



Results for the half year ended 30 June 2020

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Costain Group PLC

14 September 2020

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

Results for the half year ended 30 June 2020

Costain, the smart infrastructure solutions company, announces its results for the half year ended 30 June 2020.

- All contracts now operational following the impact of COVID-19, with necessary safety measures in place
- Adjusted operating profit of £5.7 million, reflecting the Group's resilient operations despite the impact of COVID-19 in the period
- Reported operating loss reflects the previously announced charges in relation to the Peterborough & Huntingdon contract (£49.3 million) and the A465 Heads of the Valleys road contract (£45.4 million) to adjust the revenue recognised to the amount of cash received to date on the contracts
- Continued positive infrastructure market outlook with good levels of activity and opportunities
- Strengthened balance sheet following £100 million equity raise resulting in net cash of £141 million, enabling the Group to further capitalise on the growing infrastructure market opportunities
- Over £2 billion of contracts and frameworks secured in the first half comprising a greater proportion of integrated services, in line with strategic focus
- Order book of £4.2 billion including £0.9 billion of secured revenue for 2021

Summary financials

	H1 2020	H1 2019	FY 2019
Revenue			
• adjusted ¹ including share of JVs and associates	£548.7m	£599.2m	£1,182.9m
• reported ³	£459.9m	£594.1m	£1,155.6m
Operating profit			
• adjusted ¹	£5.7m	£21.2m	£37.9m
• reported ³	£(90.4)m	£10.2m	£(3.2)m
Profit/(loss) before tax			
• adjusted ¹	£3.8m	£19.5m	£34.6m
• reported ³	£(92.3)m	£8.4m	£ (6.6)m
Basic earnings per share			
• adjusted ¹	2.1p	13.5p ⁴	25.1p ⁴
• reported ³	(49.9)p	6.1p ⁴	(2.3)p ⁴

Net cash balance²	£140.9m	£40.8m	£64.9m
Dividend per share	Nil	3.8p	3.8p

1. Before Peterborough & Huntingdon and A465 contract adjustments and other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off costs as shown on the income statement. As detailed in note 3 to the interim financial statements.
2. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings.
3. 2019 reported figures include the impact of the one-off cost of £9.7 million in respect of an arbitration award and a one-off aggregate charge of £8.9 million for the loss on disposal and asset impairment for the Group's non-core business assets in Spain as shown in the income statement.
4. Restated following the raising of new capital completed in May 2020.

Alex Vaughan, chief executive officer, commented:

"We are now back on site across all of our operations with strict safety measures in place to protect our teams and the communities we work in. I would like to pay tribute to our people who have done everything they can to look after one another and to do the right thing by our clients, communities, society and to protect our business during this pandemic.

"We are clearly disappointed with the recent arbitration outcome in relation to the A465 contract which, together with the mutual termination of the Peterborough & Huntingdon contract, has resulted in significant revenue adjustments for these long-standing projects. We have in place clear actions to resolve the financial position on these contracts and importantly we have taken decisive action to prevent such issues from reoccurring.

"The equity raise in May has already helped us to capitalise on the immediate opportunities in our infrastructure markets as we successfully secured over £2 billion of contracts in the first half, many of which incorporate our consultancy and digital capabilities in line with our strategic focus. There remains a strong pipeline of further opportunities which we are actively targeting.

"Looking ahead, assuming no further sustained COVID-19 lockdowns, we are confident of delivering growth in profits and margins next year. Although we are mindful of the macro-economic uncertainties ahead, Costain is in a strong position with secured long-term programmes and a positive market backdrop, in particular the UK Government's drive to progress investment in infrastructure so that it is better, greener and faster in support of the nation's economic recovery."

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A live webcast will be available via the Costain website at 9am today. www.costain.com/investors

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

CHIEF EXECUTIVE OFFICER'S REVIEW

The first half of 2020 has been a challenging period due to the impact of COVID-19 and working to resolve issues with two long-standing contracts, but it has also highlighted the benefit of our strategic market positioning, the many strengths within Costain and the resilience of everyone in our workforce.

We are clearly disappointed with the recent arbitration outcome in relation to the A465 Heads of the Valleys road ("A465") contract and the current position on the Peterborough & Huntingdon ("P&H") contract. We continue the process to resolve our commercial position on these two contracts and clear actions have been implemented across the Group to ensure such significant contract issues do not reoccur.

We have kept our focus on achieving our strategic ambitions despite the operational impact from the pandemic. I am pleased with the progress that we are making across the Group, winning further significant long-term contracts, broadening our value to clients through additional consultancy and digital services, strengthening our team, and delivering the first stages of our planned efficiency savings.

The outlook for the UK infrastructure market remains positive, despite COVID-19. To capitalise on the opportunities fully, we needed to strengthen our balance sheet and in May we successfully completed a £100 million (gross) capital raising. This significantly improved our financial position and provided additional confidence to our clients, which helped us secure over £2 billion of work in the first half.

I am confident we will continue to build on our progress during the remainder of this year to ensure we are set for growth in both profit and margins in 2021 and beyond, in line with our strategic ambitions.

COVID-19

Since the onset of COVID-19, our priority has been ensuring the safety and wellbeing of our people and the communities we work in as well as protecting our business. I am proud of how well everyone has adapted in order to achieve this and I would like to pay tribute to our people who have done everything they can to look after one another and to do the right thing by our clients, communities, society and to protect our business during this pandemic.

Our critical services continued throughout the UK lockdown with strict safety measures in place, although initially around one third of contracts, principally in London, were paused. Gradually, we were able to get back on site across the business with all projects now resumed. We are now operating at on average c90% productivity across the Group compared to pre-COVID-19 levels. We remain alert to the continuing challenges that the necessary safety measures place on all our operations.

Contract risk management

As a result of the issues on the A465 and P&H contracts, a number of significant changes have been made to our contract selection and management processes.

In taking actions to address the type of risk arising from these contracts, the Group is no longer pursuing Energy EPC contracts, focusing on long term investment programmes, and enhancing the strength of its overall contract management under the new Operational Excellence programme which is now in place.

A number of leadership changes have been made, including the appointment of Sue Kershaw as the new managing director for transportation, and we have removed two leadership layers to enhance the accountability of our teams.

The Group's contract management processes and procedures have been enhanced over the last 12 months so that contract risk and changes to contract costs are better monitored and managed throughout the life cycle of a project. These procedures include:

- a five-stage gated approval process prior to signing any contract, including independent risk review prior to target cost approval;
- updated policies for the Group's commercial expectation and risk appetite for all new contracts;
- reduction in the acceptable level of downside risk on any new contract;
- increased minimum level of acceptable profit for all new contracts;
- enhancements to the monitoring and administration of scope of work changes to identify and escalate potential cost increases at an early stage;
- implementation of a Group-wide 'Operating Excellence model' on all new contracts and existing long-term frameworks;
- monthly review of all contracts in a standard and mandatory format; and
- detailed measurement of work in progress and cash collection.

Our markets

The UK Government recognises the critical role of infrastructure in supporting a growing and globally competitive economy, and in decarbonising our environment; and in March 2020 committed £600 billion of investment in UK infrastructure over the next five years. Reinforcing this commitment, the Government has stated that the infrastructure and construction sectors are vital to the recovery of the economy following the impact of COVID-19.

We estimate the addressable spend across our core markets of transportation, water, energy and defence is approximately £23 billion per year. Investment priorities are also evolving rapidly with a focus on increased capacity, improved resilience, efficiency, decarbonisation and enhanced customer service. For organisations to deliver on these ambitions, new solutions and approaches are needed.

We recognise that some clients may require modifications to their investment plans as they address the continuing effects of COVID-19. While this may create a potential short term impact where clients'

programmes are amended or necessarily deferred, it also creates an opportunity whereby clients turn to us as partners to help deliver changes to their programmes more efficiently.

Our strategy

Our 'Leading Edge' strategy ensures that Costain increasingly develops and aligns its services to meet the changing needs of our clients to address their complex business outcomes. Costain has a strong reputation and ability to deliver complex infrastructure programmes, bringing together collaboration, innovation, engineering excellence and a drive to continuously improve the delivery of successful outcomes. This expertise, together with our integrated consultancy services and digital solutions, ensures we deliver best in class solutions to our clients.

The strategy will support improved profitability as we seek to deliver our divisional margin of 6% to 7% over the medium term. To achieve this, we have a clear focus on the shape of our services with a future ambition for 45% of our profits to be derived from complex programme delivery (currently c67%) and 55% from our consultancy and digital services (currently c33%).

The changing shape of our business will be delivered through:

- Complex programme delivery - good margin, strategic long-term (5 to 10 year) investment programmes for our clients, including HS2, water company AMP7 programmes, Highways England Regional Delivery Programme and Smart Motorway Alliance
- Consultancy - higher margin services with the expertise of Costain as a valued implementation biased consultant across:
 - Long term consultancy frameworks including Highways England SPaTS2, and EDF project controls
 - Advisory commissions such as the work being delivered for the Ministry of Defence and Thames Water Programme Management Office
 - Design services to clients and as part of our integrated programme delivery capability
 - Delivery partner / programme manager roles such as those in place with AWE and Cadent
- Digital Services - higher margin services utilising our client insight to enhance performance through digital technology
 - Digitising our delivery; including the digital U-Route utility routing tool which automates asset location selection
 - Adding a digital component to our proposition, as per the digital twin on the Anglian Water Strategic Pipeline Alliance contract
 - A digital solution, such as the innovative Meerkat intelligent railway crossing.

Crucially, a greater proportion of the business we have won in the last six months comprises more of our integrated services including digital solutions and consultancy in line with our strategic intent and our margin growth targets. These include:

- The 10-year, £160 million, programme management consultancy contract with Cadent to lead the oversight of their asset renewal programme in the East of England
- Securing a place on Highways England's SPaTS2 strategic consultancy framework over the next four years to help shape the development of the UK's highway network
- Being awarded a position on Anglian Water's Strategic Pipeline Alliance; where we are leading the implementation of their industry leading digital twin as well as programme managing the solution development
- Our first Programme Management Office ('PMO') consultancy appointment in water in supporting the delivery of Thames Water's AMP7 programme
- Commencing the implementation of our digital railway crossing 'Meerkat' solution for Network Rail across c200 remote level crossings in the UK
- In complex programme delivery, strategic long-term programmes including HS2 main works, water company AMP7 programmes, Highways England Smart Motorway Alliance.

In positioning Costain as the leading partner to deliver new solutions, we are importantly playing a vital role in shaping the nature of future infrastructure. Two examples of the work we are doing in this area include our collaboration with E.ON and SSEN on the energy 'Resilience as a Service' project, improving grid resilience in remote areas to support the electrification of transport; and working with the Department for Transport as their chosen partner delivering the £2 million Intelligent Infrastructure Control Centre that will deliver a step change in the assured delivery of infrastructure programmes.

Encouragingly, we have replaced all the work we completed in the first half, resulting in the order book remaining at £4.2 billion, including total secured revenue of c£0.9 billion for 2021. This also included receiving the formal notice to proceed on our HS2 main works contracts totalling over £1 billion. The c£1 billion Smart Motorway Alliance programme and other frameworks have not been added to the order book at this stage, ensuring it reflects only those contracts formally awarded and commenced.

Continuing to pursue and win new work is a key activity in the Group. However, we will ensure that our contract selection reflects the right risk reward balance and we will not pursue opportunities that do not meet our enhanced criteria. In this respect, we are firmly focused on securing new contracts that deliver consistent profits rather than revenue potential.

In the period, as well as work secured, we have made good progress in the implementation actions underpinning our strategy. This has included the implementation of the first phase of our operational efficiency programme, which targets annualised efficiencies of £20 million after three years. Under this programme we have expanded our robotic automation processes and increased operational

performance through our business wide operational excellence model. In the current year we expect to achieve £7 million annualised efficiencies, and we are on track to increase this to £12 million in 2021.

Peterborough & Huntingdon and A465 contracts

As announced on 29 June 2020, agreement was reached with National Grid to cease work on the P&H contract with demobilisation of activity by 31 August 2020. The termination agreement incorporates a legal process over the next 18 months to agree up to £80 million of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

The Group has £42.0 million of P&H contract asset (i.e. work undertaken but not yet paid) as at 30 June 2020 which will increase to £49.3 million at the end of our works, to be recovered through the resolution process. As previously announced and supported by expert advice, the Group continues to believe that it has a strong entitlement to recover this sum which is subject to successful pursuit through adjudication and potentially litigation. Reflecting the revised commercial resolution process incorporated in the termination agreement and in accordance with IFRS15, there is the requirement to take a one-off charge to the 2020 interim results income statement of £49.3 million to adjust the revenue recognised on the P&H contract to the level of cash received to date. The majority of the cash impact of this charge has been incurred in the first half of 2020, with £15 million of cash out remaining in order to complete our works.

Work is continuing to complete the A465 contract on the fringe of the Brecon Beacons National Park which was entered into in 2015. As previously reported, the project has experienced significant additional scope and we continue to look to resolve the associated impact on the cost and schedule in accordance with the contractual process.

The Welsh Government had escalated a specific matter under the dispute resolution mechanism in the contract, relating to the responsibility for design information for a specific retaining wall and whether it qualified as a compensation event. This issue was decided in the Company's favour by way of previous adjudication awards. However, in arbitration, the arbitrator found that responsibility for the design information rests with Costain and, consequently, the additional costs associated with the building of the retaining wall is not a compensation event under the contract. The arbitration award, which determines a matter of principle only, and not quantum, is non-appealable.

Although the arbitration award relates to the liability for the additional costs associated with the building of a specific retaining wall under the contract, it has implications for the responsibility for design information under the whole contract and therefore Costain's ability to recover these costs.

Costain is in ongoing discussions with the Welsh Government to reach agreement on a final financial settlement and to seek recovery of costs under the contract. However, as a result of the arbitration award and on the basis of the uncertainty of recovery of such costs, and subject to reaching a final settlement, the Group's half year results include a charge to the income statement of £45.4 million to adjust the revenue recognised based on the level of cash received to date under the contract. Costain will continue to fulfil its obligations under the contract, with completion scheduled in 2021.

Trading and financial performance

The measures imposed by the UK Government in March in response to COVID-19 impacted the revenue and profit of the Group in the second quarter of the year. At the end of March, c30% of the Group's operations were paused, with the productivity on other projects also affected. During the second quarter, all the paused projects were re-activated and in June were all operational, albeit at reduced levels due to the necessary safe working restrictions implemented.

While revenue in Q1 was at a very similar level to last year, revenue in Q2 was down by 16% compared with Q1 and down by 17% compared with the same period in 2019, reflecting the impact of COVID-19. As a consequence, revenue, including the Group's share of joint ventures and associates, reduced by 8% to £548.7 million in the first half of the year (H1 2019: £599.2 million) on an adjusted basis. The reported revenue, after the P&H and A465 contract adjustments, was £459.9 million for the period (H1 2019: £594.1 million).

The Group's operating profit was significantly impacted by COVID-19 working restrictions. A number of cost reduction measures were taken to mitigate the associated drop in revenue, including the cancellation of all discretionary expenditure and a reduction in salaries and directors' fees for the Board and senior leadership team of 30% for three months to 30 June 2020. The Group does, however, have a level of fixed costs and has continued to incur expenditure in relation to new contract opportunities.

As detailed in note 3 to the interim financial statements, 'adjusted revenue and profit' has been used as an alternative performance measure to better reflect the underlying trading of the Group. The measure excludes the significant one-off adjustments made on the P&H and A465 contracts and other one-off non-trading items.

Adjusted operating profit was £5.7 million (H1 2019: £21.2 million). This includes the impact of operations either being temporarily suspended, reimbursed on a cost only basis or working to lower levels of productivity from the end of Q1 and through Q2; mitigated by cost reduction actions to safeguard the business. This impact from COVID-19 reflects disruption to the Group's productivity including stopping activities on several projects, additional costs for maintaining social-distancing and safety equipment, the cost of re-planning activities to new operating procedures, restrictions to personnel on site due to social-distancing requirements, delays to the award and start of new contracts, with a number of clients suspending investment plans, and the unrecovered cost of furloughed staff.

As reported above, in the period adjustments have been made on the P&H and A465 contracts, resulting in a reported operating loss for the period of £90.4 million (H1 2019: £10.2 million profit) and a reported loss before tax of £92.3 million (H1 2019: £8.4 million profit).

We took advantage of the Government's Coronavirus Job Retention Scheme to safeguard approximately 360 jobs (11% of our employees) resulting in a cost recovery of £1.6 million for the period to 30 June 2020. The majority of colleagues placed on furlough have now returned. The Company has not utilised any of the Government loan schemes but has deferred payment of PAYE (£15 million), which was due and fully paid in July 2020, and VAT (£10 million), which is payable by March 2021.

The divisional operating margin (before the P&H and A465 contract adjustments) reduced to 1.7% as a result of the impact of the COVID-19 disruption. With increasing levels of activity, it is anticipated that margins will improve in H2 2020, improving further in 2021 reflecting the changing mix of activities in line with the Group's strategy.

Other items and adjusted profit

The Group trading results are reported on an adjusted basis, excluding a number of one-off items not considered by the Board to be representative of underlying trading. In the period these were:

- P&H and A465 contract adjustments as detailed above;
- Impairment of the Group's remaining non-core assets in Spain of £0.6 million resulting from the loss on sale completed at the beginning of August 2020;
- Profit on sale of the Group non-core legacy assets in Zimbabwe of £1.0 million;
- Impairment of the Group's non-core long-standing minority investment in a hotel company of £0.6 million to a carrying value of nil, reflecting the significant impact of COVID-19 in that sector;
- One-off costs of £0.7 million associated with advice received in renegotiating the Group's bank facilities alongside the equity raise; and
- Amortisation of acquired intangible assets of £0.5 million.

Cash position

The Group had a net cash balance at 30 June 2020 of £140.9 million (H1 2019: £40.8 million), comprising £117.8 million of cash, £85.1 million share of cash in joint operations, and £62.0 million of drawn debt. The Group also has £121 million of additional undrawn committed bank debt facilities with a maturity date of 24 September 2023.

In the first six months, the key movements in the Group's net cash position were as follows:

- £93 million net proceeds from the equity raise in May;
- Positive net working capital, excluding the P&H and A465 contracts, interest and tax of £22 million;
- Cash outflow of £55 million on the A465 and P&H projects due to the ongoing commercial issues;
- The benefit of the deferral of PAYE and VAT payments of £25 million in aggregate;
- The anticipated reversal of c£35 million of positive timing benefits from the year-end; and
- The positive timing of receipts at the period end of approximately £25 million (which reversed in the early part of H2 2020).

During H1 2020, which includes the 5-month period prior to the receipt of the proceeds from the equity raise in May, the Group's average month-end net cash balance was £56.3 million (H1 2019: £63.7 million).

With the reversal of the positive timing benefits in H1 2020 and the cash requirements on the A465 & P&H contracts, it is anticipated that the net cash position of the Group at the end of the year will be c£70-£80 million.

The Group has in place sufficient financial resources to manage the ongoing working capital requirements and to capture the opportunities available in the market.

Pension scheme

As at 30 June 2020, the surplus on the Group's legacy Costain Pension Scheme in accordance with IAS 19 was £14.9 million (June 2019: surplus of £4.5 million). The increase in surplus results from a combination of employer contributions, better than expected asset returns, including from the liability driven investments, and updated mortality assumptions offset by an increase in liabilities from changes in the market-based assumptions used.

Based on the actuarial valuation as at 31 March 2019, the Company has in place a deficit reduction plan, agreed with the pension scheme Trustee, which requires a contribution of £10.2 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.

Dividend

Taking into account the ongoing disruption to the business from COVID-19 and the commercial importance of retaining a strong net cash position, the Board has decided not to pay an interim dividend

for 2020.

The Board recognises the importance of dividends to shareholders and will continue to review the timing of the reinstatement of future dividends in light of the Group's performance, cash flow requirements and the importance of maintaining a strong balance sheet.

People, communities and ESG

In the first half, engagement with our people and communities was naturally a priority due to the COVID-19 pandemic. We increased our internal engagement to ensure that we continued to support our people, to keep them safe and ensure their positive wellbeing while they were working on site in new COVID-19 safe conditions and working remotely. We are proud of the ways in which our teams supported the communities in which we work. Their contributions included fundraising for local charities and hospices; providing PPE to local NHS hospitals providing plant and equipment to help convert a former military rehabilitation centre into a temporary hospital for coronavirus patients and facilitating large community donations to foodbanks. Four of our senior colleagues are Business In The Community (BITC) regional board members and helped to support their national business response network.

The Group is committed to job creation and supporting the recovery of the UK economy through early careers employment by continuing to offer traineeships, graduate and apprentice programmes. We are actively supporting the construction talent retention scheme being led by the Association for Consultancy and Engineering as well as working with the Department for Work and Pensions and the Prince's Trust.

At the start of the year, we launched our climate change action plan and responsible business commitments. We have exceeded our targets for the amount spent with small businesses or voluntary, community and social enterprises.

Operational review

Under our 'One Costain' operating model we operate across two core divisions of 'transportation' and 'natural resources'.

Transportation

The division had adjusted revenue (including joint ventures and associates) in the period of £353.2 million (before the A465 contract adjustment) (H1 2019: £380.2 million) and adjusted operating profit of £5.1 million (H1 2019: £14.6 million). The revenue and profit reduction result from the impact of COVID-19 on the Group's operations, with revenues in Q2 2020 down 15% compared to the first quarter of the year and operating margins reduced in the period to 1.4%. As a result of increasing levels of activity, it is anticipated that margins will improve in H2 2020, improving further in 2021 reflecting the changing mix of activities in line with the Group's strategy.

On a statutory reported basis, including the impact of the adjustment on the A465 contract detailed above, the division had revenue of £307.7 million (H1 2019: £380.2 million) and a loss from operations of £40.4 million (H1 2019: £14.0 million profit).

The division has a forward order book of £3.0 billion (H1 2019: £3.0 billion) and is well positioned to benefit from the Government's intent to stimulate the economy by building faster, better, and greener infrastructure. In the period, Sue Kershaw joined the Company as managing director of transportation, bringing leading programme delivery and assurance consulting and strategic transport expertise to the team.

We have built a strong position in the sector having secured a number of long-term strategic programmes including the HS2 main works, the Highways England's Smart Motorway Alliance and Regional Delivery Programme and several other major infrastructure schemes. We have also made good progress in growing the proportion of consultancy and digital services we are providing to our clients.

Recent notable contract wins in the first half include: the Smart Motorway Alliance and Specialist Professional and Technical Services framework (SPaTS2) for Highways England; commencement of phase 1 of the Main Works Civils Contract joint venture for HS2; a smart street lighting project for Bradford Council; and a contract for thermal imaging camera operations at London Heathrow Airport.

Highways

As a strategic partner for Highways England, we successfully opened the flagship A14 Cambridge to Huntingdon project early and to budget and we continue to support Highways England's operations division with a number of asset management contracts.

On the Regional Delivery Programme, we are continuing to deliver the A19 Testo's scheme, have secured approval to commence the adjacent Downhill Lane contract; and have now mobilised the A30 contract. We are continuing to develop the solutions with Highways England on three road improvement contracts on the A1 and the A12 widening.

In supporting the devolved investment in infrastructure, we are supporting East Sussex council with their asset management programme, Preston with their road improvement contract and Bradford City council on their green street lighting programme.

In developing our position as a valued implementation based consultant, we are working with Transport for London (TfL) in consultancy roles on the Hammersmith Pedestrian Bridge, the Rotherhithe tunnel and the A40 Westway upgrade. We continue to support the Department for Transport as a prime supplier on its STARTwo management consultancy framework, under which we offer advice to the Government on a range of strategic, nationally important transportation issues. Working with Highways England, through the SPaTS2 framework we are supporting their shaping of the future roads network and improved ways of programme delivery.

Our technology centre continues to develop and implement new systems such as 'connected vehicles' to meet the needs of an increasingly digital strategic road network, and Meerkat to enhance pedestrian safety through intelligent railway crossing solutions.

Rail

In this period, due to extremely challenging COVID-19 compliant working conditions underground, our joint venture mutually agreed settlement and termination on Crossrail's Bond Street station. Work continues across the central section of the Crossrail network, where we are responsible for tunnel systems and the technology required for commissioning the Elizabeth Line; together with completing Paddington Station. The closeout of the upgrade of the new London Bridge Station for Network Rail is near completion.

Our activity on High Speed 2 is continuing, where we are completing the enabling works and have mobilised the phase 1 Main Civils Contracts on two major sections of the route. We are also continuing to pursue a number of further opportunities on HS2.

The upgrade of Gatwick Airport Station for Network Rail is progressing well and has been heralded as 'best practice in the industry' for safely, efficiently and quickly adapting to working under COVID-19 restrictions.

Aviation

Despite early success in securing consultancy frameworks for Manchester Airports Group, Heathrow Airport Limited and Gatwick Airport, we have adjusted the focus of our aviation business as the industry is in stasis. Notably, we have successfully developed a thermal imaging camera system with data management that has been widely trialled throughout the UK and adopted by London Heathrow airport as its new preferred provider and operator for this service.

Natural Resources

The division had adjusted revenue (including joint ventures and associates) in the period of £194.5 million (before the P&H contract adjustment) (H1 2019: £216.0 million) and adjusted operating profit of £4.5 million (H1 2019: £9.2 million). The revenue and profit reduction results from the impact of COVID-19 on the Group's operations, with revenues in Q2 2020 down 15% compared to the first quarter of the year. Operating margins were also impacted in the period reducing to 2.3%. As a result of increasing levels of activity, it is anticipated that margins will improve in H2 2020, improving further in 2021 reflecting the changing mix of activities in line with the Group's strategy

On a statutory reported basis, including the impact of the adjustment on the P&H contract detailed above, the division had revenue of £151.2 million (H1 2019: £210.9 million) and a loss from operations of £45.7 million (H1 2019: £1.1 million loss).

While performance in the first half has been impacted by a reduction in volume during lockdown, we have a strong client base with a high-quality order book of £1.2 billion (H1 2019: £1.2 billion).

Recent notable contract wins in the first half include; the Strategic Pipeline Alliance for Anglian Water; the Technical Services Framework for Yorkshire Water; the AMP7 PMO contract for Thames Water; and the programme management consultancy for Cadent.

Water

In our water business we have significantly broadened our client base following new contract wins, in addition to securing key consultancy and digital service contracts. The challenging Ofwat Final Determination requires our clients to seek new ideas and innovative solutions and we have successfully secured positions on the five-year AMP7 programmes for Anglian Water, Severn Trent Water, Southern Water, South Staffs Water, Thames Water, United Utilities and Yorkshire Water, and our bidding activity continues. We are supporting these clients to improve water quality standards, enhance supply resilience, meet anticipated demographic shifts and address their Totex (capital and operational costs) efficiency targets. In addition, we are working with several clients to consider the impact of COVID-19 on the timing profile of their immediate term investment programmes.

We are now finalising works on the AMP6 five-year programmes for Thames Water, Severn Trent Water and Southern Water. These programmes are delivering well and we are using our full range of integrated capabilities to drive improved customer service, innovative solutions and achieve significant total whole life expenditure efficiency savings. Our AMP6 contract with Thames Water includes an element of incentivisation, aligned to the client's objectives, estimated through the life of the contract and finalised at the end of the programme. We are in constructive dialogue with the client to resolve this outstanding commercial matter. We are also in ongoing final account discussions with Severn Trent Water on our work carried out on their AMP6 programme.

The Thames Tideway project, on which we are in a joint venture to deliver the east section, continues to progress well. The tunnelling elements of the contract commenced in 2019 and overall completion is scheduled for 2024.

Energy

We continue to drive the transformation of our energy sector, with a renewed market focus in decarbonisation and an experienced offering in maximising existing asset performance. We have taken the decision to no longer pursue EPC design and build contracts in this sector.

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

While the pace of the UK transitioning to a decarbonised energy network is slower than expected, we have secured key positions to exploit the future opportunities.

We are now mobilising our new contract to programme manage Cadent's asset management programme in the East of England for the next 10 years.

Defence

We continue to support our clients through improving complex programme management on major infrastructure schemes, project controls and delivery, as well as providing vital assurance capability. We continue to roll out programme, portfolio and project management leadership training with BAE and Qinetiq and have introduced a digital enterprise platform for improved project controls on a major defence programme.

Our programme management contract for AWE continues to meet performance expectations, allowing us to secure opportunities to support AWE on additional projects.

Alcaidesa

In December 2019, the Group completed the sale of its ownership of two golf courses, land and a club house in Cadiz, Spain. In August 2020, the Group sold its 624-berth Marina Concession for €4.75 million, the disposal of which completes the Group's strategy to divest its non-core business assets in Spain. The loss on the sale of £0.6 million is included in the income statement as a one-off impairment charge in the first half of the year.

Revenue in this non-core division in the period was £1.0 million (H1 2019: £3.0 million) with a £0.1 million operating loss (H1 2019: £0.1 million operating loss).

Legacy asset disposals

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

In August 2020, the Group also completed the sale of its equity share in its two remaining "Building Schools for the Future" partnership companies for a combined consideration of £3.6 million. The Group's full year results will include the profit of £1.6 million from the sale.

Outlook

We are now back on site across all of our operations with strict safety measures in place to protect our teams and the communities we work in. I would like to pay tribute to our people who have done everything they can to look after one another and to do the right thing by our clients, communities, society and to protect our business during this pandemic.

We are clearly disappointed with the recent arbitration outcome in relation to the A465 contract which, together with the mutual termination of the Peterborough & Huntingdon contract, has resulted in significant revenue adjustments for these long-standing projects. We have in place clear actions to resolve the financial position on these contracts and importantly we have taken decisive action to prevent such issues from reoccurring.

The equity raise in May has already helped us to capitalise on the immediate opportunities in our infrastructure markets as we successfully secured over £2 billion of contracts in the first half, many of which incorporate our consultancy and digital capabilities in line with our strategic focus. There remains a strong pipeline of further opportunities which we are actively targeting.

Looking ahead, assuming no further sustained COVID-19 lockdowns, we are confident of delivering growth in profits and margins next year. Although we are mindful of the macro-economic uncertainties ahead, Costain is in a strong position with secured long-term programmes and a positive market backdrop, in particular the UK Government's drive to progress investment in infrastructure so that it is better, greener and faster in support of the nation's economic recovery.

Alex Vaughan
Chief Executive Officer
14 September 2020

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December		2020 Half-year Unaudited			2019 Half-year Unaudited			2019 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	
Revenue plus share of joint ventures and associates	4	461.3	-	461.3	599.2	-	599.2	1,162.9	-	1,162.9
Less: Share of revenue		(1.4)	-	(1.4)	(5.1)	-	(5.1)	(7.3)	-	(7.3)

of joint ventures and associates										
Group revenue		459.9	-	459.9	594.1	-	594.1	1,155.6	-	1,155.6
Cost of sales before other items		(531.0)	-	(531.0)	(554.3)	-	(554.3)	(1,105.1)	-	(1,105.1)
Arbitration award on historical building project		-	-	-	-	(9.7)	(9.7)	-	(9.7)	(9.7)
Cost of sales		(531.0)	-	(531.0)	(554.3)	(9.7)	(564.0)	(1,105.1)	(9.7)	(1,114.8)
Gross (loss)/profit		(71.1)	-	(71.1)	39.8	(9.7)	30.1	50.5	(9.7)	40.8
Administrative expenses before other items		(17.9)	-	(17.9)	(18.6)	-	(18.6)	(32.6)	-	(32.6)
Impairment of Alcaidesa marina	11	-	(0.6)	(0.6)	-	-	-	-	(5.9)	(5.9)
Impairment of other investment		-	(0.6)	(0.6)	-	-	-	-	-	-
Profit/(loss) on disposal of subsidiary undertakings		-	1.0	1.0	-	-	-	-	(3.0)	(3.0)
Refinancing advisory fees		-	(0.7)	(0.7)	-	-	-	-	-	-
Amortisation of acquired intangible assets		-	(0.5)	(0.5)	-	(1.1)	(1.1)	-	(2.3)	(2.3)
Employment related and other deferred consideration		-	-	-	-	(0.2)	(0.2)	-	(0.2)	(0.2)
Administrative expenses		(17.9)	(1.4)	(19.3)	(18.6)	(1.3)	(19.9)	(32.6)	(11.4)	(44.0)
Group operating (loss)/profit	3	(89.0)	(1.4)	(90.4)	21.2	(11.0)	10.2	17.9	(21.1)	(3.2)
Share of results of joint ventures and associates		0.1	-	0.1	0.1	-	0.1	0.3	-	0.3
(Loss)/profit from operations	4	(88.9)	(1.4)	(90.3)	21.3	(11.0)	10.3	18.2	(21.1)	(2.9)
Finance income		0.3	-	0.3	0.4	-	0.4	1.0	-	1.0
Finance expense		(2.3)	-	(2.3)	(2.2)	(0.1)	(2.3)	(4.6)	(0.1)	(4.7)
Net finance expense	5	(2.0)	-	(2.0)	(1.8)	(0.1)	(1.9)	(3.6)	(0.1)	(3.7)
(Loss)/profit before tax		(90.9)	(1.4)	(92.3)	19.5	(11.1)	8.4	14.6	(21.2)	(6.6)
Taxation	6	17.4	0.2	17.6	(3.0)	2.1	(0.9)	(0.1)	3.8	3.7
(Loss)/profit for the period attributable to equity holders of the parent		(73.5)	(1.2)	(74.7)	16.5	(9.0)	7.5	14.5	(17.4)	(2.9)
(Loss)/earnings per share										
Basic	7			(49.9)p			6.1p			(2.3)p
Diluted	7			(49.8)p			6.1p			(2.3)p

Prior period earnings per share calculations have been restated following the capital raise in the period to 30 June 2020. 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	2020 Half-year unaudited £m	2019 Half-year unaudited £m	2019 Year audited £m
(Loss)/profit for the period	(74.7)	7.5	(2.9)

Items that may be reclassified subsequently to profit or loss:

Exchange differences on translation of foreign operations	0.4	(0.2)	(1.4)
Exchange differences on translation transferred to the income	(1.4)	-	(3.7)

statement			
Net investment hedge			
• Effective portion of changes in fair value during period	(0.3)	(0.3)	1.6
• Net changes in fair value transferred to the income statement	0.9	-	2.0
Cash flow hedges:			
• Effective portion of changes in fair value during period	(0.1)	(0.4)	(0.4)
• Net changes in fair value transferred to the income statement	0.4	0.5	(0.8)
Total items that may be reclassified subsequently to profit or loss	(0.1)	(0.4)	(2.7)
Items that will not be reclassified to profit or loss:			
Remeasurement of retirement benefit asset/(obligations)	4.6	(2.1)	(7.0)
Tax recognised on remeasurement of retirement benefit asset/(obligations)	(0.9)	0.4	1.2
Total items that will not be reclassified to profit or loss	3.7	(1.7)	(5.8)
Other comprehensive income/(expense) for the period	3.6	(2.1)	(8.5)
Total comprehensive (expense)/income for the period attributable to equity holders of the parent	(71.1)	5.4	(11.4)

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 January 2019 - audited	53.5	15.0	2.6	0.7	-	110.5	182.3
Profit for the period	-	-	-	-	-	7.5	7.5
Other comprehensive (expense)/income	-	-	(0.5)	0.1	-	(1.7)	(2.1)
Issue of ordinary shares under employee share option plans	0.3	0.3	-	-	-	-	0.6
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.9)	(0.9)
Equity-settled share-based payments	-	-	-	-	-	0.9	0.9
Dividend paid (note 8)	0.2	0.6	-	-	-	(10.7)	(9.9)
At 30 June 2019 - unaudited	54.0	15.9	2.1	0.8	-	105.6	178.4
Loss for the period	-	-	-	-	-	(10.4)	(10.4)
Other comprehensive expense	-	-	(1.0)	(1.3)	-	(4.1)	(6.4)
Issue of ordinary shares under employee share option plans	-	0.1	-	-	-	(0.2)	(0.1)
Shares purchased to satisfy employee share schemes	-	-	-	-	-	0.2	0.2
Equity-settled share-based payments	-	-	-	-	-	(0.4)	(0.4)
Dividend paid (note 8)	0.1	0.4	-	-	-	(4.1)	(3.6)
At 31 December 2019 - 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

Merger reserve

The capital raise was effected through a structure, which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred to retained earnings.

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December	2020 Half-year unaudited £m	2019 Half-year unaudited £m	2019 Year audited £m
Assets			
Non-current assets			

Intangible assets	9	59.4	58.2	59.0
Property, plant and equipment	9	40.3	71.4	44.1
Investments in equity accounted joint ventures		0.4	0.4	0.4
Investments in equity accounted associates		0.5	0.4	0.6
Loans to equity accounted associates		1.5	1.5	1.5
Retirement benefit asset	10	14.9	4.5	4.9
Other		2.8	2.4	2.1
Deferred tax		21.1	1.4	4.6
Total non-current assets		140.9	140.2	117.2
Current assets				
Inventories		1.2	1.8	1.3
Trade and other receivables		228.7	311.1	247.6
Assets held for sale	11	4.1	-	-
Taxation		0.8	-	5.5
Cash and cash equivalents		202.9	130.5	180.9
Total current assets		437.7	443.4	435.3
Total assets		578.6	583.6	552.5
Equity				
Share capital	13	137.5	54.0	54.1
Share premium		16.4	15.9	16.4
Foreign currency translation reserve		0.7	2.1	1.1
Hedging reserve		(0.2)	0.8	(0.5)
Retained earnings		25.1	105.6	86.6
Total equity attributable to equity holders of the parent		179.5	178.4	157.7
Liabilities				
Non-current liabilities				
Other payables		0.7	0.4	0.7
Interest-bearing loans and borrowings		44.0	60.5	48.0
Lease liabilities		19.7	15.6	17.2
Provisions for other liabilities and charges		-	0.1	-
Total non-current liabilities		64.4	76.6	65.9
Current liabilities				
Trade and other payables		303.4	282.8	247.4
Taxation		-	0.9	-
Interest-bearing loans and borrowings		18.0	29.2	68.0
Lease liabilities		12.6	14.8	12.8
Provisions for other liabilities and charges		0.7	0.9	0.7
Total current liabilities		334.7	328.6	328.9
Total liabilities		399.1	405.2	394.8
Total equity and liabilities		578.6	583.6	552.5

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	2020 Half-year unaudited £m	2019 Half-year unaudited £m	2019 Year audited £m
Cash flows from operating activities			
(Loss)/profit for the period	(74.7)	7.5	(2.9)
Adjustments for:			
Share of results of joint ventures and associates	(0.1)	(0.1)	(0.3)
Finance income	(0.3)	(0.4)	(1.0)
Finance expense	2.3	2.3	4.7
Taxation	(17.6)	0.9	(3.7)
(Profit)/loss on disposal of subsidiary undertakings	(1.0)	-	3.0
Impairment of Alcaidesa marina	0.6	-	5.9
Impairment of other investment	0.6	-	-
Transfer subsidiary cash to asset held for sale	(0.3)	-	-
Depreciation of property, plant and equipment	8.0	8.4	17.7

Amortisation of intangible assets	0.5	1.2	2.6
Employment related and other deferred consideration	-	0.2	0.2
Share-based payments expense	0.6	0.9	0.5
Shares purchased to satisfy employee share schemes	(0.2)	(0.9)	(0.7)
Cash (used by)/from operations before changes in working capital and provisions	(81.6)	20.0	26.0
(Increase)/decrease in inventories	(0.2)	(0.3)	0.1
Decrease/(increase) in receivables	18.0	(33.4)	30.2
Increase/(decrease) in payables	56.8	(32.5)	(63.5)
Movement in provisions and employee benefits	(5.3)	(10.7)	(16.3)
Cash used by operations	(12.3)	(56.9)	(23.5)
Interest received	0.1	0.2	1.0
Interest paid	(2.3)	(1.3)	(4.6)
Taxation received/(paid)	4.7	(0.6)	(5.1)
Net cash used by operating activities	(9.8)	(58.6)	(32.2)
Cash flows from investing activities			
Dividends received from joint ventures and associates	0.2	0.3	0.2
Additions to property, plant and equipment	(0.3)	(3.9)	(3.8)
Additions to intangible assets	(0.9)	(0.9)	(3.1)
Proceeds of disposals of property, plant and equipment and intangible assets	0.1	2.4	0.3
Repayment of loans by joint ventures and associates	-	-	0.1
Acquisition related deferred consideration	-	-	(1.5)
Proceeds of sales of subsidiaries	1.0	-	11.8
Net cash from/(used by) investing activities	0.1	(2.1)	4.0
Cash flows from financing activities			
Issue of ordinary share capital	92.5	0.7	0.5
Ordinary dividends paid	-	(10.0)	(13.5)
Repayments of lease liabilities	(6.5)	(8.0)	(13.6)
Drawdown of loans	91.0	20.0	70.0
Repayment of loans	(145.0)	(0.7)	(23.6)
Net cash from financing activities	32.0	2.0	19.8
Net increase/(decrease) in cash, cash equivalents and overdrafts	22.3	(58.7)	(8.4)
Cash, cash equivalents and overdrafts at beginning of the period	180.9	189.3	189.3
Effect of foreign exchange rate changes	(0.3)	(0.1)	-
Cash, cash equivalents and overdrafts at end of the period	202.9	130.5	180.9

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 2019 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. It did include a reference to a material uncertainty in respect of going concern regarding an uncertainty over completing

a proposed new capital raise, which required shareholder approval. The capital raise was completed in May 2020 as explained in note 13.

2. Statement of compliance

This interim financial information for the half-year ended 30 June 2020 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and with the Disclosure Guidance 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 2019, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by 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 2019.

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 clients. 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 2020, the directors are required to consider whether the Company can continue in operational existence for the period of at least 12 months from the date of authorisation of these statements.

In preparing the assessment, alongside the most likely base case forecast, the Board has considered potential downside scenarios, including assessing the likely impacts of the consequences of COVID-19. While in the first half of the year, the Group took advantage of the Government's Coronavirus Job Retention Scheme to safeguard jobs, which has resulted in a recovery of £1.6 million in the period, deferred the payment of PAYE of £15.6 million and VAT of £10.7 million, no new such actions are assumed in the forecasts. Most staff furloughed returned during July and August and the PAYE was paid in July. The deferred VAT is payable by March 2021.

The assessment shows the Group has sufficient liquidity to discharge its liabilities as they fall due throughout the going concern period under all scenarios, including those with further disruption arising from COVID-19, where the Group is assuming working practices established through the initial COVID-19 period will continue to operate and assuming continued access to its bank facilities, which is dependent on the Group operating within its banking covenants.

Testing of the Group's banking covenants at 30 June 2020 confirmed that the Group operated within them. In respect of the interest cover covenant, this is on the basis that the write downs on the Peterborough & Huntingdon and A465 contracts are one-off exceptional items for the purposes of the covenant tests. The Group considers this to be the correct treatment of these contract adjustments and has notified its banks of them.

Under the downside forecast scenarios, which considered reductions in and delays to the award of new work and the attainable margins, contract performance and the impact of further COVID-19 lock downs, and based on the same treatment of the write downs on the Peterborough & Huntingdon and A465 contracts for the purposes of the interest cover covenant, the Group is expected to remain within its banking covenants throughout the going concern period although headroom on the interest cover covenant gets more limited as the scenarios get more severe.

Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period, and, therefore, the Board has continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements. If, which the Group does not consider to be the case, the write downs on the Peterborough & Huntingdon and A465 contracts were not exceptional items for the purpose of the banking covenant tests, the Group's forecasts show that the interest cover covenant would be breached. In that event, the £44.0m of non-current borrowings at 30 June 2020 would be reclassified as current debt because under the terms of the facility agreements the banks and surety providers would be able to require repayment of the facilities. Were this to occur the Group would need to seek a waiver of the covenant or otherwise renegotiate the terms of the facility agreements and there can be no certainty that this could be achieved. This indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The condensed consolidated interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

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 and earnings per share before other items, which is a non-GAAP measure.

The Group has now introduced an additional non-GAAP adjusted performance measure to report adjusted operating profit and earnings per share. This reports profit excluding the impact of the two significant one-off contract adjustments in the period. Contract profits and losses continue to be reported within results before other items, however, in view of the magnitude and one-off nature of the two contract adjustments and to aid understanding of the ongoing business these have been separately identified.

Revenue plus share of joint ventures and associates

Some clients want a contract to be undertaken by a joint company formed solely for that purpose rather than by a joint operation, which would be the more usual contracting entity. The joint company is resourced by the shareholders in the same way as joint operations. Therefore, the Group considers showing the revenue plus share of joint ventures and associates gives a better view of the scale of operations being undertaken by the Group.

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 48 to 51 of the Annual Report for the year ended 31 December 2019. The only exceptions are 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 48 to 49 of the Annual Report 2019, we set out the Group's approach to risk management and on pages 50 to 51, 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 2019 other than in respect of the impact of COVID-19 coronavirus pandemic.

The outbreak of COVID-19 coronavirus pandemic has negatively impacted economic conditions globally and is having an adverse and disruptive effect on the UK economy. This may have an adverse effect on the Company's business, financial condition and results of operations.

It is not clear for how long this pandemic will last or how much more extensive it will become, or the further measures that will be taken by the UK government and others to seek to control this pandemic and its impact. If the COVID-19 pandemic continues for a prolonged period of time this may further affect the margins expected to be achieved on certain contracts, result in further delays to existing contracts and delays in receiving payments from clients and may result in existing contracts being cancelled and the Group failing to secure new work. The COVID-19 pandemic may therefore have a material adverse effect on the Group's business, cash flows, profitability, results of operation and financial condition.

Since the outbreak of the pandemic, the Group's way of operating has adapted and the Group has taken a number of responsive measures including introducing new cleaning regimes, safe working distance measures and providing protective equipment for its employees. A significant proportion of the Group's employees are working from home. Whilst the Group is liaising closely with its clients and suppliers to understand any changes in requirements and priorities during this time, the uncertainties surrounding the development of this pandemic make it difficult to predict the extent to which the Group may be affected.

The Group has taken a number of other actions to mitigate the impact on these risks as set out in Chief executive officer's review. The Board will continue to monitor the ongoing impact of the Covid-19 coronavirus pandemic on the business, including the identification and consideration of emerging risks, the consequences of any decision in the long term and appropriate risk mitigation strategies.

The Board approved the unaudited interim financial statements on 14 September 2020.

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

Adjusted operating profit and earnings per share are being used as non-GAAP performance measurements. Adjusted operating profit excludes the impact of one-off changes in the accounting treatments of the Peterborough & Huntingdon (P&H) and the A465 Heads of the Valley road (A465) contracts as described below. The Board considers the adjusted measures better reflect the underlying trading performance of the Group.

The Peterborough & Huntingdon contract change followed the agreement with National Grid, announced on 29 June 2020, to cease work and demobilise activity by 31 August 2020. The termination agreement incorporates a legal process over the next 18 months to agree up to £80 million of identified compensation events, recover costs to date and eliminate a potential liability to National Grid for completing the works.

At 30 June 2020, the Group had a contract asset of £42.0 million associated with this contract and this will increase to £49.3 million at the end of our works. Supported by expert advice, the Group continues to believe that it has a strong entitlement to recover this sum, which is subject to successful pursuit through

adjudication and potentially litigation. However, reflecting the revised commercial resolution process incorporated in the termination agreement and in accordance with IFRS15, a one-off charge to the income statement of £49.3 million has been reflected to adjust the revenue recognised on the P&H contract to the level of cash received to date and to cover the cost of remaining works. Most of the cash impact of this charge has been incurred in the first half of 2020. There will be a further out flow of £15 million including on the remaining works. 2020 adjusted Group revenue includes £32.3 million of revenue on the P&H contract up to the termination date.

On the A465 Heads of the Valley road contract, which was entered into in 2015, at 30 June 2020 the Group had a contract asset of £45.4 million. The Welsh Government had escalated a specific matter under the dispute resolution mechanism in the contract relating to the responsibility for design information for a specific retaining wall and whether it qualified as a compensation event. This issue was decided in the Group's favour by way of previous adjudication awards. However, the arbitrator's decision found that responsibility for the design information rests with Costain and, consequently, the additional costs associated with the building of the retaining wall is not a compensation event under the contract. Costain is disappointed by the arbitration award which reverses the ruling of previous adjudication awards. The arbitration award, which determines a matter of principle only, and not quantum, is non-appealable.

Costain is in ongoing discussions with the Welsh Government to reach agreement on a final financial settlement and to seek recovery of costs under the contract. However, on the basis of the uncertainty of recovery of such costs following the arbitration award, and subject to reaching a final settlement, a charge to the income statement of £45.4 million has been taken to adjust the revenue recognised based on the level of cash received to date under the contract. The Group will continue to fulfil its obligations under the contract, with completion scheduled in 2021. 2020 adjusted Group revenue includes £14.8 million of revenue on the A465 contract.

Half-year ended 30 June 2020	Adjusted £m	P&H £m	A465 £m	Before other items £m	Other items £m	Total £m
Revenue plus share of joint ventures and associates before P&H and A465 contract adjustments	548.7	-	-	548.7	-	548.7
Contract adjustments	-	(42.0)	(45.4)	(87.4)	-	(87.4)
Revenue plus share of joint ventures and associates	548.7	(42.0)	(45.4)	461.3	-	461.3
Less: Share of revenue of joint ventures and associates	(1.4)	-	-	(1.4)	-	(1.4)
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	(26.6)p	(24.6)p	(49.1)p	(0.8)p	(49.9)p

Half-year ended 30 June 2019	Adjusted £m	P&H £m	A465 £m	Before other items £m	Other items £m	Total £m
Revenue plus share of joint ventures and associates	599.2	-	-	599.2	-	599.2
Less: Share of revenue of joint ventures and associates	(5.1)	-	-	(5.1)	-	(5.1)
Group revenue	594.1	-	-	594.1	-	594.1
Cost of sales before other items	(554.3)	-	-	(554.3)	-	(554.3)
Arbitration award on historical building project	-	-	-	-	(9.7)	(9.7)
Cost of sales	(554.3)	-	-	(554.3)	(9.7)	(564.0)

Gross profit/(loss)	39.8	-	-	39.8	(9.7)	30.1
Administrative expenses before other items	(18.6)	-	-	(18.6)	-	(18.6)
Other items	-	-	-	-	(1.3)	(1.3)
Administrative expenses	(18.6)	-	-	(18.6)	(1.3)	(19.9)
Group operating profit	21.2	-	-	21.2	(11.0)	10.2
Share of results of joint ventures and associates	0.1	-	-	0.1	-	0.1
Profit/(loss) from operations	21.3	-	-	21.3	(11.0)	10.3
Net finance expense	(1.8)	-	-	(1.8)	(0.1)	(1.9)
Profit/(loss) before tax	19.5	-	-	19.5	(11.1)	8.4
Taxation	(3.0)	-	-	(3.0)	2.1	(0.9)
Profit/(loss) for the period attributable to equity holders of the parent	16.5	-	-	16.5	(9.0)	7.5
Basic earnings/(loss) per share	13.5p	-	-	13.5p	(7.4)p	6.1p
Year ended 31 December 2019	Adjusted £m	P&H £m	A465 £m	Before other items £m	Other items £m	Total £m
Revenue including share of joint ventures and associates before A465 contract adjustment	1,182.9	-	-	1,182.9	-	1,182.9
Contract adjustment	-	-	(20.0)	(20.0)	-	(20.0)
Revenue plus share of joint ventures and associates	1,182.9	-	(20.0)	1,162.9	-	1,162.9
Less: Share of revenue of joint ventures and associates	(7.3)	-	-	(7.3)	-	(7.3)
Group revenue	1,175.6	-	(20.0)	1,155.6	-	1,155.6
Cost of sales before other items	(1,105.1)	-	-	(1,105.1)	-	(1,105.1)
Arbitration award on historical building project	-	-	-	-	(9.7)	(9.7)
Cost of sales	(1,105.1)	-	-	(1,105.1)	(9.7)	(1,114.8)
Gross profit/(loss)	70.5	-	(20.0)	50.5	(9.7)	40.8
Administrative expenses before other items	(32.6)	-	-	(32.6)	-	(32.6)
Other items	-	-	-	-	(11.4)	(11.4)
Administrative expenses	(32.6)	-	-	(32.6)	(11.4)	(19.9)
Group operating profit	37.9	-	(20.0)	17.9	(21.1)	(3.2)
Share of results of joint ventures and associates	0.3	-	-	0.3	-	0.3
Profit/(loss) from operations	38.2	-	(20.0)	18.2	(21.1)	(2.9)
Net finance expense	(3.6)	-	-	(3.6)	(0.1)	(3.7)
Profit/(loss) before tax	34.6	-	(20.0)	14.6	(21.2)	(6.6)
Taxation	(3.9)	-	3.8	(0.1)	3.8	3.7
Profit/(loss) for the period attributable to equity holders of the parent	30.7	-	(16.2)	14.5	(17.4)	(2.9)
Basic earnings/(loss) per share	25.1p	-	(13.2)p	11.9p	(14.2)p	(2.3)p

4. Business segment information

The Group has two core business segments: Natural Resources and Transportation 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 2020	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Group revenue	151.2	307.7	1.0	-	459.9
Share of revenue of JVs and associates	1.3	0.1	-	-	1.4
Total segment revenue	152.5	307.8	1.0	-	461.3
Segment profit/(loss)					
Operating loss before other items	(44.8)	(40.3)	(0.1)	(3.8)	(89.0)
Share of results of JVs and associates	0.1	-	-	-	0.1
Loss from operations before other items	(44.7)	(40.3)	(0.1)	(3.8)	(88.9)
Other items:					
Impairment of Alcaidesa marina	-	-	(0.6)	-	(0.6)
Impairment of other investment	(0.6)	-	-	-	(0.6)
Profit on disposal of subsidiary	-	-	-	1.0	1.0

undertaking					
Refinancing advisory fees	-	-	-	(0.7)	(0.7)
Amortisation of acquired intangible assets	(0.4)	(0.1)	-	-	(0.5)
Loss from operations	(45.7)	(40.4)	(0.7)	(3.5)	(90.3)

Net finance expense					(2.0)
Loss before tax					(92.3)

Half-year ended 30 June 2019	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Group revenue	210.9	380.2	3.0	-	594.1
Share of revenue of JVs and associates	5.1	-	-	-	5.1
Total segment revenue	216.0	380.2	3.0	-	599.2

Segment profit/(loss)					
Operating profit/(loss) before other items	9.2	14.6	(0.1)	(2.5)	21.2
Share of results of JVs and associates	0.1	-	-	-	0.1
Profit/(loss) from operations before other items	9.3	14.6	(0.1)	(2.5)	21.3

Other items:					
Arbitration award on historical building project	(9.7)	-	-	-	(9.7)
Amortisation of acquired intangible assets	(0.5)	(0.6)	-	-	(1.1)
Employment related and other deferred consideration	(0.2)	-	-	-	(0.2)
Profit/(loss) from operations	(1.1)	14.0	(0.1)	(2.5)	10.3

Net finance expense					(1.9)
Profit before tax					8.4

Year ended 31 December 2019	Natural Resources £m	Transportation £m	Alcaidesa £m	Central costs £m	Total £m
Segment revenue					
Group revenue	429.4	720.6	5.6	-	1,155.6
Share of revenue of JVs and associates	5.0	2.3	-	-	7.3
Total segment revenue	434.4	722.9	5.6	-	1,162.9

Segment profit/(loss)					
Operating profit/(loss) before other items	15.4	9.7	(0.7)	(6.5)	17.9
Share of results of JVs and associates	0.3	-	-	-	0.3
Profit/(loss) from operations before other items	15.7	9.7	(0.7)	(6.5)	18.2

Other items:					
Arbitration award on historical building project	(9.7)	-	-	-	(9.7)
Impairment of Alcaidesa marina	-	-	(5.9)	-	(5.9)
Loss on disposal of subsidiary undertakings	-	-	(3.0)	-	(3.0)
Amortisation of acquired intangible assets	(1.4)	(0.9)	-	-	(2.3)
Employment related and other deferred consideration	(0.2)	-	-	-	(0.2)
Profit/(loss) from operations	4.4	8.8	(9.6)	(6.5)	(2.9)

Net finance expense					(3.7)
Loss before tax					(6.6)

5. Net finance expense

Finance expense includes the interest income on the net assets of the defined benefit pension scheme of £0.1 million (2019 half-year: £Nil, 2019 year: £0.1 million) and interest expense of £0.3 million relating to right-of-use assets (2019 half-year: £0.5 million, 2019 year £1.3 million).

6. Taxation

Half-year ended 30 June, year ended 31 December	2020 Half-year £m	2019 Half-year £m	2019 Year £m
Current tax	-	1.1	3.0
Deferred tax	17.6	(2.0)	0.7
Tax credit/(expense) in the condensed consolidated income statement	17.6	(0.9)	3.7
Effective tax rate	19.0%	10.7%	56.1%

The tax credit is represented by the estimate of the effective tax rate for the year.

7. (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on loss for the period of £74.7 million (2019 half-year: profit £7.5 million, 2019 year: loss £2.9 million) and the number of shares set out below:

	2020 Half-year	2019 Half-year (Restated)	2019 Year (Restated)
	Number (millions)	Number (millions)	Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	150.0	122.3	122.5
Dilutive potential ordinary shares arising from employee share schemes	0.2	2.4	0.2
Weighted average number of ordinary shares in issue for fully diluted earnings per share calculation	150.2	124.7	122.8

Prior period shares have been restated following the capital raise in the period to 30 June 2020.

8. Dividends

	Dividend per share pence	Half-year ended 30 June 2020 £m	Half-year ended 30 June 2019 £m	Year ended 31 December 2019 £m
Final dividend for the year ended 31 December 2018	10.0	-	10.7	10.7
Interim dividend for the year ended 31 December 2019	3.8	-	-	4.1
Final dividend for the year ended 31 December 2019	-	-	-	-
Amount recognised as distributions to equity holders in the period		-	10.7	14.8
Dividends settled in shares		-	(0.8)	(1.3)
Dividends settled in cash		-	9.9	13.5

9. Non-current assets

Intangible assets	Acquired intangible assets £m	Other intangible assets £m	Total intangible assets £m
Cost			
At 1 January 2019	79.2	7.7	86.9
Additions	-	0.9	0.9
At 30 June 2019	79.2	8.6	87.8
At 1 July 2019	79.2	8.6	87.8
Additions	-	2.2	2.2
At 31 December 2019	79.2	10.8	90.0
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
Amortisation			
At 1 January 2019	21.5	6.9	28.4
Charge for the period	1.1	0.1	1.2
At 30 June 2019	22.6	7.0	29.6
At 1 July 2019	22.6	7.0	29.6
Charge for the period	1.1	0.3	1.4
At 31 December 2019	23.7	7.3	31.0
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
Net book value			
At 30 June 2020	55.0	4.4	59.4
At 1 January 2020	55.5	3.5	59.0
At 31 December 2019	55.5	3.5	59.0
At 30 June 2019	56.6	1.6	58.2
At 1 January 2019	57.7	0.8	58.5

Tangible assets	Right-of-use assets				Total tangible fixed assets £m
	Land and buildings £m	Plant and equipment £m	Land and buildings £m	Plant and equipment £m	
Cost					
At 1 January 2019	32.1	32.2	20.0	13.0	97.3
Currency movements	(0.1)	-			(0.1)
Additions	0.1	3.0	1.7	4.4	9.2
Disposals	(0.1)	(1.4)	-	(3.6)	(5.1)
At 30 June 2019	32.0	33.8	21.7	13.8	101.3
At 1 July 2019	32.0	33.8	21.7	13.8	101.3
Currency movements	(1.0)	(0.2)	-	-	(1.2)
Additions	-	0.7	-	7.7	8.4
Disposal of subsidiary undertakings	(18.4)	(1.0)	-	-	(19.4)
Disposals	(0.1)	(1.0)	(2.2)	(0.3)	(3.6)

At 31 December 2019	12.5	32.3	19.5	21.2	85.5
At 1 January 2020	12.5	32.3	19.5	21.2	85.5
Currency movements	0.9	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

Depreciation

At 1 January 2019	3.8	20.5	-	-	24.3
Charge for the period	0.4	1.6	3.2	5.1	10.3
Disposals	-	(1.3)	(0.2)	(0.2)	(1.7)
At 30 June 2019	3.2	20.5	2.2	4.1	30.0
At 1 July 2019	3.2	20.5	2.2	4.1	30.0
Currency movements	(0.3)	(0.1)	-	-	(0.4)
Charge for the period	1.4	1.6	2.2	5.1	10.3
Impairment	5.9	-	-	-	5.9
Disposal of subsidiary undertakings	(0.5)	(0.4)	-	-	(0.9)
Disposals	(0.2)	(0.8)	(0.1)	(2.4)	(3.5)
At 31 December 2019	9.5	20.8	4.3	6.8	41.4
At 1 January 2020	9.5	20.8	4.3	6.8	41.4
Currency movements	0.6	0.2	-	-	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

Net book value

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
At 31 December 2019	3.0	11.5	15.2	14.4	44.1
At 30 June 2019	29.5	13.4	18.9	9.6	71.4
At 1 January 2019	28.3	11.7	20.0	13.0	73.0

10. Retirement benefit obligations

	2020 Half-year £m	2019 Half-year £m	2019 Year £m
Present value of defined benefit obligations	(845.3)	(810.6)	(812.1)
Fair value of scheme assets	860.2	815.1	817.0
Recognised asset for defined benefit obligations	14.9	4.5	4.9

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:

	2020 Half-year £m	2019 Half-year £m	2019 Year £m
Opening balance	812.1	752.7	752.7
Interest cost	8.2	10.4	20.6
Remeasurements - demographic assumptions	(10.9)	(9.2)	(7.5)
Remeasurements - financial assumptions	56.1	74.4	74.6
Remeasurements - experience assumptions	(2.4)	-	9.0
Benefits paid	(17.8)	(17.7)	(37.3)
Closing balance	845.3	810.6	812.1

Movement in fair value of scheme assets:

	2020 Half-year £m	2019 Half-year £m	2019 Year £m
Opening balance	817.0	748.5	748.5
Interest income	8.3	10.4	20.7
Remeasurements - return on assets	47.4	63.1	69.1
Contributions by employer	5.4	10.9	16.3
Administrative expenses	(0.1)	(0.1)	(0.3)
Benefits paid	(17.8)	(17.7)	(37.3)
Closing balance	860.2	815.1	817.0

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):

	2020 Half-year %	2019 Half-year %	2019 Year %
Discount rate	1.55	2.20	2.05
Future pension increases	2.75	3.00	2.85
Inflation assumption	2.85	3.15	2.95

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	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	38.0

11. Assets classified as held for sale

The amount presented in the condensed consolidation statement of financial position as Assets held for sale relates to the subsidiary undertaking, Alcaidesa Servicios S.A.U., which holds the Spanish marina concession. The company was sold on 6 August 2020. The net proceeds of sale were £0.6 million below the carrying value, which was reflected by an impairment charge in the period (2019 half year: £Nil, 2019 year-end: impairment of marina asset £5.9 million).

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 2020, 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.

	2020 Half-year		2019 Half-year		2019 Year	
	Carrying amount £m	Cash flows £m	Carrying amount £m	Cash flows £m	Carrying amount £m	Cash flows £m
Foreign exchange contracts						
Purchases	0.2	(8.9)	0.7	(17.9)	(0.5)	(13.0)
Sales	-	(1.4)	(0.1)	(4.2)	0.1	1.0
	0.2	(10.3)	0.6	(22.1)	(0.4)	(12.0)
Interest rate swaps	(0.4)	(0.6)	(0.2)	(1.3)	(0.2)	(0.7)
	(0.2)	(10.9)	0.4	(23.4)	(0.6)	(12.7)

13. Share capital

Issued capital as at 30 June 2020 amounted to £137.5 million (2019 half-year: £54.0 million, 2019 year-end: £54.1 million) and comprised 274,949,741 ordinary shares of 50 pence each.

On 7 May 2020, the Company announced details of a proposed Firm Placing and Placing and Open Offer (the "Capital Raising") to raise gross proceeds of £100 million (£92.5 million after expenses), approximately £80 million by way of a Firm Placing of 133,348,799 ordinary shares and approximately £20 million by way of a Placing and Open Offer of 33,317,868 ordinary shares. The Capital Raising was approved by the Company's shareholders on 27 May 2020. On 29 May 2020, 166,666,667 ordinary shares of 50 pence each were issued in connection with the Capital Raising at an offer price of 60 pence per share.

14. 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 2019.

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.

16. 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

Alex Vaughan - Chief Executive

14 September 2020

Independent review report to Costain Group PLC

Report on the interim financial statements

Our conclusion

We have reviewed Costain Group PLC's interim financial statements (the 'interim financial statements') in the results for the half-year ended 30 June 2020 of Costain Group PLC for the 6 month period ended 30 June 2020. 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.

Emphasis of matter - Going Concern

Without modifying our conclusion on the interim financial statements, we have considered the adequacy of the disclosure made in Note 2 "Statement of compliance" concerning the Group's ability to continue as a going concern.

In preparing their going concern assessment, alongside the most likely base case forecast, the Board has considered potential downside scenarios. The Board's assessment is that at 30 June 2020 the Group has complied with the interest cover covenant and under the forecast scenarios the Group is expected to remain within its banking covenants throughout the going concern period. This assessment is based on treating the contract adjustments in the period on two contracts, P&H and A465, as one-off or exceptional items for the purpose of the banking covenant tests. The Group has informed its banks of this treatment. In the event that the treatment were proven to be incorrect, the Group is in breach of its interest cover covenant at 30 June 2020, and this indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

What we have reviewed

The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 30 June 2020;
- 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 2020 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 2020, 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 2020 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 2020 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 2020 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants
London
14 September 2020

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 at www.mpsonline.org.uk or on 0345 0700705.

Further guidance can also be found on the Company's website at www.costain.com.

Company's Registrar

The Company's Registrar is Equiniti. 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. 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.

ShareGIFT

The Orr Mackintosh Foundation (ShareGift - Registered Charity No. 1052686) operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomical to sell them. Details of the scheme are available on the ShareGift website <http://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.

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