

## Costain Group PLC

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

### Results for the half-year ended 30 June 2019 ("H1 2019")

Costain, the smart infrastructure solutions company, announces its results for the first half and confirms that the Group remains on course to deliver a full year performance in line with its revised expectations.

- **Improved H1 margins:** underlying<sup>1</sup> operating profit of £21.2 million (H1 2018: £23.2 million\*) with an overall divisional operating margin of 4.0% (H1 2018: 3.5%\*).
- **Strong momentum in securing new work:** £1.1 billion of new contract awards and extensions to existing contracts during the first half, with the order book, as at 30 June, standing at £4.2 billion (H1 2018: £3.7 billion) including c£900 million revenue secured for 2020 (H1 2018: c£850 million for 2019).
- **New 'Leading Edge' strategy in place:** accelerating the Group's deployment of higher margin services through leveraging our strong client relationships and reputation for complex programme delivery.
- **Robust balance sheet:** total net assets of £178.4 million including net cash of £40.8 million, and a positive current asset ratio. Average month-end net cash balance during H1 2019 of £63.7 million (H1 2018: £90.8 million).

Alex Vaughan, chief executive officer, commented:

*"While, as previously announced, delays to certain contract start dates and new awards, together with a contract cancellation will impact our full year performance, we are pleased that the Group has continued to secure significant new work during the first half. We therefore remain on track to deliver our revised expectations for the current year and growth in 2020.*

*"We recently launched our 'Leading Edge' strategy for the development of the business which aims to accelerate the deployment of higher margin activities and deliver a blended divisional margin range of 6%-7% over the medium term. The Group's structure has also been reorganised to better align it to our clients and the markets in which we operate.*

*"With this enhanced strategy and strong market backdrop, underpinned by a robust balance sheet, we are focused on significantly enhancing the value of Costain."*

### Summary financials

|   | H1 2019 | H1 2018<br>Restated* | FY 2018   |
|---|---------|----------------------|-----------|
| <b>Revenue</b>                          |         |                      |           |
| - including share of JVs and associates | £599.2m | £772.9m              | £1,489.3m |
| - reported                              | £594.1m | £758.7m              | £1,463.7m |
| <b>Operating profit</b>                 |         |                      |           |
| - underlying <sup>1</sup>               | £21.2m  | £23.2m               | £52.5m    |
| - reported <sup>3</sup>                 | £10.2m  | £21.4m               | £43.1m    |
| <b>Profit before tax</b>                |         |                      |           |
| - underlying <sup>1</sup>               | £19.5m  | £21.8m               | £49.7m    |
| - reported <sup>3</sup>                 | £8.4m   | £19.9m               | £40.2m    |
| <b>Basic earnings per share</b>         |         |                      |           |
| - underlying <sup>1</sup>               | 15.4p   | 16.6p                | 38.2p     |
| - reported <sup>3</sup>                 | 7.0p    | 15.1p                | 30.9p     |
| <b>Net cash balance<sup>2</sup></b>     | £40.8m  | £77.7m               | £118.8m   |
| <b>Dividend per share</b>               | 3.8p    | 5.15p                | 15.15p    |

\*H1 2018 has been restated in accordance with common practice to reflect the decision to change the accounting treatment of Research & Development Expenditure Credits ('RDEC'), for the 2018 year-end accounts, which is a reclassification between operating profit and taxation of £0.4 million. The reported basic earnings per share remains unchanged as a result of the restatement.

1. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off costs as shown on the income statement.
2. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings and excludes IFRS16 lease liabilities of £30.2 million.
3. H1 2019 reported figures include the impact of the one-off cost of £9.7m in respect of an arbitration award as set out in the trading and financial performance section.

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There will be a presentation to analysts today at 09:00 at Instinctif Partners, 65 Gresham Street, EC2V 7NQ. To register your attendance please contact [emily.smart@instinctif.com](mailto:emily.smart@instinctif.com)

A webcast of the presentation and a short animation summarising the results will be available after 2pm at [www.costain.com/results](http://www.costain.com/results)

**Notes to Editors**

Costain helps to improve people's lives with integrated, leading edge, smart infrastructure solutions across the UK's energy, water, transportation 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](http://www.costain.com)

## CHIEF EXECUTIVE OFFICER'S STATEMENT

The Group's underlying performance and strong level of new work secured in the first half demonstrates that Costain's leading edge services continue to be in demand from its clients and the Group remains on course to deliver full year results in line with its revised expectations, as set out in the trading update issued on 28 June 2019.

We have launched our new 'Leading Edge' strategy which places greater emphasis on leveraging the Group's strong blue-chip client relationships, and reputation for complex programme delivery, through an accelerated deployment of higher margin services including future-shaping strategic consultancy, consultancy and advisory services, asset optimisation and digital technology solutions.

Through a combination of organic and acquisitive growth, the Group's ambition is to derive over half of its profit from higher margin services, targeting a blended divisional margin range of 6%-7% over the medium-term. During the first half, the Group's business mix has been enhanced with approximately 1/3 of operating profit derived from higher margin services and 2/3 from complex delivery activities delivering a combined 4% divisional margin (before central costs) overall, increased from 3.5% in H1 2018. Our ambition is to further shift this mix to 55% over the medium term, from higher margin services with divisional margins in our new target range.

We already have a good level of secured revenue for 2020 at c£900 million (compared to c£850 million for FY2019 at the same stage last year) and which is also higher margin business overall.

### Strategic update

#### 'Leading Edge' strategy

We operate in the energy, water, transportation and defence markets, where key strategic investment has been committed and prioritised. These markets are evolving at a rapid pace as population growth, climate change, customers' expectations of improved service and public demand for action are resulting in the need for our clients to change their business strategies and investment priorities. Our 'Leading Edge' strategy closely aligns our services to meet these changing needs. This strategy is rightly ambitious and our focused implementation plan, together with a new organisation structure, will ensure we drive value for all of our stakeholders.

The Group's divisional structure has been re-organised to create greater client focus and align with growing market opportunities. We have consolidated our activities into two core divisions of 'transportation' (rail, highways and aviation) and 'natural resources' (water, energy and defence). The Group's first half segmental results are being presented on this new divisional basis, including a re-presentation of the 2018 divisional results.

We are working in transportation to meet the increasing demands on existing infrastructure to improve the nation's productivity in the movement of goods and services, passenger experience and journey reliability. This will enhance the UK's regional and global connectivity to unlock economic growth, decarbonising our environment and transitioning our infrastructure to new forms of mobility including connected autonomous vehicles and hydrogen trains.

To meet these demands, Network Rail has announced a 25% increase in spending to £47 billion in Control Period 6 from 2019 to 2024 and a reorganisation of its business to put the 'Passenger First'. Highways England has announced £25 billion of investment in its strategic roads programme and an increase in its digital smart motorway networks. The Government has committed the UK to be a leader in the development and integration of connected autonomous vehicles, a growing market opportunity expected to be worth c£11 billion per annum in the UK by 2030.

In water we are supporting our clients, the regulated water companies, to enhance their business resilience to manage the demands from climate change and population growth, protecting and enhancing our environment, optimising the performance of their existing infrastructure, increasing capacity and reducing energy costs using self-generated renewable sources.

Ofwat has announced commitments to invest c£50 billion during AMP 7 to meet these demands, through the development of new and better ways of delivering the required services. As an example, Thames Water has announced that it will invest £1 billion during AMP 7 to exploit digital technology to improve business performance and deliver efficiency benefits.

Across our energy clients we are working to ensure the safe and reliable supply of energy, drive innovation to reduce cost, increase the supply of renewables and meet decarbonisation targets while responsibly

decommissioning historical energy generation.

Our energy clients are responding to regulatory demands set by Ofgem, the Nuclear Decommissioning Authority and the Oil & Gas Authority that will include significant investment, with c£60 billion invested during RII0-1. The Government's vision for a future energy market is one where innovation brings greater choice to consumers, allowing them to take advantage of the increased flexibility and lower cost of a smart, low carbon energy system.

For our defence clients we are providing risk and programme management, project controls and consultancy support for the delivery of major defence programmes to safeguard national security.

In supporting our clients to shape the changing nature of our future infrastructure we continue to sponsor 21 PhD students, working with leading universities and business groups to further enhance our capability and expertise to find innovative solutions to meet our clients' needs.

We have a highly skilled and experienced workforce of c3,500 people, with over one third of our people working across consultancy and technology roles, over 650 chartered professionals with a diverse range of capabilities, c160 graduates developing their skills and c150 apprentices on a structured development programme. Our inclusion and wellbeing strategies ensure we support our teams to be at their best, and for the second year running we have been listed in the Times Top 50 Employers for Women and named as one of its 'Game Changers' for the actions we have taken on diversity.

Along with our engineering consultancy centre in Manchester where over 350 of our team are based, we have opened our new enlarged technology centre in Somerset, housing c150 of our technology specialists. This enables us to work collaboratively with our clients to develop pioneering technology solutions.

Our strategy sees Costain differentiate itself through long-term strategic client relationships, valuable client insight, benefits-driven leading edge services, a reputation for making things happen and above all our outstanding and diverse team.

### **Trading and financial performance**

Revenue, including the Group's share of joint ventures and associates, reduced 22% to £599.2 million in the first half of the year (2018: £772.9 million) and resulted in underlying operating profit decreasing by 8.6% to £21.2 million (2018: £23.2 million). As anticipated, the Group's underlying operating margin has increased to 3.5% (2018: 3.0%), with the overall blended margin from the divisional activities, before central costs, increasing to 4.0% (2018: 3.5%).

The Group's operating profit benefits from a continuing improvement in the natural resources division where a healthier return from the broad range of services is being delivered, and a good return from the transportation division. The reduction in revenue results from a lower level of capital project activity in the period. The increase in the Group's underlying operating profit margin reflects the changing mix of the Group's activities in line with our strategy.

As announced in the trading update issued on 28 June, during the first half the Group has seen a number of delays to the timing of contract start dates and new awards and the cancellation of a project. Consequently we announced that the revenue for the full year will be lower than previously anticipated and underlying operating profit for the full year is expected to be in the range of £38.0 million to £42.0 million.

The results include a one-off charge of £9.7 million in respect of an arbitration award in favour of Diamond Light Source Limited for the cost of remedial works deemed required to the roof at the National Synchrotron facility. The building was constructed by the Group under a contract awarded in 2004 with the works completed in August 2006. The sub-contractor on the project, who undertook the installation of the roof, would have been contractually liable for the remedial works but went into administration in November 2017. The nature of the contract, undertaken by our then building business, is no longer within the Group's activities or strategy and, therefore, the underlying trading results have been reported before the impact from this one-off item.

Net finance expense amounted to £1.9 million (2018: £1.6 million), with the increase due to the discount unwind on leases resulting from the introduction of IFRS16, the impact of which is described more fully in the notes to the accounts.

Underlying profit before tax, which represents profit before acquired intangible amortisation, employment related deferred consideration and other one-off items, reduced by 10.6% to £19.5 million (2018: £21.8 million). Statutory reported profit before tax was £8.4 million (2018: £19.9 million) including the impact of the one-off cost

of £9.7m in respect of an arbitration award as set out above.

The Group's effective rate of tax was 10.7% on the statutory reported basis (2018: 19.1%). The effective tax rate on the underlying earnings was 15.4% (2018: 18.8%). The rate was below the statutory tax rate primarily due to the release of a tax provision following the settlement in the year of an historic tax liability.

Underlying basic earnings per share reduced to 15.4 pence (2018: 16.6 pence). Statutory reported basic earnings per share were 7.0 pence (2018: 15.1 pence).

#### *New work secured*

Our fast-changing market place, together with Costain's strong market position, reputation for adding value and broad range of leading edge services enabled us to secure c£1.1 billion of new work during the first half, including c£600m of new contract awards with the balance resulting from broader scopes of works and/or extensions to existing contracts.

Consequently, the Group's order book at 30 June 2019 stood at £4.2 billion (30 June 2018: £3.7 billion), continuing to provide good visibility for the Group's future performance. Although the absolute size of the order book remains unchanged from the start of the year, we consider it to be higher quality as the shape and nature of the individual contracts reflect our changing strategic market positioning.

For example, in the first half of the year we secured the maintenance services contract for United Utilities, this being the first time they have outsourced their maintenance activity as they seek to drive material efficiency and operational improvements in line with customer expectations and regulatory requirements. Costain's integrated technology and consulting solutions will help United Utilities move from a reactive 'fix-on-fail' approach to a proactive maintenance programme thereby improving the resilience of its assets and environmental outcomes while ensuring continuity of supply and consequently lowering costs for its customers.

In May 2019, the Welsh Government announced its decision not to proceed with the M4 Corridor around Newport scheme, which Costain had developed through its planning and design stages. Consequently, Costain's share of the construction element of the scheme (£0.5 billion) has been removed from the order book in the period.

In line with the Group's strategic focus on consultancy activities, the Group secured over 100 commissions in the period, representing a 12% increase in the Group's consultancy revenues.

The strategic nature of Costain's long-term client relationships has once again ensured that over 90% of the order book comprises repeat business with existing clients and over 90% on a target-cost contractual basis. The order book at 30 June 2019 also provides good long-term visibility with c£0.5 billion of revenue secured for the remainder of 2019, c£0.9 billion for 2020 and c £2.8 billion secured for 2021 and beyond.

In addition, the Group has a preferred bidder position of c£600 million (2018: c£400 million).

#### *Cash position*

The Group continues to have a robust net cash position which at 30 June 2019 was £40.8 million (2018: £77.7 million). The average month-end net cash was £63.7 million for the period (2018: £90.8 million) and is expected to be circa £40-£50 million for the full year, with an anticipated increase in 2020 to £50-£60 million.

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

The Group has implemented revised processes to ensure that suppliers are paid promptly, with the average time taken to pay invoices reduced to 36 days from 59 days in the same period in 2018, with the associated working capital requirement also impacting the cash position at the end of the period.

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

### *Capital allocation*

The Group has a robust balance sheet, with a high net asset base, positive net current assets and a net cash balance with unutilised bank facilities available for working capital and investment purposes. Evidence of financial strength and robust financial management are pre-requisites for qualification to win new work with our major clients.

A key element in the successful implementation of the Group's strategy is the efficient allocation of capital. The Board regularly reviews the appropriate allocation with regard to the following priorities:

- ensuring that the Group can effectively exploit available organic and acquisition opportunities, deliver on its ongoing obligations, including making regular returns to shareholders, and address the Group's legacy pension contribution commitments
- ensuring an appropriate mix of equity, banking and bonding facilities to appropriately align the composition and structure of the Group's funding with its prevailing strategic and investment priorities and
- maintaining a strong and flexible balance sheet, typically with a net cash position, while being prepared to take on modest leverage if circumstances warrant.

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

### *Pension scheme*

As at 30 June 2019, the surplus on the Group's legacy Costain Pension Scheme in accordance with IAS 19 was £4.5 million (June 2018: surplus of £17.1 million). The decrease in surplus results from a combination of employer contributions, better than expected asset returns, offset by an increase in liabilities from changes in the market-based assumptions used and inclusion of the Guaranteed Minimum pension charge highlighted in December 2018.

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

In addition, as previously implemented, the Group will continue to make an additional contribution so that the total deficit contributions match the total dividend amount paid by the Company each year. In this regard, an additional contribution of £5.0 million was paid in the first half of the year at the time the final dividend payment was made.

The next triennial valuation review is as at 31 March 2019 and an appropriate deficit recovery plan is expected to be agreed well ahead of the regulatory deadline of June 2020.

### *Interim Dividend*

In line with the Group's dividend policy, the Board has declared an interim dividend of 3.8 pence per share (2018: 5.15 pence per share). The dividend will be paid on 18 October 2019 to shareholders on the register as at the close of business on 13 September 2019.

The Board recognises the importance of regular dividends to shareholders and the Group will continue to target dividend cover of around 2.5 times underlying earnings. The Board is committed to growing the dividend in line with earnings over the medium term.

## **Operational review**

Under our 'One Costain' operating model the Group has two core operating and reporting divisions within the business: transportation and natural resources.

### *Change to Group structure*

As set out at the Group's capital markets event held on 2 July 2019, Costain has enhanced its client focus with the creation of two new sectors, aviation (in the transportation division) and defence (in the natural resources division), where we already provide services to clients but also see further opportunity for the Group. In addition, we are consolidating our energy activities by combining nuclear, oil and gas and power activities

under one sector in the natural resources division to optimise the delivery of services meeting common needs across our energy client base.

Our infrastructure division has been renamed 'transportation', comprising sectors for highways, rail and aviation. Our natural resources division comprises sectors for water, energy and defence. Comparative financial information has been re-presented to reflect the Company's nuclear activities transferring from the previously reported Infrastructure division to the current natural resources division.

### ***Transportation***

The division had revenue (including joint ventures and associates) of £380.2 million (2018: £531.2 million) and underlying operating profit of £14.6 million (2018: £18.8 million). The revenue and profit reduction results from a lower level of lower-margin, large capital project activity compared to the prior year. The underlying operating margin in the period has increased to 3.8% from 3.5%, towards the Group's strategic target, and is anticipated to be at a similar level for the full year. The margin has been impacted by the continued investment in work winning and an increase in the level of technology capability overhead, in line with a strategic change in mix of services, to pursue the market opportunities available.

The division has a forward order book of £3.0 billion (2018: £2.8 billion).

### ***Highways***

Costain is a leading provider of services and technology to Highways England, the Government-owned body responsible for operating England's strategic road network. In the first half of 2019 we mobilised two new regional delivery partnerships with Highways England, following our appointment to frameworks in the North and East of England, and we are now preparing a group of schemes to improve the A1 trunk road in the North-East. We have also made excellent progress on Highways England's flagship project, the A14 Cambridge to Huntingdon improvement, which when complete in 2020 will transform journeys along this strategically important corridor to the East Coast ports and to science and technology employment sites in Cambridgeshire.

We remain one of the largest providers to Highways England's smart motorways programme and are continuing to upgrade the M1 motorway between junctions 13 and 16 with digital technology that improves capacity, reliability and safety. Our technology centre in Somerset develops and manufactures the digital signs and communications technology needed to operate smart motorway schemes and is continuing to develop new systems to meet the needs of an increasingly digital motorway network. Our technology team is also leading the way in connected vehicle systems and is piloting the next generation of these systems with Highways England and Kent County Council on the A2 and M2 routes in the South-East.

We are also continuing to support Highways England's operations division with asset management contracts in Kent, Sussex and the North East and is working with East Sussex County Council to manage and improve the roads across this county.

In Wales, work is continuing to complete the A465 Heads of the Valleys road on the fringe of the Brecon Beacons National Park, a complex and environmentally sensitive project, that will radically improve east-west communications and help to unlock the economic potential of the region. As previously reported, the project has experienced significant additional scope and we continue to look to resolve the associated impact on the cost and schedule in accordance with the contractual process. This includes the escalation by the client using the resolution mechanism under the contract of a specific matter which has been previously decided in Costain's favour in adjudication.

We have been appointed as the strategic development partner to Bradford Council, expanding our reach into local authority transportation consultancy. We have also been appointed by the Department for Transport as a prime supplier to its STARTwo management consultancy framework, under which we will offer advice to the Government on a range of strategic transportation issues.

### ***Rail***

Costain's rail business continues to focus on Network Rail, Crossrail, Crossrail2 and High Speed 2 in addition to developing new opportunities with other rail clients throughout the UK.

In the period, we agreed the final account for the on-network section of Crossrail to the East of London, which is now fully operational, ahead of the opening of the Elizabeth Line route. Elsewhere we are completing contracts for Crossrail at Paddington and Bond Street stations and across the central section of the network where we are

responsible for tunnel systems and technology, in accordance with supplemental agreements reached with the client.

The upgrade of London Bridge Station was completed and handed back into service in the period, completing over seven years' work to transform one of London's busiest stations to meet the needs of modern-day commuters by improving station capacity, reducing congestion and creating around 70 new retail and leisure units in the station precincts.

In Scotland, we have substantially completed overhead electrification works on the Stirling-Dunblane-Alloa route, achieving new levels of efficiency in the delivery of electrification projects and helping to create programme improvements and a reduced carbon footprint on this line.

On High Speed 2, we are continuing to lead an extensive programme of enabling works across the southern section of the new route between Euston Station, Old Oak Common and West Ruislip. In parallel, we are continuing with the detailed planning, programming and design of the southern main works contracts, where construction is expected to commence in early 2020.

Our railway design capabilities continue to grow and we have been appointed by Network Rail and Innovate UK to develop an automated design tool which has the potential to transform the way in which railway works are designed in the future.

At Gatwick Airport Station, we have been appointed to deliver the construction phase of this critical project, following our successful leadership of the planning and design stages. The scheme will improve passenger safety and convenience at the station whilst eliminating the overcrowding issues between the platforms and the airport. Work is expected to begin in early 2020 with completion during 2022.

#### *Aviation*

We are developing new business across the aviation sector, offering airport operators strategic consultancy and programme management capabilities together with associated design and technology services. The UK aviation sector is expected to grow rapidly in the next five years, with substantial investments expected to be made at Heathrow and Gatwick along with regional airports in Manchester, Birmingham and Bristol.

An early success in the period was our appointment as an innovation partner to Heathrow Airport Limited, where we are advising the airport on carbon management.

#### **Natural Resources**

The natural resources division, which operates in the water, energy and defence markets, made significant progress during the period.

Revenue (including share of joint ventures and associates) was £216.0m (2018: £238.9m) with an increased underlying operating profit of £9.2m (2018: £7.8m), a net margin of 4.3% (2018: 3.3%).

The significant improvement in the margin performance reflects strong growth in profits in water and defence sector activities, as we begin to deliver a higher quality order book. In energy, revenue has reduced following completion of the aggregate jetty at Hinkley in the period.

The division had a forward order book at 30 June 2019 of £1.2bn (2018: £0.9bn), reflecting wins of £0.5bn in the first half of 2019 including some significant contract awards within the regulated AMP 7 cycle in the water sector. The higher quality order book will enable sustainable growth in margins.

#### *Water*

Our Leading Edge strategy is bringing innovation and new technology to meet our clients' changing requirements, as we support them to improve and maintain water quality standards, enhance supply resilience and meet anticipated demographic shifts.

We are now in the final year of the five-year AMP 6 programmes for Thames Water, Severn Trent and Southern Water. Our engagement has enabled our water scientists to optimise existing asset performance, increase capacity in the network, address shortcoming in regulatory performance and deliver significant savings for our clients. Our AMP 6 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.



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

Our bid activity for AMP 7 continues, with the next five-year regulatory period commencing in 2020. We are pleased to have secured new contract awards for AMP 7 including United Utilities Managed Service Provider, health and safety assurance consultancy framework for Yorkshire Water in joint venture with Arup, Capital Delivery Framework for Severn Trent Water and ongoing relationships with other water companies.

In Glasgow, the Shieldhall tunnel contract for Scottish Water to improve water quality and resilience of supply was fully completed, including agreement of the final account.

### *Energy*

With a rapidly changing energy mix, Costain is playing a key role in safeguarding the future resilience of the network,. We are working to shape the future of our decarbonisation infrastructure, with the UK Government committing to a zero net carbon target by 2050.

We continue play an important role in nuclear new build, decommissioning and security, focussing on helping our clients generate energy that is clean and sustainable. Our growing programme management team continue to provide project controls services across the EDF nuclear reactor fleet. Our work at Sellafield on the Decommission Delivery Partner framework, a contract that runs to 2026, is making a positive contribution towards the decommissioning of the nation's legacy nuclear facilities.

We are working with National Grid, Cadent, SGN and Ineos, supported by PhD research, shaping how to transition our energy needs from conventional gas to hydrogen gas. Our engineering technology team are developing early studies to capture carbon dioxide from an industrial cluster in Scotland and store it in redundant oil and gas fields in the Northern UK continental shelf.

In energy networks and storage, our team is ensuring that energy companies build greater resilience and transition from centralised to decentralised energy systems. This includes providing asset management and programme management services in contracts with Cadent and National Grid.

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

In oil, gas and hydrocarbon generation, our team is shaping the future of the UK's energy industry by helping our clients to optimise business value from their critical onshore and offshore assets. We continue to provide ongoing support services to Total and Phillips 66 at their Immingham refineries, along with Drax, EDF and Tata, as well as programme development services and design services to key energy operators both on and off-shore in the UK.

In the period we have continued to secure new contracts for our oil and gas process technology service offering and several strategic development consultancy services. This includes the front-end engineering design of new oil export facilities at Essar's Stanlow refinery to increase capacity, as well as supporting Ineos examine various options for plant life extension at their Kinneil Terminal in Scotland. From our Aberdeen engineering centre, we are also engaged in a significant number of studies for Premier Oil, Ithica and Taqa.

We have also secured strategic advisory commissions for Cadent RIIO2 Gas Distribution Strategy, and separately AGI cost model benchmarking. In addition, we have also secured asset optimisation consultancy for National Grid at St Fergus Gas Terminal running until March 2021.

At Hinkley Point C, we have completed the marine aggregate jetty for EDF. The project experienced significant changes and cost growth and we continue to pursue agreement of the final account for the project, in accordance with the contractual process.

### *Defence*

In defence, we continue to develop our proven applied risk and programme management and project controls consultancy.

Our programme management contract for AWE is progressing well and Costain has added value through the application of digital surveys and solutions.

We continue to provide core support to the MoD's defence equipment programmes, where Costain is designing and implementing new efficient ways of programme and project controls delivery. This is yielding the benefit of increased programme confidence and cost mitigation impacts.

Our team is also shaping the future of the procurement and resource logistics through strategic advisory and training delivery for MoD, sharing industry best practice on project controls and risk mitigation.

### **Alcaidesa**

Alcaidesa is a non-core activity in Spain in which Costain owns operating assets of two golf courses with an associated parcel of land, and a 624-berth marina concession adjacent to Gibraltar. Revenue in the period was £3.0 million (2018: £2.8 million) with a £0.1 million operating loss (2018: breakeven). We continue to review our options for this non-core asset.

### **Risks and uncertainties**

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's medium-term performance, and the factors that mitigate these risks, are set out on pages 46 – 51 of the Group's Annual Report for 2018, a copy of which is available from our website [www.costain.com](http://www.costain.com).

### **Summary and outlook**

While, as previously announced, delays to certain contract start dates and new awards, together with a contract cancellation will impact our full year performance, we are pleased that the Group has continued to secure significant new work during the first half. We therefore remain on track to deliver our revised expectations for the current year and growth in 2020.

We recently launched our 'Leading Edge' strategy for the development of the business which aims to accelerate the deployment of higher margin activities and deliver a blended divisional margin range of 6%-7% over the medium term. The Group's structure has also been reorganised to better align it to our clients and the markets in which we operate.

With this enhanced strategy and strong market backdrop, underpinned by a robust balance sheet, we are focused on significantly enhancing the value of Costain.

**Alex Vaughan**  
**Chief Executive Officer**  
**21 August 2019**

## Condensed consolidated income statement

Half-year ended 30 June,  
year ended 31 December

|  |      | 2019<br>Half-year<br>Unaudited |                      |              | 2018<br>Half-year<br>Unaudited<br>Restated |                      |              | 2018<br>Year<br>Audited |                      |                |
|--|------|--------------------------------|----------------------|--------------|--|----------------------|--------------|-------------------------|----------------------|----------------|
|  | Note | Under<br>lying<br>£m           | Other<br>items<br>£m | Total<br>£m  | Under<br>lying<br>£m                       | Other<br>items<br>£m | Total<br>£m  | Under<br>lying<br>£m    | Other<br>items<br>£m | Total<br>£m    |
| Revenue including share of joint ventures and associates           | 3    | 599.2                          | -                    | 599.2        | 772.9                                      | -                    | 772.9        | 1,489.3                 | -                    | 1,489.3        |
| Less: Share of revenue of joint ventures and associates            |      | (5.1)                          | -                    | (5.1)        | (14.2)                                     | -                    | (14.2)       | (25.6)                  | -                    | (25.6)         |
| <b>Group revenue</b>   |      | <b>594.1</b>                   | <b>-</b>             | <b>594.1</b> | <b>758.7</b>                               | <b>-</b>             | <b>758.7</b> | <b>1,463.7</b>          | <b>-</b>             | <b>1,463.7</b> |
| Cost of sales before other items                                   |      | (554.3)                        | -                    | (554.3)      | (714.2)                                    | -                    | (714.2)      | (1,373.8)               | -                    | (1,373.8)      |
| Historical building project arbitration award                      | 3    | -                              | (9.7)                | (9.7)        | -  | -                    | -            | -                       | -                    | -              |
| Cost of sales  |      | (554.3)                        | (9.7)                | (564.0)      | (714.2)                                    | -                    | (714.2)      | (1,373.8)               | -                    | (1,373.8)      |
| <b>Gross profit</b>  |      | <b>39.8</b>                    | <b>(9.7)</b>         | <b>30.1</b>  | <b>44.5</b>                                | <b>-</b>             | <b>44.5</b>  | <b>89.9</b>             | <b>-</b>             | <b>89.9</b>    |
| Administrative expenses before other items                         |      | (18.6)                         | -                    | (18.6)       | (21.3)                                     | -                    | (21.3)       | (37.4)                  | -                    | (37.4)         |
| Pension GMP equalisation charge                                    | 3    | -                              | -                    | -            | -  | -                    | -            | -                       | (8.6)                | (8.6)          |
| RDEC grant income  | 3    | -                              | -                    | -            | -  | -                    | -            | -                       | 2.6                  | 2.6            |
| Amortisation of acquired intangible assets                         | 3    | -                              | (1.1)                | (1.1)        | -  | (1.5)                | (1.5)        | -                       | (3.0)                | (3.0)          |
| Employment related deferred consideration                          | 3    | -                              | (0.2)                | (0.2)        | -  | (0.3)                | (0.3)        | -                       | (0.4)                | (0.4)          |
| Administrative expenses  |      | (18.6)                         | (1.3)                | (19.9)       | (21.3)                                     | (1.8)                | (23.1)       | (37.4)                  | (9.4)                | (46.8)         |
| <b>Group operating profit</b>                                      |      | <b>21.2</b>                    | <b>(11.0)</b>        | <b>10.2</b>  | <b>23.2</b>                                | <b>(1.8)</b>         | <b>21.4</b>  | <b>52.5</b>             | <b>(9.4)</b>         | <b>43.1</b>    |
| Share of results of joint ventures and associates                  |      | 0.1                            | -                    | 0.1          | 0.1  | -                    | 0.1          | 0.3                     | -                    | 0.3            |
| <b>Profit from operations</b>                                      | 3    | <b>21.3</b>                    | <b>(11.0)</b>        | <b>10.3</b>  | <b>23.3</b>                                | <b>(1.8)</b>         | <b>21.5</b>  | <b>52.8</b>             | <b>(9.4)</b>         | <b>43.4</b>    |
| Finance income   |      | 0.4                            | -                    | 0.4          | 0.3  | -                    | 0.3          | 0.4                     | -                    | 0.4            |
| Finance expense  |      | (2.2)                          | (0.1)                | (2.3)        | (1.8)                                      | (0.1)                | (1.9)        | (3.5)                   | (0.1)                | (3.6)          |
| Net finance expense  | 4    | (1.8)                          | (0.1)                | (1.9)        | (1.5)                                      | (0.1)                | (1.6)        | (3.1)                   | (0.1)                | (3.2)          |
| <b>Profit before tax</b>   |      | <b>19.5</b>                    | <b>(11.1)</b>        | <b>8.4</b>   | <b>21.8</b>                                | <b>(1.9)</b>         | <b>19.9</b>  | <b>49.7</b>             | <b>(9.5)</b>         | <b>40.2</b>    |
| Taxation   | 5    | (3.0)                          | 2.1                  | (0.9)        | (4.1)                                      | 0.3                  | (3.8)        | (9.1)                   | 1.7                  | (7.4)          |
| Profit for the period attributable to equity holders of the parent |      | 16.5                           | (9.0)                | 7.5          | 17.7                                       | (1.6)                | 16.1         | 40.6                    | (7.8)                | 32.8           |
| <b>Earnings per share</b>  |      |                                |                      |              |  |                      |              |                         |                      |                |
| Basic  | 6    | 15.4p                          | (8.4)p               | 7.0p         | 16.6p                                      | (1.5)p               | 15.1p        | 38.2p                   | (7.3)p               | 30.9p          |
| Diluted  | 6    | 15.1p                          | (8.2)p               | 6.9p         | 16.3p                                      | (1.5)p               | 14.8p        | 37.4p                   | (7.2)p               | 30.2p          |

\* See note 14 for details regarding the restatement as a result of a change in accounting policy

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,<br>year ended 31 December  | 2019<br>Half-year<br>unaudited<br>£m | 2018<br>Half-year<br>unaudited<br>£m | 2018<br>Year<br>audited<br>£m |
|---|--------------------------------------|--------------------------------------|-------------------------------|
| <b>Profit for the period</b>  | <b>7.5</b>                           | 16.1                                 | 32.8                          |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                         |                                      |                                      |                               |
| Exchange differences on translation of foreign operations                                     | (0.2)                                | (0.1)                                | 0.2                           |
| Net investment hedge  |                                      |                                      |                               |
| • Effective portion of changes in fair value during period                                    | (0.3)                                | 0.2                                  | 0.1                           |
| • Net changes in fair value transferred to the income statement                               | -                                    | -                                    | -                             |
| Cash flow hedges:   |                                      |                                      |                               |
| • Effective portion of changes in fair value during period                                    | (0.4)                                | (1.8)                                | (0.1)                         |
| • Net changes in fair value transferred to the income statement                               | 0.5                                  | 0.3                                  | -                             |
| <b>Total items that may be reclassified subsequently to profit or loss</b>                    | <b>(0.4)</b>                         | (1.4)                                | 0.2                           |
| <b>Items that will not be reclassified to profit or loss:</b>                                 |                                      |                                      |                               |
| Remeasurement of defined benefit obligations  | (2.1)                                | 31.4                                 | 13.3                          |
| Tax recognised on remeasurement of defined benefit obligations                                | 0.4                                  | (5.9)                                | (2.5)                         |
| <b>Total items that will not be reclassified to profit or loss</b>                            | <b>(1.7)</b>                         | 25.5                                 | 10.8                          |
| <b>Other comprehensive (expense)/income for the period</b>                                    | <b>(2.1)</b>                         | 24.1                                 | 11.0                          |
| <b>Total comprehensive income for the period attributable to equity holders of the parent</b> | <b>5.4</b>                           | 40.2                                 | 43.8                          |

## Condensed consolidated statement of changes in equity

|  | Share<br>capital<br>£m | Share<br>premium<br>£m | Translation<br>reserve<br>£m | Hedging<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>equity<br>£m |
|--|------------------------|------------------------|------------------------------|--------------------------|----------------------------|-----------------------|
| At 1 January 2018 - audited                                | 52.8                   | 12.1                   | 2.3                          | 0.8                      | 81.4                       | 149.4                 |
| Profit for the period                                      | -                      | -                      | -                            | -                        | 16.1                       | 16.1                  |
| Other comprehensive income/(expense)                       | -                      | -                      | 0.1                          | (1.5)                    | 25.5                       | 24.1                  |
| Issue of ordinary shares under employee share option plans | 0.3                    | 0.2                    | -                            | -                        | -                          | 0.5                   |
| Shares purchased to satisfy employee share schemes         | -                      | -                      | -                            | -                        | (1.3)                      | (1.3)                 |
| Equity-settled share-based payments                        | -                      | -                      | -                            | -                        | 1.3                        | 1.3                   |
| Dividend paid (note 7)                                     | 0.1                    | 1.0                    | -                            | -                        | (9.8)                      | (8.7)                 |
| At 30 June 2018 - unaudited                                | 53.2                   | 13.3                   | 2.4                          | (0.7)                    | 113.2                      | 181.4                 |
| Profit for the period                                      | -                      | -                      | -                            | -                        | 16.7                       | 16.7                  |
| Other comprehensive income/(expense)                       | -                      | -                      | 0.2                          | 1.4                      | (14.7)                     | (13.1)                |
| Issue of ordinary shares under employee share option plans | 0.2                    | 1.4                    | -                            | -                        | (0.3)                      | 1.3                   |
| Shares purchased to satisfy employee share schemes         | -                      | -                      | -                            | -                        | -                          | -                     |
| Equity-settled share-based payments                        | -                      | -                      | -                            | -                        | 1.0                        | 1.0                   |
| Dividend paid (note 7)                                     | 0.1                    | 0.3                    | -                            | -                        | (5.4)                      | (5.0)                 |
| At 31 December 2018 - audited                              | 53.5                   | 15.0                   | 2.6                          | 0.7                      | 110.5                      | 182.3                 |
| Profit for the period                                      | -                      | -                      | -                            | -                        | 7.5                        | 7.5                   |
| Other comprehensive income/(expense)                       | -                      | -                      | (0.5)                        | 0.1                      | (1.7)                      | (2.1)                 |
| Issue of ordinary shares under employee share option plans | 0.4                    | 0.3                    | -                            | -                        | -                          | 0.7                   |
| Shares purchased to satisfy employee share schemes         | -                      | -                      | -                            | -                        | (0.9)                      | (0.9)                 |
| Equity-settled share-based payments                        | -                      | -                      | -                            | -                        | 0.9                        | 0.9                   |
| Dividend paid (note 7)                                     | 0.1                    | 0.6                    | -                            | -                        | (10.7)                     | (10.0)                |
| At 30 June 2019 - unaudited                                | 54.0                   | 15.9                   | 2.1                          | 0.8                      | 105.6                      | 178.4                 |

## Condensed consolidated statement of financial position

| Half-year as at 30 June,<br>year as at 31 December               |    | 2019<br>Half-year<br>unaudited<br>£m | 2018<br>Half-year<br>unaudited<br>£m | 2018<br>Year<br>audited<br>£m |
|--|----|--------------------------------------|--------------------------------------|-------------------------------|
| <b>Assets</b>  |    |                                      |                                      |                               |
| <b>Non-current assets</b>  |    |                                      |                                      |                               |
| Intangible assets  | 8  | 58.2                                 | 60.0                                 | 58.5                          |
| Property, plant and equipment                                    | 8  | 71.4                                 | 40.7                                 | 40.0                          |
| Investments in equity accounted joint ventures                   |    | 0.4                                  | 0.3                                  | 0.4                           |
| Investments in equity accounted associates                       |    | 0.4                                  | 0.7                                  | 0.5                           |
| Loans to equity accounted associates                             |    | 1.5                                  | 1.6                                  | 1.6                           |
| Retirement benefit asset   | 9  | 4.5                                  | 17.1                                 | -                             |
| Other  |    | 2.4                                  | 7.2                                  | 3.6                           |
| Deferred tax   |    | 1.4                                  | 3.2                                  | 2.7                           |
| <b>Total non-current assets</b>                                  |    | <b>140.2</b>                         | <b>130.8</b>                         | <b>107.3</b>                  |
| <b>Current assets</b>  |    |                                      |                                      |                               |
| Inventories  |    | 1.8                                  | 1.3                                  | 1.5                           |
| Trade and other receivables                                      |    | 311.1                                | 345.0                                | 276.5                         |
| Cash and cash equivalents  |    | 130.5                                | 158.1                                | 189.3                         |
| <b>Total current assets</b>                                      |    | <b>443.4</b>                         | <b>504.4</b>                         | <b>467.3</b>                  |
| <b>Total assets</b>  |    | <b>583.6</b>                         | <b>635.2</b>                         | <b>574.6</b>                  |
| <b>Equity</b>  |    |                                      |                                      |                               |
| Share capital  | 11 | 54.0                                 | 53.2                                 | 53.5                          |
| Share premium  |    | 15.9                                 | 13.3                                 | 15.0                          |
| Foreign currency translation reserve                             |    | 2.1                                  | 2.4                                  | 2.6                           |
| Hedging reserve  |    | 0.8                                  | (0.7)                                | 0.7                           |
| Retained earnings *  |    | 105.6                                | 113.2                                | 110.5                         |
| <b>Total equity attributable to equity holders of the parent</b> |    | <b>178.4</b>                         | <b>181.4</b>                         | <b>182.3</b>                  |
| <b>Liabilities</b>   |    |                                      |                                      |                               |
| <b>Non-current liabilities</b>                                   |    |                                      |                                      |                               |
| Retirement benefit obligations                                   | 9  | -                                    | -                                    | 4.2                           |
| Other payables   |    | 0.4                                  | 3.5                                  | 0.9                           |
| Interest-bearing loans and borrowings                            |    | 60.5                                 | 60.5                                 | 60.5                          |
| Lease liabilities  |    | 15.6                                 | -                                    | -                             |
| Provisions for other liabilities and charges                     |    | 0.1                                  | -                                    | -                             |
| <b>Total non-current liabilities</b>                             |    | <b>76.6</b>                          | <b>64.0</b>                          | <b>65.6</b>                   |
| <b>Current liabilities</b>                                       |    |                                      |                                      |                               |
| Trade and other payables   |    | 282.8                                | 364.0                                | 313.2                         |
| Taxation   |    | 0.9                                  | 4.3                                  | 2.6                           |
| Interest-bearing loans and borrowings                            |    | 29.2                                 | 19.9                                 | 10.0                          |
| Lease liabilities  |    | 14.8                                 | -                                    | -                             |
| Provisions for other liabilities and charges                     |    | 0.9                                  | 1.6                                  | 0.9                           |
| <b>Total current liabilities</b>                                 |    | <b>328.6</b>                         | <b>389.8</b>                         | <b>326.7</b>                  |
| <b>Total liabilities</b>   |    | <b>405.2</b>                         | <b>453.8</b>                         | <b>392.3</b>                  |
| <b>Total equity and liabilities</b>                              |    | <b>583.6</b>                         | <b>635.2</b>                         | <b>574.6</b>                  |

\* See note 14 for details regarding the restatement as a result of a change in accounting policy

## Condensed consolidated cash flow statement

| Half-year ended 30 June,<br>year ended 31 December                           | <b>2019</b><br><b>Half-year</b><br><b>unaudited</b><br><b>£m</b> | 2018<br>Half-year<br>unaudited<br>£m | 2018<br>Year<br>audited<br>£m |
|--|--|--------------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>                                  |  |                                      |                               |
| <b>Profit for the period</b>   | <b>7.5</b>   | 16.1                                 | 32.8                          |
| Adjustments for:   |  |                                      |                               |
| Share of results of joint ventures and associates                            | <b>(0.1)</b>   | (0.1)                                | (0.3)                         |
| Finance income   | <b>(0.4)</b>   | (0.3)                                | (0.4)                         |
| Finance expense  | <b>2.3</b>   | 1.9                                  | 3.6                           |
| Taxation   | <b>0.9</b>   | 3.8                                  | 7.4                           |
| Depreciation of property, plant and equipment                                | <b>8.4</b>   | 2.0                                  | 3.2                           |
| Amortisation of intangible assets  | <b>1.2</b>   | 1.7                                  | 3.4                           |
| Employment related deferred consideration                                    | <b>0.2</b>   | 0.3                                  | 0.4                           |
| Pension GMP equalisation charge  | <b>-</b>   | -                                    | 8.6                           |
| Share-based payments expense   | <b>0.9</b>   | 1.5                                  | 2.9                           |
| Shares purchased to satisfy employee share schemes                           | <b>(0.9)</b>   | (1.3)                                | (1.3)                         |
| <b>Cash from operations before changes in working capital and provisions</b> | <b>20.0</b>  | 25.6                                 | 60.3                          |
| (Increase)/decrease in inventories   | <b>(0.3)</b>   | 0.1                                  | (0.1)                         |
| (Increase)/decrease in receivables   | <b>(33.4)</b>  | (64.1)                               | 8.6                           |
| (Decrease)/increase in payables  | <b>(32.5)</b>  | (40.0)                               | (90.9)                        |
| Movement in provisions and employee benefits                                 | <b>(10.7)</b>  | (9.5)                                | (15.8)                        |
| <b>Cash used by operations</b>   | <b>(56.9)</b>  | (87.9)                               | (37.9)                        |
| Interest received  | <b>0.2</b>   | 0.1                                  | 0.4                           |
| Interest paid  | <b>(1.3)</b>   | (1.1)                                | (2.4)                         |
| Taxation paid  | <b>(0.6)</b>   | (4.2)                                | (8.2)                         |
| <b>Net cash used by operating activities</b>                                 | <b>(58.6)</b>  | (93.1)                               | (48.1)                        |
| <b>Cash flows from investing activities</b>                                  |  |                                      |                               |
| Dividends received from joint ventures and associates                        | <b>0.3</b>   | 0.2                                  | 0.5                           |
| Additions to property, plant and equipment                                   | <b>(9.3)</b>   | (0.3)                                | (1.0)                         |
| Additions to intangible assets   | <b>(0.9)</b>   | -                                    | (0.3)                         |
| Proceeds of disposals of property, plant and equipment and intangible assets | <b>2.4</b>   | 1.4                                  | 2.1                           |
| <b>Net cash (used by)/from investing activities</b>                          | <b>(7.5)</b>   | 1.3                                  | 1.3                           |
| <b>Cash flows from financing activities</b>                                  |  |                                      |                               |
| Issue of ordinary share capital  | <b>0.7</b>   | 0.5                                  | 1.8                           |
| Ordinary dividends paid  | <b>(10.0)</b>  | (8.7)                                | (13.7)                        |
| New leases   | <b>3.9</b>   | -                                    | -                             |
| Principal element of lease payments  | <b>(6.5)</b>   | -                                    | -                             |
| Drawdown of loans  | <b>20.0</b>  | 20.0                                 | 30.0                          |
| Repayment of loans   | <b>(0.7)</b>   | (10.5)                               | (30.5)                        |
| <b>Net cash from/(used by) financing activities</b>                          | <b>7.4</b>   | 1.3                                  | (12.4)                        |
| <b>Net decrease in cash, cash equivalents and overdrafts</b>                 | <b>(58.7)</b>  | (90.5)                               | (59.2)                        |
| Cash, cash equivalents and overdrafts at beginning of the period             | <b>189.3</b>   | 248.7                                | 248.7                         |
| Effect of foreign exchange rate changes                                      | <b>(0.1)</b>   | (0.1)                                | (0.2)                         |
| <b>Cash, cash equivalents and overdrafts at end of the period</b>            | <b>130.5</b>   | 158.1                                | 189.3                         |

\* See note 14 for details regarding the restatement as a result of a change in accounting policy

## 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 2018 are not the Company's full statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

### 2. Statement of compliance

This interim financial information for the half-year ended 30 June 2019 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The accounting policies, presentation and methods of computation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union except for the adoption of new and amended standards as set out below. They do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2018.

#### New standards adopted by the Group

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

Under the new standard, an asset (the right-of-use asset) and a financial liability are recognised. The only exceptions are short term and low value leases.

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

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16. The Group also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 and has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases. The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

The impact of the adoption of this standard and the new accounting policy is discussed in note 14.

#### 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 other standard or interpretation that has been issued but is not yet effective will have a material impact on the financial statements of the Group in future periods.

#### Going concern

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

#### Income statement presentation - Other items

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

#### Principal risks and significant areas of judgement and estimation

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2018. 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 2018.

The Board approved the unaudited interim financial statements on 21 August 2019.

### 3. 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.

## Restructuring

During the period, the Group transferred the nuclear business from within the Infrastructure segment to natural resources and the remaining Infrastructure segment has been renamed transportation. Comparative segmental information has been represented to reflect the current segments.

| Half-year ended 30 June 2019                            | Natural<br>Resources | Transportation | Alcadesa     | Central<br>costs | Total          |
|---|----------------------|----------------|--------------|------------------|----------------|
|   | £m                   | £m             | £m           | £m               | £m             |
| <b>External revenue</b>                                 | <b>210.9</b>         | <b>380.2</b>   | <b>3.0</b>   | <b>-</b>         | <b>594.1</b>   |
| Share of revenue of JVs and associates                  | 5.1                  | -              | -            | -                | 5.1            |
| <b>Total segment revenue</b>                            | <b>216.0</b>         | <b>380.2</b>   | <b>3.0</b>   | <b>-</b>         | <b>599.2</b>   |
| <b>Group operating profit/(loss)</b>                    | <b>9.2</b>           | <b>14.6</b>    | <b>(0.1)</b> | <b>(2.5)</b>     | <b>21.2</b>    |
| Share of results of JVs and associates                  | 0.1                  | -              | -            | -                | 0.1            |
| <b>Profit/(loss) from operations before other items</b> | <b>9.3</b>           | <b>14.6</b>    | <b>(0.1)</b> | <b>(2.5)</b>     | <b>21.3</b>    |
| Other items:  |                      |                |              |                  |                |
| Historical building project arbitration award           | (9.7)                | -              | -            | -                | (9.7)          |
| Amortisation of acquired intangible assets              | (0.5)                | (0.6)          | -            | -                | (1.1)          |
| Employment related deferred consideration               | (0.2)                | -              | -            | -                | (0.2)          |
| <b>Profit/(loss) from operations</b>                    | <b>(1.1)</b>         | <b>14.0</b>    | <b>(0.1)</b> | <b>(2.5)</b>     | <b>10.3</b>    |
| Net finance expense                                     |                      |                |              |                  | (1.9)          |
| <b>Profit before tax</b>                                |                      |                |              |                  | <b>8.4</b>     |
|   |                      |                |              |                  |                |
| Half-year ended 30 June 2018                            | Natural<br>Resources | Transportation | Alcadesa     | Central<br>costs | Total          |
|   | £m                   | £m             | £m           | £m               | £m             |
| <b>External revenue</b>                                 | <b>236.0</b>         | <b>519.9</b>   | <b>2.8</b>   | <b>-</b>         | <b>758.7</b>   |
| Share of revenue of JVs and associates                  | 2.9                  | 11.3           | -            | -                | 14.2           |
| <b>Total segment revenue</b>                            | <b>238.9</b>         | <b>531.2</b>   | <b>2.8</b>   | <b>-</b>         | <b>772.9</b>   |
| <b>Group operating profit/(loss)</b>                    | <b>7.8</b>           | <b>18.8</b>    | <b>-</b>     | <b>(3.4)</b>     | <b>23.2</b>    |
| Share of results of JVs and associates                  | 0.1                  | -              | -            | -                | 0.1            |
| <b>Profit/(loss) from operations before other items</b> | <b>7.9</b>           | <b>18.8</b>    | <b>-</b>     | <b>(3.4)</b>     | <b>23.3</b>    |
| Other items:  |                      |                |              |                  |                |
| Amortisation of acquired intangible assets              | (0.4)                | (1.1)          | -            | -                | (1.5)          |
| Employment related deferred consideration               | (0.3)                | -              | -            | -                | (0.3)          |
| <b>Profit/(loss) from operations</b>                    | <b>7.2</b>           | <b>17.7</b>    | <b>-</b>     | <b>(3.4)</b>     | <b>21.5</b>    |
| Net finance expense                                     |                      |                |              |                  | (1.6)          |
| <b>Profit before tax</b>                                |                      |                |              |                  | <b>19.9</b>    |
|   |                      |                |              |                  |                |
| Year ended 31 December 2018                             | Natural<br>Resources | Transportation | Alcadesa     | Central<br>costs | Total          |
|   | £m                   | £m             | £m           | £m               | £m             |
| <b>External revenue</b>                                 | <b>472.7</b>         | <b>985.6</b>   | <b>5.4</b>   | <b>-</b>         | <b>1,463.7</b> |
| Share of revenue of JVs and associates                  | 7.1                  | 18.5           | -            | -                | 25.6           |
| <b>Total segment revenue</b>                            | <b>479.8</b>         | <b>1,004.1</b> | <b>5.4</b>   | <b>-</b>         | <b>1,489.3</b> |
| <b>Group operating profit/(loss)</b>                    | <b>18.7</b>          | <b>41.4</b>    | <b>(0.7)</b> | <b>(6.9)</b>     | <b>52.5</b>    |
| Share of results of JVs and associates                  | 0.3                  | -              | -            | -                | 0.3            |
| <b>Profit/(loss) from operations before other items</b> | <b>19.0</b>          | <b>41.4</b>    | <b>(0.7)</b> | <b>(6.9)</b>     | <b>52.8</b>    |
| Other items:  |                      |                |              |                  |                |
| Pension GMP equalisation charge                         | -                    | -              | -            | (8.6)            | (8.6)          |
| RDEC grant income                                       | -                    | -              | -            | 2.6              | 2.6            |
| Amortisation of acquired intangible assets              | (1.4)                | (1.6)          | -            | -                | (3.0)          |
| Employment related deferred consideration               | (0.4)                | -              | -            | -                | (0.4)          |
| <b>Profit/(loss) from operations</b>                    | <b>17.2</b>          | <b>39.8</b>    | <b>(0.7)</b> | <b>(12.9)</b>    | <b>43.4</b>    |
| Net finance expense                                     |                      |                |              |                  | (3.2)          |
| <b>Profit before tax</b>                                |                      |                |              |                  | <b>40.2</b>    |

## 4. Net finance expense

Finance expense includes the interest cost on the net liabilities of the pension scheme of £Nil (2018 half-year: £0.2 million, 2018 year: £1.4 million) and discount unwind of £0.6 million (£0.1 million relating to employment related deferred consideration and £0.5 million relating to lease liabilities of right-of-use assets) (2018 half-year: £Nil, 2018 year £0.1 million).



## 5. Taxation

| Half-year ended 30 June,<br>year ended 31 December                | 2019<br>Half-year<br>£m | 2018<br>Half-year<br>£m | 2018<br>Year<br>£m |
|---|-------------------------|-------------------------|--------------------|
| Current tax   | 1.1                     | (1.8)                   | (2.9)              |
| Deferred tax  | (2.0)                   | (2.0)                   | (4.5)              |
| <b>Tax expense in the condensed consolidated income statement</b> | <b>(0.9)</b>            | <b>(3.8)</b>            | <b>(7.4)</b>       |
| Effective tax rate  | 10.7%                   | 19.1%                   | 18.4%              |

The estimation of income tax liabilities in the Interim Financial Statements is based on the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

## 6. Earnings per share

The calculation of earnings per share is based on profit for the period of £7.5 million (2018 half-year: £16.1 million, 2018 year: £32.8 million) and the number of shares set out below:

|   | 2019<br>Half-year<br>millions | 2018<br>Half-year<br>millions | 2018<br>Year<br>millions |
|---|-------------------------------|-------------------------------|--------------------------|
| Weighted average number of ordinary shares in issue for basic earnings per share calculation                | 107.4                         | 106.0                         | 106.3                    |
| Dilutive potential ordinary shares arising from employee share schemes                                      | 2.1                           | 2.8                           | 2.3                      |
| <b>Weighted average number of ordinary shares in issue for fully diluted earnings per share calculation</b> | <b>109.5</b>                  | <b>108.8</b>                  | <b>108.6</b>             |

## 7. Dividends

|  | Dividend per<br>share<br>pence | Half-year<br>ended 30<br>June 2019<br>£m | Half-year<br>ended 30<br>June 2018<br>£m | Year ended<br>31<br>December<br>2018<br>£m |
|--|--------------------------------|--|--|--|
| Final dividend for the year ended 31 December 2017                 | 9.25                           | -  | 9.8                                      | 9.8  |
| Interim dividend for the year ended 31 December 2018               | 5.15                           | -  | -  | 5.4  |
| Final dividend for the year ended 31 December 2018                 | 10.00                          | 10.7                                     | -  | -  |
| Amount recognised as distributions to equity holders in the period |                                | 10.7                                     | 9.8                                      | 15.2                                       |
| Dividends settled in shares  |                                | (0.7)                                    | (1.1)                                    | (1.5)                                      |
| Dividends settled in cash  |                                | 10.0                                     | 8.7                                      | 13.7                                       |

The proposed interim dividend of 3.8 pence (2018: 5.15 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 £4.1 million will be paid on 18 October 2019 to shareholders on the register at the close of business on 13 September 2019. A scrip dividend alternative will be offered.

## 8. Non-current assets

|                                     | Acquired<br>intangible<br>assets<br>£m | Other<br>intangible<br>assets<br>£m | Total<br>intangible<br>assets<br>£m | Land<br>and<br>buildings<br>£m | Plant and<br>equipment<br>£m | Total<br>tangible<br>fixed assets<br>£m |
|-------------------------------------|--|-------------------------------------|-------------------------------------|--------------------------------|------------------------------|---|
| <b>Cost</b>                         |  |                                     |                                     |                                |                              |   |
| At 1 January 2018                   | 79.2                                   | 8.4                                 | 87.6                                | 32.9                           | 32.7                         | 65.6                                    |
| Currency movements                  | -                                      | -                                   | -                                   | -                              | -                            | -                                       |
| Additions                           | -                                      | -                                   | -                                   | 0.1                            | 0.2                          | 0.3                                     |
| Disposals                           | -                                      | (1.0)                               | (1.0)                               | (0.6)                          | (0.7)                        | (1.3)                                   |
| At 30 June 2018                     | 79.2                                   | 7.4                                 | 86.6                                | 32.4                           | 32.2                         | 64.6                                    |
| At 1 July 2018                      | 79.2                                   | 7.4                                 | 86.6                                | 32.4                           | 32.2                         | 64.6                                    |
| Currency movements                  | -                                      | -                                   | -                                   | 0.4                            | 0.1                          | 0.5                                     |
| Additions                           | -                                      | 0.3                                 | 0.3                                 | (0.1)                          | 0.8                          | 0.7                                     |
| Disposals                           | -                                      | -                                   | -                                   | (0.6)                          | (0.9)                        | (1.5)                                   |
| At 31 December 2018                 | 79.2                                   | 7.7                                 | 86.9                                | 32.1                           | 32.2                         | 64.3                                    |
| Adjustment on transition to IFRS 16 | -                                      | -                                   | -                                   | 17.8                           | 15.2                         | 33.0                                    |
| Restated cost at 1 January 2019     | 79.2                                   | 7.7                                 | 86.9                                | 49.9                           | 47.4                         | 97.3                                    |
| Currency movements                  | -                                      | -                                   | -                                   | (0.1)                          | -                            | (0.1)                                   |
| Additions                           | -                                      | 0.9                                 | 0.9                                 | 1.9                            | 7.4                          | 9.3                                     |
| Disposals                           | -                                      | -                                   | -                                   | (0.1)                          | (5.0)                        | (5.1)                                   |
| <b>At 30 June 2019</b>              | <b>79.2</b>                            | <b>8.6</b>                          | <b>87.8</b>                         | <b>51.6</b>                    | <b>49.8</b>                  | <b>101.4</b>                            |
| <b>Amortisation/depreciation</b>    |  |                                     |                                     |                                |                              |   |
| At 1 January 2018                   | 18.4                                   | 6.7                                 | 25.1                                | 2.9                            | 19.7                         | 22.6                                    |

|                       |      |       |       |       |       |       |
|-----------------------|------|-------|-------|-------|-------|-------|
| Currency movements    | -    | -     | -     | -     | -     | -     |
| Charge for the period | 1.5  | 0.2   | 1.7   | 0.4   | 1.6   | 2.0   |
| Disposals             | -    | (0.2) | (0.2) | -     | (0.7) | (0.7) |
| At 30 June 2018       | 19.9 | 6.7   | 26.6  | 3.3   | 20.6  | 23.9  |
| At 1 July 2018        | 19.9 | 6.7   | 26.6  | 3.3   | 20.6  | 23.9  |
| Currency movements    | -    | -     | -     | 0.1   | -     | 0.1   |
| Charge for the period | 1.6  | 0.2   | 1.8   | 0.4   | 0.8   | 1.2   |
| Disposals             | -    | -     | -     | -     | (0.9) | (0.9) |
| At 31 December 2018   | 21.5 | 6.9   | 28.4  | 3.8   | 20.5  | 24.3  |
| At 1 January 2019     | 21.5 | 6.9   | 28.4  | 3.8   | 20.5  | 24.3  |
| Currency movements    | -    | -     | -     | -     | -     | -     |
| Charge for the period | 1.1  | 0.1   | 1.2   | 2.8   | 5.6   | 8.4   |
| Disposals             | -    | -     | -     | (1.2) | (1.5) | (2.7) |
| At 30 June 2019       | 22.6 | 7.0   | 29.6  | 5.4   | 24.6  | 30.0  |
| <b>Net book value</b> |      |       |       |       |       |       |
| At 30 June 2019       | 56.6 | 1.6   | 58.2  | 46.2  | 25.2  | 71.4  |
| At 1 January 2019     | 57.7 | 0.8   | 58.5  | 46.8  | 26.9  | 73.7  |
| At 31 December 2018   | 57.7 | 0.8   | 58.5  | 28.3  | 11.7  | 40.0  |
| At 30 June 2018       | 59.3 | 0.7   | 60.0  | 29.1  | 11.6  | 40.7  |
| At 1 January 2018     | 60.8 | 1.7   | 62.5  | 30.0  | 13.0  | 43.0  |

Included in the net carrying value amount of property, plant and equipment are right-of-use assets as follows:

|                   | Land and buildings<br>£m | Plant and equipment<br>£m | Total right-of-use assets<br>£m |
|-------------------|--------------------------|---------------------------|---------------------------------|
| At 30 June 2019   | 18.4                     | 11.8                      | 30.2                            |
| At 1 January 2019 | 18.5                     | 15.2                      | 33.7                            |

## 9. Retirement benefit obligations

|  | 2019<br>Half-year<br>£m | 2018<br>Half-year<br>£m | 2018<br>Year<br>£m |
|--|-------------------------|-------------------------|--------------------|
| Present value of defined benefit obligations                 | (810.6)                 | (759.6)                 | (752.7)            |
| Fair value of scheme assets                                  | 815.1                   | 776.7                   | 748.5              |
| Recognised asset/(liability) for defined benefit obligations | 4.5                     | 17.1                    | (4.2)              |

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: | 2019<br>Half-year<br>£m | 2018<br>Half-year<br>£m | 2018<br>Year<br>£m |
|---|-------------------------|-------------------------|--------------------|
| Opening balance   | 752.7                   | 803.4                   | 803.4              |
| Past service cost – GMP equalisation charge               | -                       | -                       | 8.6                |
| Interest cost   | 10.4                    | 9.9                     | 19.6               |
| Remeasurements – demographic assumptions                  | (9.2)                   | -                       | (25.9)             |
| Remeasurements – financial assumptions                    | 74.4                    | (42.6)                  | (20.7)             |
| Remeasurements – experience assumptions                   | -                       | 6.1                     | 3.9                |
| Benefits paid   | (17.7)                  | (17.2)                  | (36.2)             |
| Closing balance   | 810.6                   | 759.6                   | 752.7              |

| Movement in fair value of scheme assets: | 2019<br>Half-year<br>£m | 2018<br>Half-year<br>£m | 2018<br>Year<br>£m |
|--|-------------------------|-------------------------|--------------------|
| Opening balance                          | 748.5                   | 779.5                   | 779.5              |
| Interest income                          | 10.4                    | 9.7                     | 19.2               |
| Remeasurements – return on assets        | 63.1                    | (5.1)                   | (29.4)             |
| Contributions by employer                | 10.9                    | 9.9                     | 15.7               |
| Administrative expenses                  | (0.1)                   | (0.1)                   | (0.3)              |
| Benefits paid                            | (17.7)                  | (17.2)                  | (36.2)             |
| Closing balance                          | 815.1                   | 776.7                   | 748.5              |

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

|                          | <b>2019</b><br>Half-year<br>% | 2018<br>Half-year<br>% | 2018<br>Year<br>% |
|--------------------------|-------------------------------|------------------------|-------------------|
| Discount rate            | <b>2.20</b>                   | 2.80                   | 2.80              |
| Future pension increases | <b>3.00</b>                   | 2.90                   | 3.00              |
| Inflation assumption     | <b>3.15</b>                   | 3.00                   | 3.20              |

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<br>liability<br>£m |
|---|----------------------------|
| Increase discount rate by 0.25%, decreases pension liability by                     | 33.0                       |
| Decrease inflation (and pension increases) by 0.25%, decreases pension liability by | 29.0                       |
| Increase life expectancy by one year, increases pension liability by                | 34.0                       |

## 10. Financial instruments

The Group's centralised function manages financial risk, principally arising from liquidity and funding risks and movements in foreign currency rates, in accordance with policies agreed by the Directors. At 30 June 2019, the Group had foreign currency contracts designated as cash flow hedges of future transactions over a period of up to 3 years as summarised below and interest rate swaps that fix the effective LIBOR rate of £60.0 million of borrowings to June 2021. The carrying value represents the fair value of the contract; the cash flows represent the pounds sterling commitments. There were no ineffective hedges at the reporting date.

| Foreign exchange contracts | 2019<br>Half-year        |                     | 2018<br>Half-year        |                  | 2018<br>Year             |                  |
|----------------------------|--------------------------|---------------------|--------------------------|------------------|--------------------------|------------------|
|                            | Carrying<br>amount<br>£m | Cash<br>flows<br>£m | Carrying<br>amount<br>£m | Cash flows<br>£m | Carrying<br>amount<br>£m | Cash flows<br>£m |
| Purchases                  | 0.7                      | (17.9)              | (0.9)                    | (15.5)           | 0.7                      | (18.1)           |
| Sales                      | (0.1)                    | (4.2)               | 0.1                      | 3.0              | (0.1)                    | (2.6)            |
|                            | 0.6                      | (22.1)              | (0.8)                    | (12.5)           | 0.6                      | (20.7)           |
| Interest rate swaps        | (0.2)                    | (1.3)               | 0.1                      | (1.6)            | 0.2                      | (1.5)            |
|                            | 0.4                      | (23.4)              | (0.7)                    | (14.1)           | 0.8                      | (22.2)           |

The Group's investment in Alcaidesa Holding SA is hedged by euro currency contracts which mitigate the foreign currency risk arising from the subsidiary's net assets. The value of the forward sale contracts at 30 June 2019 was €28.0 million (2018 half-year €28.0 million, 2018 year €28.0 million). No ineffectiveness was recognised from the net investment hedge.

## 11. Share capital

Issued capital as at 30 June 2019 amounted to £54.0 million (2018 half-year: £53.2 million, 2018 year: £53.5 million) and comprised 107,906,505 ordinary shares of 50 pence each.

On 17 May 2019, pursuant to the Scrip Dividend Scheme, shareholders elected to receive 197,710 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 2018.

The Company operates a Long-Term Incentive Plan (LTIP) and a Share Deferral Plan (SDP), together with a legacy Deferred Share Bonus Plan (DSBP), under which directors and senior employees can receive awards of shares subject to defined performance targets being achieved by the Group. During the period ended 30 June 2019, the Company issued 570,000 shares on 8 April 2019 to the Employee Benefit Trust in order to satisfy outstanding awards under the LTIP. Full details of these plans are disclosed in the annual financial statements.

During the period ended 30 June 2019, the Company issued 124,947 shares on exercise of options granted under the 2015 3-year SAYE scheme.

## 12. Related party transactions

Details of transactions between the Group and The Costain Pension Scheme are included in Note 9. There have been no other changes in the nature of related party transactions since the last annual financial statements as at and for the year ended 31 December 2018.

## 13. 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. At 30 June 2019, amounts drawn under the bonding facilities amounted to £99.2 million (2018 half-year £99.2 million, 2018 year £99.9 million).

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.

## 14. Change in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases from 1 January 2019 and discloses the new accounting policies that have been applied from 1 January 2019. It also explains the impact of adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements from 1 January 2018 and the Group's change in accounting policy regarding Research and development expenditure credits (RDEC).

### 2019 Changes in Accounting Policy

#### IFRS 16 Leases

The Group has adopted IFRS 16 Leases using the modified retrospective approach as described in the standard. Comparative information has not been restated and continues to be reported under IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

#### Lease liabilities

On adoption of IFRS 16, the Group recognised liabilities in relation to leases which had previously been classified as operating leases and short-term cancellable leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the Group's lease assets was 3.2%.

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

|  | Land and buildings |       | Other operating leases |       | Total |       |
|--|--------------------|-------|------------------------|-------|-------|-------|
|  | £m                 | £m    | £m                     | £m    | £m    | £m    |
| <b>Total committed operating lease commitments disclosed at 31 December 2018</b> |                    | 18.1  |                        | 9.0   |       | 27.1  |
| Recognition exemptions:  |                    |       |                        |       |       |       |
| - Leases of low value assets   | -                  |       | (1.9)                  |       | (1.9) |       |
| - Hindsight adjustment of lease length   | 1.7                |       | -                      |       | 1.7   |       |
| Variable lease payments not recognised   | 1.7                |       | (1.9)                  |       | (0.2) |       |
| - Non-committed operating lease commitments recognised for IFRS 16               | -                  |       | 10.4                   |       | 10.4  |       |
| - Leases of less than one-year duration  | -                  |       | (1.6)                  |       | (1.6) |       |
| Non-committed operating leases recognised  | -                  |       | 8.8                    |       | 8.8   |       |
| <b>Operating lease liabilities before discounting</b>                            |                    | 19.8  |                        | 15.9  |       | 35.7  |
| Discounted using incremental borrowing rate                                      |                    | (2.0) |                        | (0.7) |       | (2.7) |
| <b>Total lease liabilities recognised under IFRS 16 at 1 January 2019</b>        |                    | 17.8  |                        | 15.2  |       | 33.0  |
| Comprising:  |                    |       |                        |       |       |       |
| Current lease liabilities  |                    |       |                        |       |       | 13.4  |
| Non-current lease liabilities  |                    |       |                        |       |       | 19.6  |
| <b>Total lease liabilities</b>   |                    |       |                        |       |       | 33.0  |

There was no impact on the operating leases commitments as lessor disclosure.

#### Right-of-use assets

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

|                                  | £m   |
|----------------------------------|------|
| Land and buildings               | 17.8 |
| Plant and equipment              | 20.0 |
| <b>Total right-of-use assets</b> | 33.0 |

The recognised right-of-use assets are included in note 8.

#### Adjustment to balance sheet items

The change in accounting policy increased tangible fixed assets at 1 January 2019 (right-of-use assets) as above by £33.0 million and increased liabilities by a matching credit (current liabilities: £13.4 million and non-current liabilities £19.6 million).

#### Significant accounting policies

As described above, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

#### Accounting policy applicable before 1 January 2019

##### Leases

Leases principally comprise operating leases. Payments made under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### Accounting policy applicable from 1 January 2019

##### Leases

Where the Group is party to a lease, except for short-term leases or leases of low value assets (as noted below), the Group recognises a right-of-use asset and a lease liability upon lease commencement.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which is located, less any lease incentives received.

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

remeasurements of the lease liability associated with changes to the lease term.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate.

The amount charged to the income statement comprises the depreciation of the right-of-use asset and the imputed interest on the lease liability

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

## **2018 Changes in Accounting Policy**

### **IFRS 9 Financial Instruments – impact of adoption**

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 did not result in changes to the Group's accounting policies nor adjustments to the amounts recognised in the consolidated financial statements.

### **IFRS 15 Revenue from Contracts with Customers - impact of adoption**

The Group adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group adopted the modified retrospective approach and restated the brought forward reserves as at 1 January 2018. A full reconciliation of the impact of the adoption of IFRS 15 is included in the Group's 2018 Annual Report on pages 170-171.

### **Research and development expenditure credits (RDEC)**

The Group changed its accounting policy for research and development expenditure credits for 2018 because these credits have characteristics similar to government grants and it is considered more appropriate to offset the income against the relevant expenditure rather than reflect them in the tax charge. The Group changed its process for collating this data during 2018 and this enabled collection of more current data rather than the lag previously experienced. This will reduce the size of balancing adjustments in respect of prior period grants included in the current year. As a consequence, as part of the policy change the Group included the prior year amounts in other items in 2018.

## **15. Cautionary forward-looking statements**

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

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

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

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

On behalf of the Board

**Paul Golby CBE – Chairman**

**Alex Vaughan – Chief Executive**

21 August 2019

## **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 2019 of Costain Group PLC. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

#### **What we have reviewed**

The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 30 June 2019;
- 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 2019 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 2019, 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 2019 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 2019 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 2019 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

#### **PricewaterhouseCoopers LLP**

Chartered Accountants

London

21 August 2019

**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](http://www.mpsonline.org.uk) or on 0345 0700705.

Further guidance can also be found on the Company's website at [www.costain.com](http://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. 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](http://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 scheme will automatically have their dividend form sent to them.

Shareholders wishing to join the scheme should return a completed mandate form to the Registrar, Equiniti, by 13 September 2019. Copies of the mandate form and scrip dividend brochure can be downloaded from the Company's website at [www.costain.com](http://www.costain.com) or obtained from Equiniti by telephoning 0371 384 2268 or +44 (0) 121 415 7173 if calling from outside the UK.

**Dividend payments**

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

**ShareGIFT**

The Orr Mackintosh Foundation (ShareGift – 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 [www.sharegift.org](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.