water and Energy
- **On course to deliver full year results in line with our expectations**

Financial Summary	HY21	HY20	FY20
	£m	£m	£m
Group revenue			
-adjusted [1]	**556.8**	**547.3**	**1,070.5**
-statutory reported	**556.8**	**459.9**	**978.4**
Operating profit/(loss)			
-adjusted[2]	**11.5**	**5.7**	**18.0**
-statutory reported	**11.2**	**(90.4)**	**(92.0)**
Profit/(loss) before tax			

-adjusted[2]	**9.4**	**3.8**	**13.9**
-statutory reported	**9.1**	**(92.3)**	**(96.1)**
Net cash balance[3]	**113.0**	**140.9**	**102.9**
Basic earnings/(loss) per share			
-adjusted[2]	**2.8p**	**2.1p**	**5.8p**
-statutory reported	**3.5p**	**(49.9)p**	**(36.7)p**

1. HY20 before revenue impact of significant contract provision adjustments of £87.4m (FY20: £92.1m) (see financial statements note 3).
2. Before net other items of £0.3m (HY20: £1.4m and significant contract provision adjustments of £94.7m, FY20: £10.3m and significant contract adjustments of £99.7m) (see financial statements note 3).
3. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings (before arrangement fees of £1.0m in HY21).

Alex Vaughan, chief executive officer, commented:

"We are pleased to report an improved level of profitability and a strong cash position, demonstrating the focus on trading performance and cash generation across the business.

"We continue to be successful in winning new contracts, building on last year's strong platform and making the most of the significant market opportunities. Our clients across all our chosen markets are continuing to progress their investment plans and to prioritise investment to meet their needs for decarbonisation, digitisation, levelling up and performance improvement.

"We are busy bidding for new work across all of our markets, combining Costain's core strengths and our broader service offering in line with our strategy. Importantly, we are being selective in our approach to tendering, focussing on bidding discipline and risk management.

"We have good visibility on the completion of contracts for the remainder of this year which gives us confidence in delivering full year results in line with our expectations."

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There will be a live online presentation for analysts today at 09:45. To register your attendance please contact costain@mhpc.com

An on-demand webcast will be available via www.costain.com/investors from 11:30 today.

Notes to Editors

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

For more information visit www.costain.com

H1 2021 OVERVIEW

Summary

The financial and operating performance during the first half of 2021 was in line with our expectations, reflecting management's focus on operating performance and cash generation. We have good visibility on the completion of contracts for the remainder of this year, which gives us confidence in delivering full year results in line with our expectations.

On an adjusted basis, revenue was £556.8m and operating profit was £11.5m, up from £5.7m in the first half of 2020 and in line with our expectations. Adjusted earnings per share for the period was 2.8p. We finished the period with a net cash balance of £113.0m, up from £102.9m at the end of last year.

Our clients, across our markets, are continuing to progress with the committed levels of investment set out in their five-year investment plans. During the period, we were pleased to secure a number of new contracts with a total value of £334.3m, principally from our sizable long term framework agreements. This takes the total order book to £4.0bn as at 30 June 2021, broadly similar to 31 December 2020, and whilst securing good volumes of new work we are continuing to maintain a disciplined approach to contract selection. Importantly, all new contracts have been secured on commercial terms which reflect our improved profitability and risk management measures. We have also continued to build positions on our client's major services frameworks which offer further opportunity moving forwards.

We are seeing the benefits of our integrated offer, with an increasing number of contracts combining our construction expertise alongside our consultancy services and digital performance improvement.

As an example, whilst securing the eight-year Managed Service Partner contract for United Utilities which supports their maintenance transformation programme, we have expanded our support in delivering front end engineering consultancy services in the development of both future programmes and operational optimisation. For Network Rail, whilst delivering the new station at Gatwick Airport, we have also under their Operational Programme Delivery framework supported further optimisation studies across the wider network.

Increasingly our focus on meeting the challenges of decarbonising our environment and exploiting the opportunities of enhancing performance through digital solutions are creating new opportunities for us. In energy, we have built strong positions on three of the UK's four industrial clusters, including leading the South Wales cluster; and continue to deliver hydrogen and carbon capture design services. In transportation, we are shaping future electric roads for the Department of Transport and working with Highways England on their future digital roads plan.

Our existing contracts are benefitting now from our enhanced risk management and 'Operational Excellence Model' which is providing us with greater project delivery assurance, contract margin performance and cash generation.

Costain is in a strong position with a high volume of secured long term programmes, robust operational practices, and a positive market outlook, in particular the UK Government's commitment to invest in infrastructure to support the levelling up of our economic activity and decarbonisation of our environment.

Response to COVID-19

We have continued to maintain strong and effective safety measures, ensuring the effective operation of our business across every contract. With the government removing its social distancing measures from 19 July 2021, the business will remain alert to the continuing challenges and will ensure that we maintain the necessary safety measures in place on all our contracts both to keep our teams safe and to maintain our productivity.

People

Highly skilled and experienced people are fundamental to everything that we do. Our overall employee population has increased in the first half of the year to over 3,300, including over 650 people holding professional accreditations at a chartered or fellowship level (10% year-on-year increase).

We have continued to invest significantly in young people, with plans to increase our 2021 graduate and apprentice intake to 129, with 42 new graduates and 87 new apprentices. Additionally, we are working in partnership with the Prince's Trust to deliver 30 DWP Kickstart placements, which six young people are currently benefitting from.

We continue to see our gender pay gap reduce year-on-year as a direct result of our focus on increasing the diversity of our workforce. Our efforts were recognised with Costain named as a top 50 employer for women by The Times for the fourth consecutive year and attaining a Gold Armed Forces Covenant award by the Ministry of Defence (MOD). Our effort to become more diverse is underpinned by our inclusive culture and behaviors. We are pleased to have met our target to train 50 senior leaders as inclusion allies and have concluded the first cohort of our ethnicity focused reverse mentoring programme.

Environment, social purpose and governance (ESG)

Climate change is a priority of every one of our clients and for our government. The Intergovernmental Panel on Climate Change (IPCC) report issued in August 2021 sets out the stark reality as to the causes and impact of climate change and the urgency in avoiding a climate disaster. Recently the Department for Transport has issued its Transport decarbonisation plan, and Highways England its Net Zero Plan. We have continued to drive the implementation of our climate change action plan and are working towards becoming a net zero carbon business by 2035. In addition, we are playing an active role in shaping, creating, and developing the solutions for a green energy future across the transportation, water, and energy markets.

We intend to report against the four pillars of TCFD (Task Force on Climate-related Financial Disclosures) in our 2021 annual report. In preparation, we have commissioned a team to lead on TCFD compliance and we are undertaking a detailed climate scenario analysis to inform our performance and disclosure.

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

The safety of our people and our stakeholders is our number one priority, and we are pleased to report, in over 15 million hours worked, there have been only two reportable accidents. Our accident frequency rate (AFR) of 0.01 represents our best ever safety performance and is industry leading.

Demonstrating our social value continues to grow in relevance to our clients, we have worked hard to invest in the communities where we operate, support the Prince's Trust in coaching and mentoring disadvantaged young people into employment outcomes, volunteering over 1,000 working hours to good causes and spending over £270m with SMEs, equating to 39% of our total spend in the first half of the year.

Board

Tony Quinlan joined the Board as a non-executive director on 1 February 2021. Jane Lodge, who was senior independent director and chair of the audit committee, stepped down from the Board after nine years' service on 6 May 2021. Alison Wood became senior independent director and Tony Quinlan was appointed chair of the audit committee on 6 May 2021.

Outlook

Our clients across all our chosen markets are continuing to progress their investment plans and to prioritise investment to meet their needs for decarbonisation, digitisation, levelling up and performance improvement. We were pleased to secure a number of new contracts during the first half, with a total value of £334.3m, principally from our sizable long term framework agreements and to secure further positions on long term investment frameworks. We have good visibility on the completion of contracts for the remainder of this year which gives us confidence in delivering full year results in line with our expectations.

Costain is in a strong position with a high volume of secured long term programmes and a positive market outlook, in particular the UK Government's commitment to invest in infrastructure to support the levelling up of our economic activity and decarbonisation of our environment.

DIVISIONAL REVIEW

Our strategy has positioned Costain to benefit from our clients' key investment priorities, with an increasing proportion of new business being from higher margin services in both consultancy and digital activities. Our margin improvement strategy also balances the continuing opportunity to grow our capital delivery activities where we have a strong competitive advantage.

Transportation

£m	***HY21 Adjusted[1]***	***HY21 Statutory***	***HY20 Adjusted[1]***	***HY20 Statutory***	***FY20 Adjusted[1]***	***FY20 Statutory***
Revenue	*403.9*	*403.9*	353.1	307.7	724.2	674.1
Operating profit/(loss)	*15.5*	*15.5*	5.1	(40.4)	20.1	(30.6)
Margin	*3.8%*	*3.8%*	1.4%	(13.1) %	2.8%	(4.5) %

[1]Refer to financial statements notes 3 and 4

The division delivered a strong improvement in margins in the period, in line with our plans.

The division has a forward order book of £3.0bn (FY20: £3.1bn), which includes our High Speed 2 (HS2) S1 and S2 contracts, Highways England Regional Delivery Partnership (RDP) and also a preferred bidder position on the SMP Alliance.

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

Highways

As a strategic partner for Highways England, we opened the A19 Testos scheme to traffic early and within budget in the period. The A19 project has removed a congestion bottle neck, improved road user safety and has unlocked the potential for significant regional growth with better connectivity and capacity. The A19 is one of a number of schemes in the North East of England that we are operating from a central Programme Management Office (PMO) and logistics hub for improved efficiency and reduced carbon footprint. As part of the regional development partnership (RDP) for the North, Costain is acting as a delivery integration partner providing safer, smoother and more reliable journeys through the following improvement schemes: A1 Birtley to Coal House, A1 Morpeth to Ellingham, A1 Scotswood to North Brunton and the M60 Simister Island scheme, all of which are in contract and on programme. We have also mobilised the A30 RDP scheme in Cornwall and have just started the statutory consultation phase as delivery integration partner on the A12 RDP East scheme.

With the A14 scheme successfully opened eight months ahead of schedule, we are now in the final stages of removing the old Huntingdon viaduct that was life expired. We have had an extension to our Area 12 ASC contract into 2022 and continue to maintain and upgrade the network in Area 14. Working with Highways England through the SPaTS2 framework, we are supporting the shaping of the future roads network including programme management of all of Highways England's route strategy development.

The Smart Motorways Alliance has completed its first year, successfully achieving annual KPIs. As an alliance member, Costain holds several key roles across the enterprise including design surveys. Costain is also responsible to the alliance for delivery of the M1 J21A-26 upgrade, two schemes on the M62 and the provision of safety critical operational technology equipment and software. Costain has recently set up a mock motorway upgrade at RAF Moreton-in-Marsh in partnership with Highways England to test new net-zero techniques, materials, and operating technology. Costain's innovation team has also secured over £15m of European and UK Government funding to sponsor more than fifty Cambridge University researchers under a future digital roads partnership (Highways England, Cambridge University and Costain) to accelerate modularisation, net-zero construction, and fully digital roads to market.

Rail

In the period, Crossrail Paddington Station has been successfully handed over to the operator, whilst work continues on the systems wide delivery to support the successful opening of the Elizabeth Line in early 2022.

Our activity on HS2, Britain's low carbon, high-capacity railway, has progressed well through the first half of 2021. Our Enabling Works contract is nearing completion with successful handover of the route from Euston out to West

Ruislip and the Colne valley along with the transfer of the future station sites at both Euston and Old Oak Common. The Phase 1 Main Civils Contract has completed its mobilisation and is now focused on constructing shafts and portals in advance of introducing tunnel boring machines (TBMs) in 2022. Our consulting team remains at the heart of the employers reference design for Phase 2a Birmingham to Crewe and are providing expertise on Phase 2b West - Crewe to Manchester - in preparation for the Hybrid Bill submission to Parliament next year.

We continue to explore opportunities to grow our account with Network Rail, with the continued successful delivery of Gatwick Station Project, work to upgrade the Brighton mainline, as well as providing a range of consultancy services into the client. We continue to work with Network Rail on our reliable, solar powered, wireless, radar-based warning system (Meerkat) and this will be deployed across the majority of Network Rail's remote level crossings.

Integrated Transport

With Transport for London (TfL), we have secured an extension to our work to revitalise the A40 Westway and are currently exploring a range of opportunities with this client, including digital and telecommunications. We are also supporting TfL with the review the condition and potential interventions needed across their highways asset base.

Costain continue to provide strategic advisory services to the City of Bradford Metropolitan District Council to assist in the delivery of their major infrastructure and transportation programmes. This work is associated with business case assurance, commercial, cost, programme, and project management.

On Preston Western Distributor Road this complex major scheme is currently being delivered ahead of schedule, despite the challenges following Cleveland Bridge going into administration. Fabrication of the steel element has recommenced and works on the structures and new highways are progressing with the new bridges over the M55 motorway and Blackpool to Preston railway installed.

The COVID-19 pandemic is having an enormous impact on the global aviation industry. However, we have continued to engage with our clients from frameworks and contracts that we won last year (Manchester Airports Group, Heathrow Airport Limited and British Airways) and we have secured further work with Gatwick Airport Storage and Hydrant Company (GASHCo). We have also widened our focus and offering and have been successful in securing a position on a new work with the Civil Aviation Authority framework and other work with Newquay Airport for the G7 Summit and Customer Experience training at Teesside International. Using our leading-edge hydrogen capability, we have also secured our first contract looking at alternative fuels within aviation.

Central government

Costain has continued its growth with a new portfolio of work with central government and continues to win and deliver important and influential services to key Government departments that impact the industry and our markets at the highest level. Working closely with other departments we continue to identify solutions that can achieve the net-zero ambitions, deliver on the Build Back Better commitments, and make infrastructure a more digitally integrated network that delivers benefits for the UK economy and society. We are playing a critical role within the infrastructure programme of the Cabinet Office's Border and Protocol Delivery Group (BPDG) to ensure UK borders are fully operational in time for the introduction of customs and biosecurity controls now that the UK has left the European Union. We continue as a strategic partner to the Department for Transport to provide technical and commercial support on highly complex time sensitive and critical projects.

Natural Resources

£m	HY21 Adjusted[1]	HY21 Statutory	HY20 Adjusted[1]	HY20 Statutory	FY20 Adjusted[1]	FY20 Statutory
Revenue	152.9	152.9	193.2	151.2	345.1	303.1
Operating profit/(loss)	0.4	0.1	4.5	(45.8)	5.7	(51.7)
Margin	0.3%	0.1%	2.3%	(30.3) %	1.7%	(17.1) %

[1]Refer to financial statements notes 3 and 4

During the first half of the year, we continued to experience lower volumes of activity in the AMP 7 water programmes as part of the clients' year 1 adjustments made to counteract the impact of Covid-19. From April/May this year we have seen these levels significantly increase as we progress year 2 of our programmes. In energy we have seen a deferment in the award of new contracts, with these now having been awarded during the summer period. This had some impact on our first half people utilisation levels, however in the second half we are seeing high levels of demand for our engineering teams. We are therefore confident of material margin improvement in the second half.

As at 30 June 2021, the division had a forward order book of £1.04bn (FY20: £1.09bn), reflecting YTD wins of £0.1bn in 2021.

Notable contract wins across the range of our broader services include direct awards from the MOD as Defence Nuclear Organisation Portfolio Management Office Partner, whilst continuing to secure significant volumes through our frameworks including Strategic Pipeline Alliance for Anglian Water, AMP 7 Southern Water and the follow-on framework for EDF Generation.

Water

We are focused on delivering a broad range of services to our clients enabling them to provide outstanding customer service, protect the environment and respond to Ofwat regulatory performance targets and efficiency challenges in the period to 2025. We are delivering some of the largest complex capital delivery projects in the UK water sector and are delighted to have secured positions with our broadest ever number of clients in AMP 7.

We are part of the Thames Tideway 'super sewer' project, on which we are in a joint venture to deliver the east section, which will clean up the River Thames providing significant environmental benefits for both the wildlife and residents of London. The project is now in an exciting phase, with both TBMs progressing well. We remain on course for overall completion of the project in late 2024. We are embedding digital innovation to drive delivery efficiencies with a relentless decarbonisation focus underpinning all aspects of our project execution.

We continue our AMP 7 complex capital delivery programme with Severn Trent Water, Southern Water and Thames Water, driving efficient and innovative solutions such as asset optimisation. We have been appointed as sole maintenance service provider for United Utilities. Costain will provide overall management and delivery of United Utilities' larger-scale water and wastewater asset maintenance activities across its entire network on a responsive basis throughout the whole day, every day of the year.

We are continuing to deliver alongside Anglian Water in its Strategic Pipeline Alliance on one of the largest strategic water infrastructure projects the UK has ever seen, which will provide long term water resource security for customers while protecting the environment. Our pivotal role on this transformational 'Project 13' covers complex capital delivery and the provision of integrated consultancy and digital services such as the development of a digital twin to optimise the delivery, carbon footprint and management of this strategic water network.

More broadly, we are continuing to grow our consultancy and digital services provided across the UK water sector in areas such as Yorkshire Water's Technical Services Framework and our client-side project management consultancy support in many of our contracts including Thames Water and South Staffordshire Water. Also, in alignment with the UK water sector's focus to achieve net-zero carbon by 2030, we continue to drive decarbonisation innovation such as our Hy-Value project collaboration with Welsh Water and other partners to convert sewage-derived biogas into hydrogen to provide clean energy to South Wales.

Energy

We continue to drive transformational change in the energy sector. Our focus on expanding our consultancy services in decarbonisation, and maximising existing asset performance, has enabled us to take market leading positions expanding our client base and securing our reputation as a leading partner in the drive to net zero. With the pace of the UK energy transition accelerating and the launch of the government's Hydrogen Strategy fast approaching, we expect this area to provide significant growth opportunities in the near term.

We have great talent across the business that has enabled us to achieve some significant milestones in the first half of 2021, including the securing of the lead role in the £38m South Wales Industrial Cluster Deployment Project with 13 industrial partners. As deployment lead, we will work with our partners and clients including Shell, BP Lightsource and Tata to support investment decisions that will advance regional hydrogen deployment and develop carbon capture usage and storage to deliver optimal solutions for significant carbon reduction.

We are progressing with the Front End Engineering Design (FEED) of the Acorn Project in St Fergus, Scotland, with the first planned deployment of carbon capture and storage at scale for our client Storegga. In the North West for HyNet Industrial Cluster we have completed a FEED working with Progressive Energy and Essar to develop a first of a kind hydrogen fuelled CHP plant at the Stanlow site and have recently secured a first of a kind FEED for the development of underground hydrogen storage in salt caverns for Inovyn.

We have also secured a number of FEED contracts to support asset life extension and optimisation focused on compression and electrification of critical assets and we have a number of preferred bidder positions that will move into both detail design and FEED in the second half of the year.

In April 2021, we mobilised our Cadent Construction Management Organisation contract taking on 210 new team members to manage the completion of the Cadent iron mains replacement programme across the East of England and East Midlands through a 10-year consultancy contract.

We are performing well on our Sellafield nuclear decommissioning framework, with a significant number of recent contracts secured in the first half of 2021. We have also been successful in gaining a further two year extension to our EDF Project Controls framework contract where we supply over 110 project controls professionals across the EDF nuclear fleet on an exclusive basis while also delivering on other diversified services.

We continue to expand our tendering activity to exploit the many new opportunities, particularly in supporting our existing and new clients in developing solutions to the energy transition and decarbonisation challenges they face, which remain extremely high and has continued to accelerate into the second half of 2021.

Defence

We have continued to strengthen our market position as a valued consultant with further key client wins across the defence sector, to the extent that we are now a key provider at several levels into the Continuous at Sea Deterrent programme (CASD), working with defence primes including AWE, Rolls Royce, Cavendish and directly for the Ministry of Defence via the Crown Commercial Services framework.

We continue to deliver excellent capability through the provision of P3M consultancy services across the Babcock fleet as well as through our delivery partner role at Devonport Royal Dockyard in partnership with Mott Macdonald. Our programme management contract for AWE continues to meet performance expectations, allowing us to secure further opportunities to support AWE on several other key projects.

OTHER FINANCIAL INFORMATION

Peterborough & Huntingdon Contract

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

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

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

Net financial expense

Net finance expense amounted to £2.1m (HY20: £2.0m, FY20: £4.3m). The interest payable on bank overdrafts, loans and other similar charges was £1.8m (HY20: £2.0m, FY20: £4.1m) and the interest income from bank deposits and other loans and receivables amounted to £Nil (HY20: £0.2m, FY20: £0.6m). In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £Nil (HY20: £0.1m income, FY20: £0.2m income) and the interest expense on lease liabilities of £0.3m (HY20: £0.3m, FY20: £1.0m) under IFRS16.

Tax

The Group has a tax credit of £ 0.4m (HY20: £17.6m credit, FY20: £18.1m credit) giving an effective tax rate of (3.8) %. The 2021 net tax credit arose primarily from the £2.1m impact of the rate change (from 19% to 25% in 2023, which has now been substantively enacted) on deferred tax recognised in respect of losses and pensions. The underlying effective tax rate was 19.6% and we expect the effective tax rate to remain close to the statutory tax rate of 19% until 2023.

Dividend

No interim dividend has been declared. The Board recognises the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in the light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

Debt, cash conversion

The Group had a positive net cash balance of £113.0m as at 30 June 2021 (HY20: £140.9m, FY20: £102.9m) comprising Costain cash balances of £100.0m (HY20: £117.8m, FY20: £89.8m), cash held by joint operations of £57.0m (HY20: £85.1m, FY20: £61.1m) and borrowings of £44.0m (before arrangement fees of £1.0m) (HY20: £62.0m, FY20: £48.0m). During the year, the Group's average month-end net cash balance was £102.9m (HY20: £56.3m, FY20: £73.8m).

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 £175.0m with its relationship banks with a maturity date of 24 September 2023. These facilities are made up of a £131.0m revolving credit facility and a £44.0m term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £310.0m. Utilisation of the total bonding facilities on 30 June 2021 was £103.2m (HY20: £117.9m, FY20: £112.3m).

Pensions

As at 30 June 2021, the Group's pension scheme surplus in accordance with IAS 19, was £29.0m (HY20: £14.9m surplus, FY20: £5.6m liability).

DIRECTORS REPORT

Going concern

In determining the appropriate basis of preparation of the condensed consolidated interim financial statements for the six months ended 30 June 2021, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the interim results. Having undertaken a rigorous assessment of the financial forecasts, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, has adopted the going concern basis for the preparation of the interim financial statements.

In assessing the going concern assumptions, the Board reviewed the base case plans and identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. These include considering the aggregated impact of lower revenue, lower margins, future contractual issues, higher working capital requirements and adverse contract settlements. After applying these downside scenarios, the Board concluded that there is liquidity headroom in a reasonable worst-case scenario, headroom on the committed facilities and that there is adequate headroom on the associated financial covenants.

Principal risks and uncertainties

The Directors consider that the principal risks facing the Group, including those that would threaten the successful and timely delivery of its strategic priorities, future performance, solvency and liquidity, remain substantially unchanged from those identified on pages 40 to 43 of the Annual Report for the year ended 31 December 2020 which can be found on the Company's website at www.costain.com.

On pages 40 and 41 of the Annual Report 2020, we set out the Group's approach to risk management and on pages 42 and 43, we define and describe the principal risks that are most relevant to the Group including controls and key mitigating actions assigned to each of them. In summary, the Group's principal risks and uncertainties are as follows: (i) Prevent and effectively manage a major accident, hazard or incident, (ii) accelerate the deployment of our higher margin services, (iii) maintain a strong balance sheet, (iv) secure new work, (v) culture and people, (vi) deliver projects effectively, (vii) manage the legacy defined benefit pension scheme, (viii) ensure that our technology is robust, our systems are secure and our data protected and (ix) anticipate and respond to changes in client circumstances.

The Board reviews the status of all principal and emerging risks with a notable potential impact at Group level throughout the year. Additionally, the Board and Audit Committee carry out focused risk reviews. These reviews include an analysis of principal risks, together with the controls, monitoring and assurance processes established to mitigate those risks to acceptable levels.

Responsibility statement

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 UK adopted International Accounting Standard 34 'Interim Financial Reporting;
- 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.

The Directors of Costain Group PLC are listed in the Annual Report and Accounts for the year ended 31 December 2020, with the exception of the changes in the period which are listed [above]. Information on the current directors responsible for providing this statement is also maintained on the Company's website at www.costain.com.

On behalf of the Board

Dr Paul Golby CBE - Chairman

Alex Vaughan - Chief Executive

25 August 2021

25 August 2021

Cautionary statement

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

INTERIM RESULTS

Results for the half year ended 30 June 2021

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December		**2021 Half-year unaudited**			2020 Half-year unaudited			2020 Year audited		
	Note	**Before other items £m**	**Other items £m**	**Total £m**	**Before other items** £m	Other items £m	Total £m	Before other items £m	Other items £m	Total £m
Continuing operations										
Group revenue		**556.8**	**-**	**556.8**	459.9	-	459.9	978.4	-	978.4
Cost of sales		**(525.8)**	**-**	**(525.8)**	(531.0)	-	(531.0)	(1,027.0)	-	(1,027.0)
Gross profit/(loss)	3	**31.0**	**-**	**31.0**	(71.1)	-	(71.1)	(48.6)	-	(48.6)
Administrative expenses before other items		**(19.5)**	**-**	**(19.5)**	(17.9)	-	(17.9)	(33.1)	-	(33.1)
Impairment of Alcaidesa marina	11	**-**	**-**	**-**	-	(0.6)	(0.6)	-	(0.6)	(0.6)
Impairment of other investment		**-**	**-**	**-**	-	(0.6)	(0.6)	-	(0.6)	(0.6)
Profit on sales of interests in joint ventures and associates		**-**	**-**	**-**	-	-	-	-	1.6	1.6
Profit/(loss) on disposal of subsidiary undertakings		**-**	**-**	**-**	-	1.0	1.0	-	1.4	1.4
Refinancing advisory fees		**-**	**-**	**-**	-	(0.7)	(0.7)	-	(1.2)	(1.2)
Pension GMP equalisation charge		**-**	**-**	**-**	-	-	-	-	(0.9)	(0.9)
Amortisation of acquired intangible assets	9	**-**	**(0.3)**	**(0.3)**	-	(0.5)	(0.5)	-	(1.0)	(1.0)
Impairment of goodwill		-	-	-	-	-	-	-	(9.0)	(9.0)
Administrative		**(19.5)**	**(0.3)**	**(19.8)**	(17.9)	(1.4)	(19.3)	(33.1)	(10.3)	(43.4)

expenses										
Group operating profit/(loss)	3	**11.5**	**(0.3)**	**11.2**	(89.0)	(1.4)	(90.4)	(81.7)	(10.3)	(92.0)
Share of results of joint ventures and associates		**-**	**-**	**-**	0.1	-	0.1	0.2	-	0.2
Profit/(loss) from operations	4	**11.5**	**(0.3)**	**11.2**	(88.9)	(1.4)	(90.3)	(81.5)	(10.3)	(91.8)
Finance income		**-**	**-**	**-**	0.3	-	0.3	0.8	-	0.8
Finance expense		**(2.1)**	**-**	**(2.1)**	(2.3)	-	(2.3)	(5.1)	-	(5.1)
Net finance expense	5	**(2.1)**	**-**	**(2.1)**	(2.0)	-	(2.0)	(4.3)	-	(4.3)
Profit/(loss) before tax		**9.4**	**(0.3)**	**9.1**	(90.9)	(1.4)	(92.3)	(85.8)	(10.3)	(96.1)
Taxation	6	**(1.7)**	**2.1**	**0.4**	17.4	0.2	17.6	17.5	0.6	18.1
Profit/(loss) for the period attributable to equity holders of the parent		**7.7**	**1.8**	**9.5**	(73.5)	(1.2)	(74.7)	(68.3)	(9.7)	(78.0)
Earnings/(loss) per share										
Basic	7			**3.5p**			(49.9)p			(36.7)p
Diluted	7			**3.4p**			(49.9)p			(36.7)p

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	**2021 Half-year unaudited £m**	2020 Half-year unaudited £m	2020 Year audited £m
Profit/(loss) for the period	**9.5**	(74.7)	(78.0)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**0.2**	0.4	0.2

Exchange differences on translation transferred to the income statement	**-**	(1.4)	(1.2)
Net investment hedge			
• Effective portion of changes in fair value during period	**-**	(0.3)	0.1
• Net changes in fair value transferred to the income statement	**-**	0.9	0.4
Cash flow hedges:			
• Effective portion of changes in fair value during period	-	(0.1)	(0.3)
• Net changes in fair value transferred to the income statement	**0.3**	0.4	0.5
Total items that may be reclassified subsequently to profit or loss	**0.5**	(0.1)	(0.3)
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefit asset/(obligations)	**29.5**	4.6	(19.9)
Tax recognised on remeasurement of retirement benefit (asset)/obligations	**(5.5)**	(0.9)	3.8
Total items that will not be reclassified to profit or loss	**24.0**	3.7	(16.1)
Other comprehensive income/(expense) for the period	**24.5**	3.6	(16.4)
Total comprehensive income/(expense) for the period attributable to equity holders of the parent	**34.0**	(71.1)	(94.4)

Condensed consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Hedging reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2020 - audited	54.1	16.4	1.1	(0.5)	-	86.6	157.7
Loss for the period	-	-	-	-	-	(74.7)	(74.7)
Other comprehensive (expense)/income	-	-	(0.4)	0.3	-	3.7	3.6
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.2)	(0.2)
Equity-settled share-based payments	-	-	-	-	-	0.6	0.6
Capital raise (note 13)	83.4	-	-	-	9.1	-	92.5
Transfer	-	-	-	-	(9.1)	9.1	-
At 30 June 2020 - unaudited	137.5	16.4	0.7	(0.2)	-	25.1	179.5

Loss for the period	-	-	-	-	-	(3.3)	(3.3)
Other comprehensive expense	-	-	(0.1)	(0.1)	-	(19.8)	(20.0)
Equity-settled share-based payments	-	-	-	-	-	0.3	0.3
At 31 December 2020 - audited	137.5	16.4	0.6	(0.3)	-	2.3	156.5
Profit for the period	**-**	**-**	**-**	**-**	**-**	**9.5**	**9.5**
Other comprehensive income	**-**	**-**	**0.2**	**0.3**	**-**	**24.0**	**24.5**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**0.4**	**0.4**
At 30 June 2021 - unaudited	**137.5**	**16.4**	**0.8**	**-**	**-**	**36.1**	**190.8**

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December		**2021 Half-year unaudited £m**	2020 Half-year unaudited £m	2020 Year audited £m
Assets				
Non-current assets				
Intangible assets	9	**52.2**	59.4	52.1
Property, plant and equipment	9	**44.0**	40.3	39.9
Equity accounted investments		**0.4**	2.4	0.4
Retirement benefit asset	10	**29.0**	14.9	-
Trade and other receivables		**4.8**	2.8	3.5
Deferred tax		**18.2**	21.1	23.6
Total non-current assets		**148.6**	140.9	119.5
Current assets				
Inventories		**0.4**	1.2	0.6
Trade and other receivables		**221.7**	228.7	218.7
Assets held for sale	11	**-**	4.1	-
Taxation		**-**	0.8	0.2
Cash and cash equivalents		**157.0**	202.9	150.9
Total current assets		**379.1**	437.7	370.4

Total assets		**527.7**	578.6	489.9
Liabilities				
Non-current liabilities				
Retirement benefit obligations		**-**	-	5.6
Other payables		**1.4**	0.7	1.1
Interest-bearing loans and borrowings		**35.8**	44.0	39.6
Lease liabilities		**26.3**	19.7	20.8
Total non-current liabilities		**63.5**	64.4	67.1
Current liabilities				
Trade and other payables		**252.5**	303.4	246.0
Current tax liabilities		**1.0**	-	-
Interest-bearing loans and borrowings		**7.2**	18.0	7.2
Lease liabilities		**12.0**	12.6	12.5
Provisions for other liabilities and charges		**0.7**	0.7	0.6
Total current liabilities		**273.4**	334.7	266.3
Total liabilities		**336.9**	399.1	333.4
Net assets		**190.8**	179.5	156.5
Equity				
Share capital	13	**137.5**	137.5	137.5
Share premium		**16.4**	16.4	16.4
Translation reserve		**0.8**	0.7	0.6
Hedging reserve		**-**	(0.2)	(0.3)
Retained earnings		**36.1**	25.1	2.3
Total equity		**190.8**	179.5	156.5

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	**2021 Half-year unaudited £m**	2020 Half-year unaudited £m	2020 Year audited £m
Cash flows from operating activities			
Profit/(loss) for the period	**9.5**	(74.7)	(78.0)
Adjustments for:			
Share of results of joint ventures and associates	**-**	(0.1)	(0.2)
Finance income	-	(0.3)	(0.8)

Finance expense	**2.1**	2.3	5.1
Taxation	**(0.4)**	(17.6)	(18.1)
Impairment of Alcaidesa marina	**-**	0.6	0.6
Impairment of other investment	**-**	0.6	0.6
Profit on sales of interests in joint ventures and associates	**-**	-	(1.6)
Profit on disposal of subsidiary undertakings	**-**	(1.0)	(1.4)
Pension GMP equalisation charge	**-**	-	0.9
Depreciation of property, plant and equipment	**7.8**	8.0	15.0
Amortisation and impairment of intangible assets	**0.5**	0.5	10.5
Shares purchased to satisfy employee share schemes	**(0.1)**	(0.2)	(0.2)
Share-based payments expense	**0.4**	0.6	0.9
Cash from/(used by) operations before changes in working capital and provisions	**19.8**	(81.3)	(66.7)
Decrease/(increase) in inventories	**0.2**	(0.2)	0.7
(Increase)/decrease in receivables	**(4.0)**	18.0	25.5
Increase/(decrease) in payables	**7.6**	56.5	(0.1)
Movement in provisions and employee benefits	**(5.0)**	(5.3)	(10.4)
Cash from/(used by) operations	**18.6**	(12.3)	(51.0)
Interest received	-	0.1	0.8
Interest paid	**(1.5)**	(2.3)	(5.1)
Taxation received/(paid)	**0.1**	4.7	8.3
Net cash from/(used by) operating activities	**17.2**	(9.8)	(47.0)
Cash flows from investing activities			
Dividends received from joint ventures and associates	**-**	0.2	0.2
Additions to property, plant and equipment	**(0.1)**	(0.3)	(0.5)
Additions to intangible assets	**(0.6)**	(0.9)	(3.6)
Proceeds of disposals of property, plant and equipment and intangible assets	**-**	0.1	0.3
Proceeds of sales of interests in joint ventures and associates	-	-	3.7
Proceeds of sales of subsidiary undertakings	**-**	1.0	4.6
Net cash (used by)/from investing activities	**(0.7)**	0.1	4.7
Cash flows from financing activities			
Issue of ordinary share capital	**-**	92.5	92.5
Repayments of lease liabilities	**(6.7)**	(6.5)	(12.1)
Drawdown of loans	**-**	91.0	71.5
Repayment of loans	**(3.8)**	(145.0)	(139.0)

Net cash (used by)/from financing activities	**(10.5)**	32.0	12.9
Net increase/(decrease) in cash and cash equivalents	**6.0**	22.3	(29.4)
Cash and cash equivalents at beginning of the period	**150.9**	180.9	180.9
Effect of foreign exchange rate changes	**0.1**	(0.3)	(0.6)
Cash and cash equivalents at end of the period	**157.0**	202.9	150.9

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 2020 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 unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Statement of compliance

These condensed consolidated financial statements for the half year ended 30 June 2021 have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim financial reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority (FCA).

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 2020, which were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 2020.

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

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.

Going concern

The Group's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. Its business activities and the factors likely to affect its future development, performance and position are set out in the Chief executive officer's review. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its bonding facilities from banks and surety companies. These facilities have financial covenants that are tested quarterly.

In determining the appropriate basis of preparation of the condensed consolidated interim financial statements for the six months ended 30 June 2021, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the interim results. Having undertaken a rigorous assessment of the financial forecasts, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, has adopted the going concern basis for the preparation of the interim financial statements.

In assessing the going concern assumptions, the Board reviewed the base case plans and identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. These include considering the aggregated impact of lower revenue, lower margins, future contractual issues, higher working capital requirements and adverse contract settlements. After applying these downside scenarios, the Board concluded that there is liquidity headroom in a reasonable worst-case scenario, headroom on the committed facilities and that there is adequate headroom on the associated financial covenants.

Alternative performance measures

Income statement presentation - Other items

In order to aid understanding of the 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 unusual nature or related to the accounting treatment of acquisitions. The results present profit before other items, which is a non-GAAP measure.

The Group also has non-GAAP adjusted performance measures to report adjusted profit and earnings per share measures, which exclude other items and in 2020 the significant contract adjustments, and an adjusted revenue measure, that excludes the revenue element of the contract adjustments (all as shown in note 3).

Principal risks, uncertainties and significant areas of judgement and estimation

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 pages 137 to 138 of the Annual Report for the year ended 31 December 2020. The only exception is the estimation of income tax liabilities which is determined in the Interim Financial Statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

On pages 40 to 41 of the Annual Report 2020, we set out the Group's approach to risk management and on pages 42 to 43, we define the principal risks that are most relevant to the Group. These risks are described in detail and have controls and mitigating actions assigned to each of them.

In our view the principal risks remain substantially unchanged from those indicated in the Annual Report 2020.

The Board approved the unaudited interim financial statements on 25 August 2021.

3. Reconciliation of reported Group operating (loss)/profit to Adjusted Group operating profit

Adjusted revenue, operating profit and earnings per share are being used as non-GAAP performance measurements. These measurements were introduced in 2020 and exclude the impact of significant one-off changes in the accounting treatments of three contracts, Peterborough & Huntingdon (P&H), the A465 Heads of the Valley road (A465) and the ASF South contracts, as described below, as well as the other items of £0.3m (2020: half year £1.4m, full year £10.3m). The revenue adjustment represents the reversal of the contract asset recorded in the statement of financial position immediately prior to the write down. The Board considers the adjusted measures better reflect the underlying trading performance of the Group.

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

The A465 Heads of the Valley road contract was entered into in 2015 for the Welsh Government. In 2020, an arbitration decided that Costain was responsible for design information for a specific retaining wall and that the additional building cost associated with the wall was not a compensation event under the contract. As a consequence of the decision, the Group adjusted the revenue recognised based on the level of cash received to date and reflected a write down of the £45.4m contract asset at 30 June 2020. The Group continues to fulfil its obligations under the contract, which will be completed during the current year. 2020 adjusted revenue includes £18.0m of revenue on the A465 contract.

The ASF South contract was in respect of works undertaken for Highways England that were completed in 2016. Following an extensive contract review in 2020, the Group took a one-off charge of £5.0m in December 2020 to close out this legacy contract.

Half-year ended 30 June 2021	**Adjusted**	**P&H**	**A465**	**ASF**	**Before other items**	**Other items**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue before contract adjustments	**556.8**	-	-	-	**556.8**	-	**556.8**
Contract adjustments	-	-	-	-	-	-	-
Group revenue	**556.8**	-	-	-	**556.8**	-	**556.8**
Cost of sales	**(525.8)**	-	-	-	**(525.8)**	-	**(525.8)**
Gross profit	**31.0**	-	-	-	**31.0**	-	**31.0**
Administrative expenses	**(19.5)**	-	-	-	**(19.5)**	-	**(19.5)**

before other items							
Other items	-	-	-	-	-	**(0.3)**	**(0.3)**
Administrative expenses	**(19.5)**	-	-	-	**(19.5)**	**(0.3)**	**(19.8)**
Group operating profit/(loss)	**11.5**	-	-	-	**11.5**	**(0.3)**	**11.2**
Share of results of joint ventures and associates	-	-	-	-	-	-	-
Profit/(loss) from operations	**11.5**	-	-	-	**11.5**	**(0.3)**	**11.2**
Net finance expense	**(2.1)**	-	-	-	**(2.1)**	-	**(2.1)**
Profit/(loss) before tax	**9.4**	-	-	-	**9.4**	**(0.3)**	**9.1**
Taxation	**(1.7)**	-	-	-	**(1.7)**	**2.1**	**0.4**
Profit/(loss) for the period attributable to equity holders of the parent	**7.7**	-	-	-	**7.7**	**1.8**	**9.5**
Basic earnings per share	**2.8p**						**3.5p**

Half-year ended 30 June 2020	**Adjusted**	**P&H**	**A465**	**ASF**	**Before other items**	**Other items**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue before contract adjustments	547.3	-	-	-	547.3	-	547.3
Contract adjustments	-	(42.0)	(45.4)	-	(87.4)	-	(87.4)
Group revenue	547.3	(42.0)	(45.4)	-	459.9	-	459.9
Cost of sales	(523.7)	(7.3)	-	-	(531.0)	-	(531.0)
Gross profit/(loss)	23.6	(49.3)	(45.4)	-	(71.1)	-	(71.1)
Administrative expenses before other items	(17.9)	-	-	-	(17.9)	-	(17.9)
Other items	-	-	-	-	-	(1.4)	(1.4)
Administrative expenses	(17.9)	-	-	-	(17.9)	(1.4)	(19.3)
Group operating profit/(loss)	5.7	(49.3)	(45.4)	-	(89.0)	(1.4)	(90.4)
Share of results of joint ventures and associates	0.1	-	-	-	0.1	-	0.1
Profit/(loss) from operations	5.8	(49.3)	(45.4)	-	(88.9)	(1.4)	(90.3)
Net finance expense	(2.0)	-	-	-	(2.0)	-	(2.0)
Profit/(loss) before tax	3.8	(49.3)	(45.4)	-	(90.9)	(1.4)	(92.3)

Taxation	(0.7)	9.4	8.7	-	17.4	0.2	17.6
Profit/(loss) for the period attributable to equity holders of the parent	3.1	(39.9)	(36.7)	-	(73.5)	(1.2)	(74.7)
Basic earnings/(loss) per share	2.1p						(49.9)p

Year ended 31 December 2020	**Adjusted**	**P&H**	**A465**	**ASF**	**Before other items**	**Other items**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue before contract adjustments	1,070.5	-	-	-	1,070.5	-	1,070.5
Contract adjustments	-	(42.0)	(45.4)	(4.7)	(92.1)	-	(92.1)
Group revenue	1,070.5	(42.0)	(45.4)	(4.7)	978.4	-	978.4
Cost of sales	(1,019.5)	(7.3)	-	(0.3)	(1,027.0)	-	(1,027.0)
Gross profit/(loss)	51.1	(49.3)	(45.4)	(5.0)	(48.6)	-	(48.6)
Administrative expenses before other items	(33.1)	-	-	-	(33.1)	-	(33.1)
Other items	-	-	-	-	-	(10.3)	(10.3)
Administrative expenses	(33.1)	-	-	-	(33.1)	(10.3)	(43.4)
Group operating profit /(loss)	18.0	(49.3)	(45.4)	(5.0)	(81.7)	(10.3)	(92.0)
Share of results of joint ventures and associates	0.2	-	-	-	0.2	-	0.2
Profit/(loss) from operations	18.2	(49.3)	(45.4)	(5.0)	(81.5)	(10.3)	(91.8)
Net finance expense	(4.3)	-	-	-	(4.3)	-	(4.3)
Profit/(loss) before tax	13.9	(49.3)	(45.4)	(5.0)	(85.8)	(10.3)	(96.1)
Taxation	(1.5)	9.4	8.6	1.0	17.5	0.6	18.1
Profit/(loss) for the period attributable to equity holders of the parent	12.4	(39.9)	(36.8)	(4.0)	(68.3)	(9.7)	(78.0)
Basic earnings/(loss) per share	5.8p						(36.7)p

4. Business segment information

The Group has two core business segments: Natural Resources and Transportation (plus in 2020 up to the date of disposal, 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 2021	Natural Resources	Transportation	Central costs	Total
	£m	£m	£m	£m
Segment revenue				
Revenue before contract adjustments	**152.9**	**403.9**	**-**	**556.8**
Contract adjustments	-	-	-	-
Group revenue	**152.9**	**403.9**	**-**	**556.8**
Segment profit				
Adjusted operating profit/(loss)	**0.4**	**15.5**	**(4.4)**	**11.5**
Contract adjustments	-	-	-	-
Operating profit/(loss) before other items	**0.4**	**15.5**	**(4.4)**	**11.5**
Other items:				
Amortisation of acquired intangible assets	**(0.3)**	-	-	**(0.3)**
Operating profit/(loss)	**0.1**	**15.5**	**(4.4)**	**11.2**
Share of results of JVs and associates	-	-	-	-
Loss from operations	**0.1**	**15.5**	**(4.4)**	**11.2**
Net finance expense				**(2.1)**
Profit before tax				**9.1**

Half-year ended 30 June 2020	Natural Resources	Transportation	Alcaidesa	Central costs	Total
	£m	£m	£m	£m	£m
Segment revenue					
Revenue before contract adjustments	193.2	353.1	1.0	-	547.3
Contract adjustments	(42.0)	(45.4)	-	-	(87.4)
Group revenue	**151.2**	**307.7**	**1.0**	**-**	**459.9**
Segment profit/(loss)					
Adjusted operating profit	4.5	5.1	(0.1)	(3.8)	5.7
Contract adjustments	(49.3)	(45.4)	-	-	(94.7)
Operating loss before other items	**(44.8)**	**(40.3)**	**(0.1)**	**(3.8)**	**(89.0)**
Other items:					
Impairment of Alcaidesa	-	-	(0.6)	-	(0.6)

marina					
Impairment of other investment	(0.6)	-	-	-	(0.6)
Profit on disposal of subsidiary undertaking	-	-	-	1.0	1.0
Refinancing advisory fees	-	-	-	(0.7)	(0.7)
Amortisation of acquired intangible assets	(0.4)	(0.1)	-	-	(0.5)
Operating loss	**(45.8)**	**(40.4)**	**(0.7)**	**(3.5)**	**(90.4)**
Share of results of JVs and associates	0.1	-	-	-	0.1
Loss from operations	**(45.7)**	**(40.4)**	**(0.7)**	**(3.5)**	**(90.3)**
Net finance expense					(2.0)
Loss before tax					**(92.3)**

Year ended 31 December 2020	Natural Resources	Transportation	Alcaidesa	Central costs	Total
	£m	£m	£m	£m	£m
Segment revenue					
Revenue before contract adjustments	345.1	724.2	1.2	-	1,070.5
Contract adjustments	(42.0)	(50.1)	-	-	(92.1)
Group revenue	**303.1**	**674.1**	**1.2**	**-**	**978.4**
Segment profit/(loss)					
Adjusted operating profit	5.7	20.1	(0.1)	(7.7)	18.0
Contract adjustments	(49.3)	(50.4)	-	-	(99.7)
Operating loss before other items	**(43.6)**	**(30.3)**	**(0.1)**	**(7.7)**	**(81.7)**
Other items:					
Impairment of Alcaidesa marina	-	-	(0.6)	-	(0.6)
Impairment of other investment	-	-	-	(0.6)	(0.6)
Profit on sales of interests in JVs and associates	1.6	-	-	-	1.6
Profit on disposal of subsidiary undertakings	-	-	0.4	1.0	1.4
Refinancing advisory fees	-	-	-	(1.2)	(1.2)
Pension GMP equalisation charge	-	-	-	(0.9)	(0.9)
Amortisation of acquired intangible assets	(0.7)	(0.3)	-	-	(1.0)
Impairment of goodwill	(9.0)	-	-	-	(9.0)
Operating loss	**(51.7)**	**(30.6)**	**(0.3)**	**(9.4)**	**(92.0)**
Share of results of JVs and associates	0.2	-	-	-	0.2

Loss from operations	**(51.5)**	**(30.6)**	**(0.3)**	**(9.4)**	**(91.8)**
Net finance expense					(4.3)
Loss before tax					**(96.1)**

5. Net finance expense

Half-year ended 30 June, year ended 31 December	**2021** **Half-year** **£m**	2020 Half-year £m	2020 Year £m
Interest income from bank deposits	-	0.1	0.5
Interest income from loans to related parties	**-**	0.1	0.1
Interest income on the net assets of the defined benefit pension scheme	**-**	0.1	0.2
Finance income	**-**	0.3	0.8
Interest payable on interest bearing bank loans, borrowings and other similar charges	**(1.8)**	(2.0)	(4.1)
Interest expense on lease liabilities	**(0.3)**	(0.3)	(1.0)
Finance expense	**(2.1)**	(2.3)	(5.1)
Net finance expense	**(2.1)**	(2.0)	(4.3)

6. Taxation

Half-year ended 30 June, year ended 31 December	**2021** **Half-year** **£m**	2020 Half-year £m	2020 Year £m
Current tax	**-**	-	1.1
Deferred tax	**0.4**	17.6	17.0
Tax (expense)/credit in the condensed consolidated income statement	**0.4**	17.6	18.1
Effective tax rate	**(3.8%)**	19.0%	18.8%

The Group has a tax credit of £0.4m (2020 half-year: £17.6m credit, 2020 year: £18.1m credit) giving an effective tax rate after other Items of (3.8)%. The 2021 net tax credit arose primarily from the £2.1m impact of the rate change (from 19% to 25% in 2023, which has now been substantively enacted) on deferred tax recognised in respect of losses and pensions, included in other items.

The tax charged before other items in the period has been calculated by applying the effective rate of tax of 19.6%, which is expected to apply to the Group for the period ending 31 December 2021, as required by IAS 34 Interim financial reporting. We expect to remain close to the statutory tax rate of 19% until 2023. Provisions are held on the balance sheet in respect of uncertain tax positions where management believes it is probable that future payments of tax will be required. At the balance sheet date, these provisions were not material for the Group.

7. Earnings/(loss) per share

The calculation of earnings/(loss) per share is based on profit for the period of £9.5m (2020 half-year: loss £74.7mm, 2020 year: loss £78.0m) and the number of shares set out below:

	2021 Half-year Number (millions)	2020 Half-year Number (millions)	2020 Year Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**274.9**	150.0	212.8
Dilutive potential ordinary shares arising from employee share schemes	**5.4**	0.2	2.9
Weighted average number of ordinary shares in issue for fully diluted earnings per share calculation	**280.3**	150.2	215.7

8. Dividends

The Company has declared and paid no dividends in the period (2020 half-year £Nil, 2020 year £Nil).

9. Non-current assets

Intangible assets	Acquired intangible assets £m	Other intangible assets £m	Total intangible assets £m
Cost			
At 1 January 2020	79.2	10.8	90.0
Additions	-	0.9	0.9
At 30 June 2020	79.2	11.7	90.9
At 1 July 2020	79.2	11.7	90.9
Additions	-	2.7	2.7
At 31 December 2020	79.2	14.4	93.6
At 1 January 2021	**79.2**	**14.4**	**93.6**
Additions	**-**	**0.6**	**0.6**
At 30 June 2021	**79.2**	**15.0**	**94.2**
Amortisation			
At 1 January 2020	23.7	7.3	31.0
Charge for the period	0.5	-	0.5
At 30 June 2020	24.2	7.3	31.5
At 1 July 2020	24.2	7.3	31.5
Charge for the period	0.5	0.5	1.0
Impairment in year	9.0	-	9.0
At 31 December 2020	33.7	7.8	41.5
At 1 January 2021	**33.7**	**7.8**	**41.5**

Charge for the period	**0.3**	**0.2**	**0.5**
At 30 June 2021	**34.0**	**8.0**	**42.0**
Net book value			
At 30 June 2021	**45.2**	**7.0**	**52.2**
At 31 December 2020	45.5	6.6	52.1
At 30 June 2020	55.0	4.4	59.4
At 1 January 2020	55.5	3.5	59.0

			Right-of-use assets		
Tangible assets	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Total tangible fixed assets
	£m	£m	£m	£m	£m
Cost					
At 1 January 2020	12.5	32.3	19.5	21.2	85.5
Currency movements	0.9	0.3	-	-	1.2
Additions	-	0.3	0.3	11.7	12.3
Transfer to current asset held for sale	(11.8)	(4.7)	-	-	(16.5)
Disposals	-	(1.8)	(0.2)	(5.2)	(7.2)
At 30 June 2020	1.6	26.4	19.6	27.7	75.3
At 1 July 2020	1.6	26.4	19.6	27.7	75.3
Currency movements	(0.1)	-	-	-	(0.1)
Additions	-	0.2	0.9	7.4	8.5
Disposal of subsidiary undertakings	(0.7)	-	-	-	(0.7)
Adjustments	-	0.7	-	-	0.7
Disposals	(0.2)	(0.3)	-	(4.8)	(5.3)
At 31 December 2020	0.6	27.0	20.5	30.3	78.4
At 1 January 2021	**0.6**	**27.0**	**20.5**	**30.3**	**78.4**
Additions	**-**	**0.1**	**1.2**	**16.1**	**17.4**
Disposals	**-**	**(0.2)**	**(1.4)**	**(7.3)**	**(8.9)**
At 30 June 2021	**0.6**	**26.9**	**20.3**	**39.1**	**86.9**
Depreciation					
At 1 January 2020	9.5	20.8	4.3	6.8	41.4
Currency movements	0.6	0.2	-	-	0.8
Charge for the period	0.1	1.4	2.4	4.1	8.0
Impairment	1.2	-	-	-	1.2
Transfer to current asset held for sale	(9.9)	(2.6)	-	-	(12.5)
Disposals	-	(1.7)	(0.1)	(2.1)	(3.9)
At 30 June 2020	1.5	18.1	6.6	8.8	35.0
At 1 July 2020	1.5	18.1	6.6	8.8	35.0
Currency movements	-	(0.1)	-	-	(0.1)
Charge for the period	(0.1)	1.3	1.9	3.9	7.0

Impairment	(0.6)	-	-	-	(0.6)
Disposal of subsidiary undertakings	(0.1)	-	-	-	(0.1)
Adjustments	-	0.7	-	-	0.7
Disposals	(0.1)	(0.2)	(0.1)	(3.0)	(3.4)
At 31 December 2020	0.6	19.8	8.4	9.7	38.5
At 1 January 2021	**0.6**	**19.8**	**8.4**	**9.7**	**38.5**
Charge for the period	**-**	**1.3**	**2.2**	**4.3**	**7.8**
Disposals	**-**	**(0.2)**	**(0.7)**	**(2.5)**	**(3.4)**
At 30 June 2021	**0.6**	**20.9**	**9.9**	**11.5**	**42.9**
Net book value					
At 30 June 2021	**-**	**6.0**	**10.4**	**27.6**	**44.0**
At 31 December 2020	-	7.2	12.1	20.6	39.9
At 30 June 2020	0.1	8.3	13.0	18.9	40.3
At 1 January 2020	3.0	11.5	15.2	14.4	44.1

10. Retirement benefit obligations

	2021	2020	2020
	Half-year	Half-year	Year
	£m	£m	£m
Present value of defined benefit obligations	**(830.0)**	(845.3)	(886.5)
Fair value of scheme assets	**859.0**	860.2	880.9
Recognised asset/(liability) for defined benefit obligations	**29.0**	14.9	(5.6)

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:	**2021**	2020	2020
	Half-year	Half-year	Year
	£m	£m	£m
Opening balance	**886.5**	812.1	812.1
Past service cost - GMP equalisation charge	**-**	-	0.9
Interest cost	**5.9**	8.2	16.3
Remeasurements - demographic assumptions	**(1.8)**	(10.9)	(2.9)
Remeasurements - financial assumptions	**(44.8)**	56.1	99.0
Remeasurements - experience assumptions	-	(2.4)	(4.6)
Benefits paid	**(15.8)**	(17.8)	(34.3)
Closing balance	**830.0**	845.3	886.5

Movement in fair value of scheme assets:	**2021**	2020	2020

	Half-year	Half-year	Year
	£m	£m	£m
Opening balance	**880.9**	817.0	817.0
Interest income	**5.9**	8.3	16.5
Remeasurements - return on assets	**(17.1)**	47.4	71.5
Contributions by employer	**5.2**	5.4	10.6
Administrative expenses	**(0.1)**	(0.1)	(0.4)
Benefits paid	**(15.8)**	(17.8)	(34.3)
Closing balance	**859.0**	860.2	880.9

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):

	2021	2020	2020
	Half-year	Half-year	Year
	%	%	%
Discount rate	**1.85**	1.55	1.35
Future pension increases	**3.05**	2.75	2.85
Inflation assumption	**3.20**	2.85	2.95

The discount rate, inflation and pension increase and the 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	34.0
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	29.0
Increase life expectancy by one year, increases pension liability by	36.8

11. Assets classified as held for sale

The amount presented in the condensed consolidation statement of financial position as Assets held for sale in 2020 related to the subsidiary undertaking, Alcaidesa Servicios S.A.U., which held the Spanish marina concession. The company was sold on 6 August 2020. The net proceeds of sale in 2020 were £0.6m below the carrying value, which resulted in an impairment charge in the 2020 income statement.

12. 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 2021, 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. In the prior periods, the Group also had interest rate swaps that fixed the effective LIBOR rate of £60.0m 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	**2021 Half-year Carrying amount £m**	**2021 Half-year Cash flows £m**	2020 Half-year Carrying amount £m	2020 Half-year Cash flows £m	2020 Year Carrying amount £m	2020 Year Cash flows £m
Purchases	**0.1**	**0.8**	0.2	(8.9)	-	(4.5)
Sales	**-**	**-**	-	(1.4)	-	1.1
	0.1	**0.8**	0.2	(10.3)	-	(3.4)
Interest rate swaps	**-**	**-**	(0.4)	(0.6)	(0.4)	(0.2)
	0.1	**0.8**	(0.2)	(10.9)	(0.4)	(3.6)

13. Share capital

Issued capital as at 30 June 2021 amounted to £137.5m (2020 half-year: £137.5m, 2020 year: £137.5m) and comprised 274,949,741 ordinary shares of 50 pence each.

14. Related party transactions

Details of transactions between the Group and The Costain Pension Scheme are included in note 10. 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 2020.

15. Contingent liabilities

Group bank borrowing facilities and bank and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group.

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

Independent review report to Costain Group PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Costain Group PLC's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Results of Costain Group PLC for the 6 month period ended 30 June 2021 (the "period").

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 UK adopted International Accounting Standard 34, 'Interim Financial Reporting' 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 2021;
- 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 2021 of Costain Group PLC have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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 2021, 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 2021 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 Results for the half-year ended 30 June 2021 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, 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 2021 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

25 August 2021

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