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

Interim results for the half-year ended 30 June 2013

Costain, one of the UK's leading engineering solutions providers, delivering integrated consulting, project delivery and operations and maintenance, announces a 3% increase in underlying operating profit[3], a 20% increase in the order book to £2.9bn and a 7% increase in the interim dividend for the first six months of 2013

The Board is confident of delivering results for the full year in line with its expectations.

	H1 2013	H1 2012 (restated) [1]	FY 2012 (restated) [1]
Revenue[2]	**£462.9m**	**£477.9m**	**£934.5m**
Operating Profit			
- Underlying[3]	**£10.7m**	**£10.4m**	**£24.5m**
Profit before tax			
- Adjusted[4]	**£8.4m**	**£16.3m**	**£28.1m**
- Reported	**£3.1m**	**£14.7m**	**£24.7m**
Basic earnings per share			
- Adjusted[4]	**10.6p**	**22.2p**	**39.7p**
- Reported	**4.3p**	**20.4p**	**35.4p**
Net Cash balance	**£64.3m**	**£131.5m**	**£105.7m**
Dividend per share	**3.75p**	**3.5p**	**10.75p**

1. Re-stated for revised IAS19 Employee benefit accounting standard
2. Including share of joint ventures and associates
3. Underlying operating profit (before amortisation of acquired intangible assets and employment related acquisition consideration) in 2013 excludes £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc and in 2012 excludes the £2.8m one-off costs resulting from pension scheme liability actions.
4. Results stated before amortisation of acquired intangible assets and employment related acquisition consideration and in 2013 before £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc. 2012 includes £10.5m profit arising from transfer of PFI assets into the Group's pension scheme and £2.8m one-off costs resulting from pension scheme liability actions.

- Underlying operating profit[3] increased by 3% to £10.7m (June 2012: £10.4m)
- Adjusted profit before tax[4] of £8.4m (June 2012: £16.3m, which included a £10.5m profit arising from the transfer of PFI assets to the Pension Scheme and £2.7m one-off costs resulting from Pension Scheme liability actions)
- In excess of £900 million of new contracts and extensions secured in the first half
- Forward order book up 20% to £2.9 billion (June 2012: £2.4 billion): over 90% of order book comprises repeat orders
- Over £850 million of revenue secured for FY 2013 by 30 June including 30% of support services activities
- Net cash position of £64.3m (June 2012: £131.5m), reflecting the anticipated transition to lower risk cost reimbursable contracts, reduced levels of advance payments and increasing support services revenues
- Interim dividend increased for sixth successive year, by 7% to 3.75 pence (2012: 3.5 pence)

Post period end, acquisition of EPC Offshore Limited, a specialist oil & gas project management services company, for an initial consideration of £9.6 million, and launch of Costain Upstream to provide services across the life-cycle of upstream oil and gas assets

David Allvey, Chairman, commented:

"This was an encouraging start to the year with a 20% increase in our order book to £2.9 billion and an increase in underlying operating profit, against a backdrop of market conditions which continue to be challenging.

"Costain is building its order book by generating, through its commitment to 'Engineering Tomorrow', innovative integrated service solutions for major customers who are continuing to invest to address essential national needs.

"Costain remains on course to deliver a result for the year in line with the Board's expectations and we are pleased to increase the interim dividend for the sixth successive year."

22 August 2013

A film discussing the highlights of the results is available at www.costain.com

Enquiries:

Costain **Tel: 01628 842 444**
Andrew Wyllie, Chief Executive
Tony Bickerstaff, Finance Director
Graham Read, Communications Director

College Hill **Tel: 020 7457 2020**
Mark Garraway
Helen Tarbet

Notes to Editors (for further information please visit the company website: www.costain.com)

Costain is a leading UK engineering solutions provider, delivering integrated consulting, project delivery and operations and maintenance services, with a portfolio spanning almost 150 years of innovation and technical excellence. The Group's core business segments are in Infrastructure (Highways, Rail, Power and Airports) and Natural Resources (Water, Hydrocarbons and Chemicals, Nuclear Process and Waste).

The Group's strategy involves focusing on blue chip customers in chosen sectors whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements. 'Engineering Tomorrow' is the Costain commitment to generating and delivering innovative, value-driven solutions to meet major national needs.

Costain has worked on a number of high profile infrastructure projects in the UK, including the St Pancras railway station and the Channel Tunnel Rail Link. The Group's current major projects include the municipal waste treatment infrastructure for the Greater Manchester Waste Disposal Authority, EVAP D at Sellafield, one of the largest decommissioning nuclear projects in the UK, and the Network Rail contract for the redevelopment of London Bridge Station.

Chairman's and Chief Executive's statement

We are pleased to report an encouraging start to the year, with a 20% increase in our forward order book to the record level of £2.9 billion. The fact that the order book comprises over 90% repeat orders from our blue chip customers, who are continuing to invest in meeting vital national infrastructure needs, is testimony to the increasing recognition and appeal of Costain, as an innovative solutions provider.

Only a select group of companies in the UK meet the stringent criteria now demanded by blue chip customers, who are increasingly working only with suppliers who can deliver a full range of services across the life cycle of a project, ahead of time and on budget, as well as sharing their corporate and social values. Our key differentiator, which is directly benefitting the order book, is our focus on 'Engineering Tomorrow': a commitment to generating and delivering innovative, value-driven solutions to meet major national needs.

We are providing customers with world class engineering solutions in design, delivery and maintenance by constantly developing new skills, products and services and introducing innovative processes and new technologies. Increasingly, we are also being selected for our ability to provide full programme management as well as project delivery, placing us at an advantage over Tier One programme managers in tendering for and winning long term projects which cover the full life cycle of an asset.

In the first half of the year, Costain was awarded new contracts and extensions worth more than £900 million to the Group. The range of work won reflects the rapid transition in our market positioning and increased breadth of our service offering, and include:

- The £450 million AMP6 programme for Thames Water, our share of a landmark £1.2 billion contract secured in joint venture;
- A £300 million contract, in joint venture, to design, fit-out and commission the railway systems for Crossrail;
- The FEED design for Centrica's gas terminal at Barrow, following successful completion of the design and construction of the Easington terminal for the York field;
- A highways framework contract for Transport for London including the Hammersmith Flyover strengthening project; and
- The electrification upgrade of the West Coast Mainline for Network Rail which is a new area of operation for Costain.

Our collaborative approach and reputation for excellent delivery are primary factors behind our ability to secure such a high level of repeat order business. Additionally, the increasingly strategic nature of our long-term customer relationships has ensured that over 90% of the order book is now some form of target cost, cost reimbursable contract. Whilst this has contributed to the reduction in our net cash balance, it has also significantly improved the risk profile of the Group and afforded us increased visibility over long term margins for the projects in our future pipeline.

We will continue to grow the business both organically and by targeted acquisition. Since the period end, Costain has announced the acquisition of EPC Offshore limited, a specialist oil & gas project management services company, and the launch of Costain Upstream, which will deliver a broad range of engineering services for assets in the upstream oil and gas sector.

Results

Revenue, including the Group's share of joint ventures and associates, for the half-year ended 30 June 2013 was £462.9 million (2012: £477.9 million). Our continuing focus on higher margin activities drove an increase of 3% in Group underlying operating profit of £10.7 million (2012: £10.4 million).

The adjusted profit before tax was £8.4 million which compares with profit before tax in H1 2012 of £16.3million which included a £10.5 million profit arising from the transfer of PFI assets to the Costain Pension Scheme and £2.7 million one-off costs resulting from Pension Scheme liability actions.

Net finance expense amounted to £1.6 million in the period (2012: £1.3 million), the increase mainly due to the pension scheme related net finance element.

Adjusted basic earnings per share were 10.6 pence (2012: 22.2 pence).

Cash Flow

As a result of the Group's rapid transformation, and strategic focus on major blue chip customers who in over 90% of cases now utilise a target cost based, cost reimbursable form of contract, our net cash position includes a lower level of advanced payments than typically paid on traditional lump sum contracts. As anticipated this transition, together with the cash flow implication of a delayed contract completion, largely accounted for the reduction in the net cash position to £64.3 million as at 30 June 2013 (2012: £131.5 million). The average month-end cash balance was £65.6 million during the first six months of the year (June 2012: £120.4 million).

These lower risk target cost contracts, together with the increasing levels of support service related activities which we are carrying out and the general industry trend towards a greater degree of project specific cash balances and supplier prompt payment mechanisms, will continue to change the structure of the cash position in the sector, reflected in increased working capital requirements and therefore lower net cash balances in the future.

The Group has flexible financing in place to support its future growth and has recently increased its total banking and bonding facilities to £495 million and extended the maturity date to 30 June 2017.

Order Book

We were successful in securing a number of major new contract awards and extensions to existing contracts. Consequently, the order book, as at 30 June 2013, increased by 20% to the record level of £2.9 billion (2012: £2.4 billion). It comprises over 90% repeat orders and includes over £850 million revenue secured for 2013, of which 30% is support services related activities.

The order book also provides increasingly good long-term visibility with over £700 million of revenue secured for 2014, an increase of over £100 million on the equivalent figure last year (2012: circa £600 million secured for 2013) and in excess of £1.8 billion secured for 2015 and beyond.

In addition, the Group has also increased its preferred bidder position to over £500 million (2012: £400 million), and the level of tendering activity remains high.

Acquisition of EPC Offshore Limited ("EPC Offshore") and launch of Costain Upstream

After the period end, Costain announced the acquisition of EPC Offshore, a specialist oil & gas project management services company, for an initial consideration of £9.6 million (plus £1.0 million for excess cash). Costain also announced the launch of Costain Upstream, which will provide services across the life-cycle of upstream offshore oil and gas assets.

Established in 2009, and with a workforce today of 75 professional staff led by founder and CEO Keith Wallace, EPC Offshore is a field development and project management specialist providing client-side services to North Sea oil and gas companies. The company is differentiated by its programme management expertise and the highly effective application of proprietary in-house systems and processes.

The acquisition is expected to be earnings enhancing to Costain in the first full year of acquisition.

Costain Upstream will combine the capabilities of ClerkMaxwell, the oil and gas engineering and support services provider, which has more than doubled in size since its acquisition in 2011, and EPC Offshore to increase the scale of the Group's services in the growing, high-value North Sea upstream oil and gas market.

Lapsed all-share merger with May Gurney Integrated Services plc ('May Gurney')

The Boards of Costain and May Gurney announced in March that they had reached agreement on the terms of a recommended all-share merger of Costain and May Gurney (the 'Proposed Merger').

In April, Costain announced that, having undertaken several months of detailed due diligence, it did not believe that it would be in the best interests of Costain shareholders for Costain to amend the terms of the Proposed Merger and that it would not be making a revised offer for May Gurney. Accordingly, the Proposed Merger lapsed in accordance with its terms.

As previously outlined, the Group incurred transaction costs of £3.7m (pre-tax) associated with the May Gurney proposal and these have been expensed in the first-half results and treated as a one-off non trading item.

Dividend

The Board has declared an increased interim dividend of 3.75 pence per share (2012: 3.50 pence per share) which is the sixth successive year of increase. The dividend will be paid on 25 October 2013 to those shareholders on the register as at the close of business on 20 September 2013.

Group Pension Scheme

Over a number of years the Board has taken various decisive actions to manage the Group's legacy pension scheme.

The deficit at 30 June 2013 was £31.6 million net of deferred tax (June 2012: £29.6 million) (Dec 2012: £40.0 million), the reduction since the year-end results from planned contributions and improved market returns. In accordance with the requirement for a tri-ennial review, a full actuarial valuation of the scheme, as at 31 March 2013, is being carried out.

Board

Mike Alexander, a non-executive Director since July 2007, will retire from the Board on 31 March 2014. We would like to thank Mike, albeit ahead of his retirement, for his contribution and advice over the years and wish him well for the future.

Operational Review

One of the strengths of Costain is the ability to focus group-wide resources to meet specific customer requirements, addressing opportunities to optimise returns for the Company as a whole, irrespective of divisional structure.

To help facilitate this speed and agility of response, in November 2012, the Group announced the formation of a new operational structure of two core divisions, with effect from 1 January 2013. The new Natural Resources operating division, encompassing the Group's activities in the Water, Hydrocarbons and Chemicals, Nuclear Process and Waste sectors, now operates alongside the Infrastructure division, which now includes the Group's activities in the Rail, Highways, Power and Airport sectors.

Infrastructure Division

Revenue (including share of joint ventures and associates) in the Infrastructure division during the period was £262.8 million (2012: £246.2 million), with adjusted profit from operations of £14.4 million (2012: £9.6 million). The improved profit performance reflects increased revenue, strong operating returns and additional gains on successfully completed projects.

The order book for the Infrastructure division has grown to £1.7 billion (2012: £1.5 billion), reflecting our successful focus on the most attractive opportunities in our chosen market sectors. We have a strong pipeline of work and the level of tendering activity remains high.

Reflecting our growing presence in the Rail market, during the period we secured, in joint venture, further Crossrail contracts including the installation and commissioning of the railway systems, and the provision of the traction power supply. Good progress was made on the Network Rail redevelopment contracts at London Bridge and Reading stations, and Costain, in joint venture, was awarded its first electrification project on the West Coast main line. Costain is also involved in providing consultancy services for the design of High Speed 2.

Costain continues to be a leading supplier to the Highways Agency and significant progress is being made across a large portfolio of professional services, construction and maintenance contracts. The Area 7 MAC contract was extended and work commenced on further sections of the M1 managed motorway scheme.

Transport for London awarded the Hammersmith Flyover strengthening project following the appointment to their highways framework contract.

In Power, Costain was awarded its first contract by UK Power Networks on the 132kV and 33kV overhead line framework. Costain continued to provide operating services and cooling tower re-pack maintenance at Fiddlers Ferry, Ferrybridge and Ratcliffe power stations for SSE and E.ON.

Natural Resources Division

In the Natural Resources division, revenue (including share of joint ventures and associates) was £199.2 million (2012: £230.9 million). A small adjusted loss from operations of £0.1 million (2012: profit of £5.0 million excluding the profit on PFI transfers) reflects lower revenues, additional costs to complete a project and restructuring and business development costs including the deployment of new skills and capabilities under a strengthened leadership team.

The restructured division has already seen some early success with its order book increased to £1.2 billion (2012: £0.9 billion). The level of tendering activity is also increasing, reflecting the timing and attractiveness of sector opportunities.

Costain is engaged in a number of on-going AMP5 framework contracts with Northumbrian Water, Severn Trent, Southern Water, United Utilities and Welsh Water. The Group has recently announced that it has secured in joint venture its first AMP6 contract, a landmark £1.2 billion integrated service award by Thames Water. The Group is well positioned to secure new contracts or extensions during a Regulatory Review cycle which is expected to require a more integrated service delivery.

In Hydrocarbons and Chemicals, the Group has successfully completed to time and budget the Easington gas terminal for Centrica's York field. The formation of Costain Upstream, which will initially include the ClerkMaxwell and EPC Offshore businesses, is expected to contribute significantly to the division's profitability. Based in Aberdeen, Costain Upstream will deliver engineering, capital projects and asset support services across four principal service lines; Field Development, Subsea Facilities, Topside Facilities, and Floating Systems, and comprises a resource pool of over 350 people including operating and support units in Maidenhead, Teesside, Manchester and Abu Dhabi.

The final, and largest, of the prefabricated modules for the EVAP D nuclear decommissioning project at Sellafield is expected to be shipped to site in September in line with the programme. Work is continuing on various Magnox sites following the award of the 10-year framework contract last year.

In the Waste sector, the Group is completing the PFI contract for the Greater Manchester Waste Disposal Authority. Further progress has been made in the period on the scheme, which utilises a range of sophisticated waste management technologies. One of the two remaining facilities is in an extended commissioning phase with continuing commercial discussions regarding completion.

Land Development

In the non-core Land Development activity in Spain, revenue for the period was £0.9 million (2012: £0.8 million) with a loss of £0.7 million (2012: £1.0 million). The loss reflects the running costs of the operations and with on-going difficult economic conditions in Spain we continue our moratorium on development activity on our land-bank. Our current activities are focused on our leisure businesses of golf courses and a 600 berth yacht marina which has experienced increased levels of activity in the period.

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's medium term performance, and the factors which mitigate these risks, have not significantly changed from those on pages 40 to 41 of the Group's Annual Report for 2012, a copy of which is available from our website www.costain.com.

The Business Review and the notes to these interim financial statements include consideration of uncertainties affecting the Group in the remaining six months of the year.

Summary & Outlook

This was an encouraging start to the year with a 20% increase in our order book to £2.9 billion and an increase in underlying operating profit.

Costain is building its order book by generating, through its commitment to 'Engineering Tomorrow', innovative integrated service solutions for major customers who are continuing to invest to address essential national needs.

Costain remains on course to deliver a result for the year in line with the Board's expectations and we are pleased to increase the interim dividend for the sixth successive year.

David Allvey, Chairman

Andrew Wyllie, Chief Executive

22 August 2013

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December	Notes	**2013 Half-year** Before other items £m	Other items £m	Total £m	2012 Half-year (Restated) Before other items £m	Other items £m	Total £m	2012 Year (Restated) Before other items £m	Other items £m	Total £m
Revenue	3	**462.9**	-	**462.9**	477.9	-	477.9	934.5	-	934.5
Less: Share of revenue of joint ventures and associates		**(36.1)**	-	**(36.1)**	(43.2)	-	(43.2)	(86.1)	-	(86.1)
Group revenue		**426.8**	**-**	**426.8**	434.7	-	434.7	848.4	-	848.4
Cost of sales		**(402.0)**	**-**	**(402.0)**	(409.9)	**-**	(409.9)	(794.2)	**-**	(794.2)
Gross profit		**24.8**	**-**	**24.8**	24.8	-	24.8	54.2	-	54.2
Administrative expenses		**(14.1)**	-	**(14.1)**	(14.4)	-	(14.4)	(29.7)	-	(29.7)
Pension liability management		**-**	-	**-**	(2.7)	-	(2.7)	(2.8)	-	(2.8)
Exceptional transaction costs		**-**	**(3.7)**	**(3.7)**	-	-	-	-	-	-
Amortisation of acquired intangible assets		**-**	**(0.6)**	**(0.6)**	-	(0.7)	(0.7)	-	(1.7)	(1.7)
Employment related deferred consideration		**-**	**(1.0)**	**(1.0)**	-	(0.9)	(0.9)	-	(1.7)	(1.7)
Group operating profit		**10.7**	**(5.3)**	**5.4**	7.7	(1.6)	6.1	21.7	(3.4)	18.3
Profit on sale of interests in joint ventures and associates		**-**	-	**-**	10.5	-	10.5	10.5	-	10.5
Share of results of joint ventures and associates		**(0.7)**	**-**	**(0.7)**	(0.6)	-	(0.6)	(1.4)	-	(1.4)
Profit from operations	3	**10.0**	**(5.3)**	**4.7**	17.6	(1.6)	16.0	30.8	(3.4)	27.4
Finance income		**0.4**	-	**0.4**	0.5	-	0.5	1.0	-	1.0
Finance expense		**(2.0)**	-	**(2.0)**	(1.8)	-	(1.8)	(3.7)	-	(3.7)
Net finance expense	4	**(1.6)**	**-**	**(1.6)**	(1.3)	-	(1.3)	(2.7)	-	(2.7)
Profit before tax		**8.4**	**(5.3)**	**3.1**	16.3	(1.6)	14.7	28.1	(3.4)	24.7
Income tax	5	**(1.4)**	**1.1**	**(0.3)**	(1.8)	0.4	(1.4)	(2.2)	0.6	(1.6)
Profit for the period attributable to equity holders of the parent		**7.0**	**(4.2)**	**2.8**	14.5	(1.2)	13.3	25.9	(2.8)	23.1
Earnings per share										
Basic	6	10.6p	(6.4)p	4.3p	22.2p	(1.9)p	20.4p	39.7p	(4.3)p	35.4p
Diluted	6	10.4p	(6.2)p	4.2p	21.8p	(1.8)p	20.0p	38.3p	(4.1)p	34.2p

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	**2013 Half-year**	2012 Half-year (Restated)	2012 Year (Restated)
	£m	£m	£m
Profit for the period	**2.8**	13.3	23.1
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(0.7)**	(0.6)	(1.1)
Cash flow hedges			
Group:			
Effective portion of changes in fair value during period	**-**	(0.1)	-
Net changes in fair value transferred to retained earnings	**0.2**	0.1	0.1
Joint ventures and associates:			
Effective portion of changes in fair value (net of tax) during period	**(0.1)**	(0.1)	(0.4)
Net changes in fair value (net of tax) transferred to the income statement	**-**	4.0	4.0
Items that will never be reclassified to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	**6.5**	(8.4)	(23.0)
Tax recognised on actuarial (gains)/losses recognised directly in equity	**(1.5)**	0.5	2.4
Other comprehensive income/(expense) for the period	**4.4**	(4.6)	(18.0)
Total comprehensive income and expense for the period attributable to equity holders of the parent	**7.2**	8.7	5.1

Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2012	32.4	3.3	6.1	(4.9)	(6.1)	30.8
Profit for the period	-	-	-	-	13.3	13.3
Other comprehensive (expense)/income	-	-	(0.6)	3.9	(7.9)	(4.6)
Issue of ordinary shares under employee share option plans	0.3	-	-	-	(0.3)	-
Equity-settled share-based payments	-	-	-	-	1.2	1.2
Dividend paid	-	0.2	-	-	(4.4)	(4.2)
At 30 June 2012	32.7	3.5	5.5	(1.0)	(4.2)	36.5
Profit for the period	-	-	-	-	9.8	9.8
Other comprehensive expense	-	-	(0.5)	(0.2)	(12.7)	(13.4)
Equity-settled share-based payments	-	-	-	-	0.9	0.9
Dividend paid	0.1	0.2	-	-	(2.3)	(2.0)
At 31 December 2012	32.8	3.7	5.0	(1.2)	(8.5)	31.8
Profit for the period	**-**	**-**	**-**	**-**	**2.8**	**2.8**
Other comprehensive (expense)/income	**-**	**-**	**(0.7)**	**0.1**	**5.0**	**4.4**
Issue of ordinary shares under employee share option plans	**0.3**	**-**	**-**	**-**	**(0.3)**	**-**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**1.0**	**1.0**
Dividend paid	**-**	**0.2**	**-**	**-**	**(4.7)**	**(4.5)**
At 30 June 2013	**33.1**	**3.9**	**4.3**	**(1.1)**	**(4.7)**	**35.5**

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December	Notes	**2013 Half-year £m**	2012 Half-year £m	2012 Year £m
Assets				
Non-current assets				
Intangible assets	8	**18.5**	19.6	18.7
Property, plant and equipment	8	**8.8**	10.4	9.1
Investments in equity accounted joint ventures		**34.9**	20.4	36.1
Investments in equity accounted associates		**0.8**	1.2	1.6
Loans to equity accounted joint ventures		**1.7**	15.3	-
Loans to equity accounted associates		**4.8**	1.5	2.7
Other		**19.4**	26.1	17.5
Deferred tax		**15.2**	16.1	17.4
Total non-current assets		**104.1**	110.6	103.1
Current assets				
Inventories		**1.6**	1.8	1.7
Trade and other receivables		**191.9**	182.9	181.5
Cash and cash equivalents		**75.3**	133.2	107.4
Total current assets		**268.8**	317.9	290.6
Total assets		**372.9**	428.5	393.7
Equity				
Share capital	10	**33.1**	32.7	32.8
Share premium		**3.9**	3.5	3.7
Foreign currency translation reserve		**4.2**	5.5	5.0
Hedging reserve		**(1.1)**	(1.0)	(1.2)
Retained earnings		**(4.6)**	(4.2)	(8.5)
Total equity attributable to equity holders of the parent		**35.5**	36.5	31.8
Liabilities				
Non-current liabilities				
Retirement benefit obligations	9	**41.1**	39.0	51.9
Other payables		**2.2**	7.3	5.0
Provisions for other liabilities and charges		**0.8**	2.3	1.9
Total non-current liabilities		**44.1**	48.6	58.8
Current liabilities				
Trade and other payables		**278.3**	338.3	297.6
Income tax liabilities		**1.7**	1.7	1.7
Bank overdrafts		**1.0**	1.7	1.7
Interest bearing loans and borrowings		**10.0**	-	-
Provisions for other liabilities and charges		**2.3**	1.7	2.1
Total current liabilities		**293.3**	343.4	303.1
Total liabilities		**337.4**	392.0	361.9
Total equity and liabilities		**372.9**	428.5	393.7

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	**2013 Half-year**	2012 Half-year (Restated)	2012 Year (Restated)
	£m	£m	£m
Cash flows from operating activities			
Profit for the period	**2.8**	13.3	23.1
Adjustments for:			
Share of results of joint ventures and associates	**0.7**	0.6	1.4
Finance income	**(0.4)**	(0.5)	(1.0)
Finance expense	**2.0**	1.8	3.7
Income tax	**0.3**	1.4	1.6
Profit on sales of interests in joint ventures and associates	**-**	(10.5)	(10.5)
Depreciation of property, plant and equipment	**0.9**	1.2	2.3
Amortisation of intangible assets	**0.7**	0.7	1.8
Employment related deferred consideration	**1.0**	0.9	1.7
Share-based payments expense	**1.3**	1.6	2.9
Cash from operations before changes in working capital and provisions	**9.3**	10.5	27.0
Decrease in inventories	**0.1**	0.4	0.6
(Increase)/decrease in receivables	**(13.1)**	(4.6)	4.1
Decrease in payables	**(23.1)**	(4.7)	(48.1)
Movement in provisions and employee benefits	**(6.3)**	(3.4)	(5.9)
Cash used by operations	**(33.1)**	(1.8)	(22.3)
Interest received	**0.4**	0.3	1.0
Interest paid	**(0.6)**	(1.0)	(1.8)
Net cash used by operating activities	**(33.3)**	(2.5)	(23.1)
Cash flows from investing activities			
Dividends received from joint ventures and associates	**1.3**	0.5	0.6
Additions to property, plant and equipment	**(0.6)**	(0.2)	(0.8)
Additions to intangible assets	**(0.5)**	-	(0.1)
Proceeds of disposals of property, plant and equipment	**-**	-	0.6
Additions to loans to joint ventures and associates	**(3.7)**	(2.2)	(5.4)
Net cash used by investing activities	**(3.5)**	(1.9)	(5.1)
Cash flows from financing activities			
Ordinary dividends paid	**(4.5)**	(4.2)	(6.2)
Proceeds from borrowings	**10.0**	-	-

Cash from/(used by) financing activities	**5.5**	(4.2)	(6.2)
Net decrease in cash, cash equivalents and overdrafts	**(31.3)**	(8.6)	(34.4)
Cash, cash equivalents and overdrafts at beginning of the period	**105.7**	140.1	140.1
Effect of foreign exchange rate changes	**(0.1)**	-	-
Cash, cash equivalents and overdrafts at end of the period	**74.3**	131.5	105.7

Notes to the interim financial statements

1. General information

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

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

The comparative figures for the financial year ended 31 December 2012 are not the Company's full statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

2. Statement of compliance

This interim financial information for the half-year ended 30 June 2013 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and with the Disclosure and Transparency Rules of the Financial Conduct Authority. The interim financial information should be read in conjunction with the Annual Report for the year ended 31 December 2012.

The Group has adopted the amendments to IAS 19 (revised 2011) "Employee Benefits" (see below) and Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' which requires an entity to present the items of other comprehensive income that may be recycled to profit or loss in the future, separately from those that would never be recycled to profit or loss. All other accounting policies and presentation applied in this Condensed set of financial statements are consistent with those described in the Annual Report for the year ended 31 December 2012.
IAS 19 (Revised) 'Employee Benefits' requires the financing cost of a defined benefit scheme to be calculated on the net asset or liability. It is effective for 2013 and the 2012 figures have been restated. The impact of the restatement of 2012 is to reduce operating profit by £0.6 million (half-year £0.3 million) and to increase pension interest expense by £0.8 million (half year £0.4 million) with a corresponding increase in other comprehensive income. The change has no impact on the pension liability or cash.

The Board approved the unaudited interim financial statements on 22 August 2013.

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2012. The Directors consider that the significant areas of judgment made by management that have significant effect on the Group's performance and estimates with a significant risk of material adjustment in the second half of the year are unchanged from those identified on page 91 of the Annual Report for the year ended 31 December 2012.

3. Business segment information

The Group now has three business segments (see below): Natural Resources, Infrastructure, and Land Development operations in Spain. The segments are strategic business units with separate management and have different core customers or offer different services.

In November 2012, the Group announced the formation of the new Natural Resources operating division, encompassing the Water, Hydrocarbons and Chemicals, Nuclear Process and Waste sectors. The division combined most of the existing Energy & Process and Environment divisions with some support service activities previously in Infrastructure. The new divisional structure enables the Group to align itself more closely with its customers' evolving requirements and to combine further its front end process engineering, project delivery and operations capability into an integrated service for customers.

Half-year ended 30 June 2013

	Natural Resources	Infrastructure	Land Development	Central costs	Total
	£m	£m	£m	£m	£m
External revenue	**164.0**	**262.8**	**-**	**-**	**426.8**
Share of revenue of JVs and associates	**35.2**	**-**	**0.9**	**-**	**36.1**
Total segment revenue	**199.2**	**262.8**	**0.9**	**-**	**462.9**
Group operating (loss)/profit	**(0.1)**	**14.4**	**-**	**(3.6)**	**10.7**
Share of results of JVs and associates	**-**	**-**	**(0.7)**	**-**	**(0.7)**
Profit/(loss) from operations before other items	**(0.1)**	**14.4**	**(0.7)**	**(3.6)**	**10.0**
Other items					
Exceptional transactional costs	**-**	**-**	**-**	**(3.7)**	**(3.7)**
Amortisation of acquired intangible assets	**(0.3)**	**(0.3)**	**-**	**-**	**(0.6)**
Employment related deferred consideration	**(0.8)**	**(0.2)**	**-**	**-**	**(1.0)**
Profit/(loss) from operations	**(1.2)**	**13.9**	**(0.7)**	**(7.3)**	**4.7**
Net finance expense					**(1.6)**
Profit before tax					**3.1**

Half-year ended 30 June 2012 (Restated)

	Natural Resources	Infrastructure	Land Development	Central costs	Total
	£m	£m	£m	£m	£m
External revenue	188.5	246.2	-	-	434.7
Share of revenue of JVs and associates	42.4	-	0.8	-	43.2
Total segment revenue	230.9	246.2	0.8	-	477.9
Group operating profit/(loss)	4.6	9.6	-	(3.8)	10.4
Pension liability management	-	-	-	(2.7)	(2.7)
Profit on sale of investments	10.5	-	-	-	10.5
Share of results of JVs and associates	0.4	-	(1.0)	-	(0.6)
Profit/(loss) from operations before other items	15.5	9.6	(1.0)	(6.5)	17.6
Other items					
Amortisation of acquired intangible assets	(0.3)	(0.4)	-	-	(0.7)
Employment related deferred consideration	(0.6)	(0.3)	-	-	(0.9)
Profit/(loss) from operations	14.6	8.9	(1.0)	(6.5)	16.0
Net finance expense					(1.3)
Profit before tax					14.7

Year ended 31 December 2012 (Restated)	Natural Resources	Infrastructure	Land Development	Central costs	Total
	£m	£m	£m	£m	£m
External revenue	353.5	494.9	-	-	848.4
Share of revenue of JVs and associates	84.2	-	1.9	-	86.1
Total segment revenue	437.7	494.9	1.9	-	934.5
Group operating profit/(loss)	8.1	23.5	-	(7.1)	24.5
Pension liability management	-	-	-	(2.8)	(2.8)
Profit on sales of JVs and associates	10.5	-	-	-	10.5
Share of results of JVs and associates	0.9	-	(2.3)	-	(1.4)
Profit/(loss) from operations before other items	19.5	23.5	(2.3)	(9.9)	30.8
Other items					
Amortisation of acquired intangible assets	(0.8)	(0.9)	-	-	(1.7)
Employment related deferred consideration	(1.2)	(0.5)	-	-	(1.7)
Profit/(loss) from operations	17.5	22.1	(2.3)	(9.9)	27.4
Net finance expense					(2.7)
Profit before tax					24.7

4. Net finance expense

Finance expense includes the interest cost on the net liabilities of the pension scheme of £1.1 million (2012 half-year £0.8 million, 2012 year £1.9 million).

5. Income tax

	2013 Half-year £m	2012 Half-year (Restated) £m	2012 Year (Restated) £m
UK taxation	**-**	-	(0.1)
Deferred tax	**0.3**	1.4	1.7
Income tax expense in the consolidated income statement	**0.3**	1.4	1.6
Effective tax rate	**9.7%**	9.5%	6.5%

The tax charge is represented by the estimate of the effective tax rate for the period.

No account has been taken in these interim financial statements for the reduction in the rate of corporation tax from 23% to 21% with effect from April 2014 and to 20% with effect from April 2015 since the reduced rates were not enacted in the Finance Act 2013 until 17 July 2013.

If the deferred tax asset at 30 June 2013 were computed at 21%, a reduction of £1.3 million would have arisen (£1.8 million credited to the income tax expense and £3.1 million charged to comprehensive income and expense).

A further reduction to reflect the proposed corporation tax rate of 20% from April 2015 would reduce the deferred tax asset by a further £0.7 million.

6. Earnings per share

The calculation of earnings per share is based on profit for the period of £2.8 million (2012 half-year restated £13.3 million, 2012 year restated £23.1 million) and the number of shares set out below:

	2013 Half-year Number (m)	2012 Half-year Number (m)	2012 Year Number (m)
Weighted average number of shares for basic earnings per share calculation	**65.8**	65.1	65.3
Dilutive potential ordinary shares arising from employee share schemes	**1.4**	1.3	2.3
Weighted average number of shares for fully diluted earnings per share calculation	**67.2**	66.4	67.6

7. Dividends

	Dividend per share pence	**Six months ended 30 June 2013 £m**	Six months ended 30 June 2012 £m	Year ended 31 December 2012 £m
Final dividend for the year ended 31 December 2011	6.75	**-**	4.4	4.4
Interim dividend for the year ended 31 December 2012	3.50	**-**	-	2.3
Final dividend for the year ended 31 December 2012	7.25	**4.7**	-	-
Amount recognised as distributions to equity holders in the period		**4.7**	4.4	6.7
Dividends settled in shares		**(0.2)**	(0.2)	(0.5)
Dividends settled in cash		**4.5**	4.2	6.2

The proposed interim dividend of 3.75 pence (2012: 3.50 pence) has not been included as a liability in these interim financial statements because it had not been approved at the period end date. The dividend totalling £2.5 million will be paid on 25 October 2013 to shareholders on the register at the close of business on 20 September 2013. A scrip dividend alternative will be offered.

8. Non-current assets

During the interim period, the Group spent £0.6 million on plant and equipment and £0.5 million on software and development (2012 half-year £0.2 million on plant and equipment, 2012 year £0.8 million on plant and equipment and £0.1 million on software and development).

9. Retirement benefit obligations

	2013 Half-year £m	2012 Half-year £m	2012 Year £m
Present value of defined benefit obligations	**(621.8)**	(581.8)	(610.7)
Fair value of scheme assets	**580.7**	542.8	558.8
Recognised liability for defined benefit obligations	**(41.1)**	(39.0)	(51.9)

Movements in present value of defined benefit obligations:	2013 Half-year £m	2012 Half-year £m	2012 Year £m
Opening balance	**610.7**	600.8	600.8
Interest cost	**13.1**	14.1	27.4
Actuarial losses	**11.7**	10.4	40.7
Pension increase exchange	**-**	(1.7)	(1.7)
Benefits paid (2012 including ETV transfer)	**(13.7)**	(41.8)	(56.5)
Closing balance	**621.8**	581.8	610.7

Movements in fair value of scheme assets:	2013 Half-year £m	2012 Half-year (Restated) £m	2012 Year (Restated) £m
Opening balance	**558.8**	547.9	547.9
Interest income	**12.0**	13.3	25.5
Actuarial gains	**18.3**	2.0	17.6
Contributions by employer	**5.3**	25.0	27.8
Benefits paid (2012 including ETV transfer)	**(13.7)**	(45.4)	(60.0)
Closing balance	**580.7**	542.8	558.8

The following actuarial assumptions have been used in the IAS 19 valuations of the Group’s defined benefit pension scheme (expressed as weighted averages):

	2013 Half-year %	2012 Half-year %	2012 Year %
Discount rate	**4.70**	4.60	4.40
Future pension increases	**3.30**	2.80	2.85
Inflation assumption	**3.40**	2.90	2.95

In February 2012, the Group transferred the Group's interest in two PFI investments into The Costain Pension Scheme (CPS) at an agreed value of £20.3m. During the first half of 2012, the Group implemented Enhanced Transfer Value (ETV) and Pension Increase Exchange (PIE) offers to the members of the CPS.

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	28.7
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	25.9
Increase life expectancy by one year, increases pension liability by	17.0

10. Share capital

Issued capital as at 30 June 2013 amounted to £33.1 million (2012 half-year £32.7 million, 2012 year £32.8 million).

The Company announced on 24 May 2013 that shareholders had, pursuant to the Scrip Dividend Scheme, elected to receive 93,558 ordinary shares of 50 pence each in the Company in lieu of cash in respect of all or part of their final dividend for the year ended 31 December 2012.

The 2010 Long-Term Incentive Plan (LTIP) award vested in April 2013 resulting in the issue of 605,533 shares. Full details will be disclosed in the annual financial statements.

Following admission to the Official List and to trading on the London Stock Exchange of the shares issued pursuant to the Scrip Dividend Scheme and the vesting of the 2010 LTIP award, the Company's issued share capital at the end of the period comprised 66,243,397 ordinary shares of 50 pence each.

The Company operates both a Long-Term Incentive Plan (LTIP) and a Deferred Share Bonus Plan under which directors and senior employees can receive awards of shares subject to defined performance targets being achieved by the Group. Full details of these plans are disclosed in the annual financial statements.

11. Related party transactions

There have been no changes in the nature of related party transactions since the last annual financial statements as at, and for the year ended, 31 December 2012.

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

We confirm that to the best of our knowledge:
• 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 entity 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

David Allvey, Chairman
Andrew Wyllie, Chief Executive
22 August 2013

Independent review report to Costain Group PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 which comprises The Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of financial position, the Condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Andrew Marshall
for and on behalf of KPMG Audit Plc
Chartered Accountants
London

22 August 2013

Shareholder information

Unsolicited mail

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

The Mailing Preference Service
Freepost (LON 20771)
London WE1 0ZT

Company's registrar

The Company's registrar is Equiniti, who are located at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. For enquiries regarding your shareholding, please telephone 0871 384 2250*. If you are calling from outside the UK please telephone +44(0) 121 415 7047. Lines are open 08.30am to 05.30pm, Monday to Friday. You can also view up to date information about your shareholdings by visiting the shareholder website at www.shareview.co.uk. Please ensure that you advise Equiniti promptly of any change of name or address.

Scrip dividend scheme

A scrip dividend alternative will be offered in respect of the interim dividend, enabling shareholders to receive new ordinary shares instead of cash if they so wish. Those shareholders who have already elected to join the scrip dividend scheme will automatically have their interim dividend sent to them in this form. Shareholders wishing to join the scheme for the interim dividend (and all future dividends) should return their completed mandate form to the Registrar, Equiniti, by 04 October 2013. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website www.costain.com or obtained from Equiniti by telephoning 0871 384 2268*.

Dividend payments

If your dividend is not currently paid directly into your bank or building society account and you would like to benefit from this service, please contact Equiniti on 0871 384 2250* who will be pleased to assist. By receiving your dividends in this way you can avoid the risk of cheques getting lost in the post.

ShareGift

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

* Calls to this number cost 8p per minute plus network extras. Lines are open 08.30am to 05.30pm, Monday to Friday. If you are calling from outside the UK please telephone +44(0)121 415 7047.