COSTAIN GROUP PLC
UNAUDITED RESULTS FOR THE SIX MONTHS
ENDED 30 JUNE 2022
24 AUGUST 2022

Strong operational resilience and cash performance

Alex Vaughan, Chief Executive Officer, commented:

"In the first half of the year we delivered a strong operating performance reflecting volume increases and the inflation recovery mechanisms built into our contracts. Our adjusted operating profit increased by 22% year-on-year, and we had a strong adjusted free cash performance, ending the period with £95.9m, with a positive net cash flow expected in the second half.

"Despite material availability and inflation challenges, we have managed the supply chain pressures effectively, while delivering a robust operational performance with new contracts being won on attractive commercial terms with appropriate risk. Our four chosen markets of Transport, Water, Energy and Defence remain resilient, and the pipeline of potential new business is healthy. We undertook a very high level of bidding activity in the first half, with award decisions expected in H2 22 and in H1 23.

"In July, the company experienced a fatality on one of its Rail projects. We are shocked and saddened by this tragic incident and we, and our sub-contractor, are working with the authorities and our client in an investigation to fully understand its causes. We are focused on supporting the family and on the wellbeing of our colleagues.

"While we remain mindful of the macro-economic backdrop, we are pleased with the quality and scale of our order book, including secured multi-year infrastructure programmes, the volume of preferred bidder work and the additional long-term framework contracts which will deliver continued progress in 2023 and beyond."

Financial summary

£m	H1 22 adjusted[1]	H1 22 adjusting items[1]	H1 22 reported	H1 21 adjusted[1]	H1 21 reported	Adjusted[1] change
Group revenue	665.2	-	665.2	556.8	556.8	19.5%
Operating profit	14.0	(2.1)	11.9	11.5	11.2	21.7%
Operating margin	2.1%	(0.3%)	1.8%	2.1%	2.0%	0.0pp
Profit before tax	13.3	(2.1)	11.2	9.4	9.1	41.5%
Basic EPS	3.9p	(0.6)p	3.3p	2.8p	3.5p	39.3%
Dividend per share			-		-	
Adjusted free cash flow[2]	34.4			28.2		22.0%
			H1 22 reported		FY 21 reported	
Net cash balance[3]			95.9		119.4	

1. Excluding the impact of specified contract provision adjustments and other items (see financial statements note 3).
2. Adjusted free cash flow is an adjusted metric and is calculated as cash flow from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.
3. Net cash balance is cash and cash equivalents less interest-bearing loans and borrowings (before arrangement fees of £0.2m at H1 22 (£1.0m at H1 21)).

H1 2022 Performance

Financial performance for Costain Group PLC, "Costain", the "Group", or the "Company"

- Reported and adjusted[1] Group revenue up 19.5% to £665.2m reflecting primarily volume growth and inflation protection mechanisms within contracts.
- Improved adjusted operating profit[1] up 21.7% to £14.0m in line with management expectations for the Group, with growth across both divisions. Adjusted operating margin was unchanged at 2.1% on H1 21 as volume increases, an improved mix and operational improvements were offset by targeted up-front investment in our digital and consultancy capability, and the timing of increased bid activity on a series of major opportunities during the period, primarily in Transportation.
- Strong adjusted free cashflow of £34.4m reflecting increased adjusted profitability and continued enhanced working capital management. The H1 22 net cash position of £95.9m (FY 21: £119.4m) was after the previously disclosed payment of £43.4m relating to the Peterborough & Huntingdon contract during the period.

Operating performance

- A Health & Safety incident in July saw the Group experience a fatality on one of its Rail contracts and this incident is currently being investigated. In H1 22, we had more than 16 million work hours completed, and five reportable accidents recorded, representing a Lost Time Injury Frequency Rate (LTIR) of 0.06, a 50% reduction on H1 21.
- Continuing momentum in Transportation, with volume growth in Road and Rail, and a high volume of bid activity undertaken in H1 22.
- Natural Resources growth reflecting stable revenue in Water and consultancy-led service growth in Energy and Defence.
- Good visibility of contract revenue with around £560m secured for H2 22 representing approximately 90% of expected Group revenue for the second half, with long-term contracts in place, together with a broadening mix of consultancy-led services.
- Further strategic progress including first-of-a-kind contracts awarded in growth areas including energy, digital and innovation led programmes.
- High quality order book[2]
  - £2.7bn at the end of H1 22 (H1 21: £4.0bn, FY 21: £3.4bn), reflecting the timing of major contract bids and client procurement.
  - Full year order book expected to strongly increase with award decisions on further high-quality contracts expected in H2 22 and H1 23.
  - Preferred bidder book of £0.8bn (H1 21: £0.9bn, FY 21: £0.9bn).
  - Appointed to more than 50 frameworks for higher margin consulting and digital services that are expected to drive revenue growth.

1. Excluding the impact of specified contract provision adjustments and other items (see financial statements note 3).
2. Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Additional business information

	H1 22	H1 21	Change
Transportation adjusted[1] revenue (£m)	**494.6**	**403.9**	**22.5%**
Road	239.2	191.6	24.8%
Rail	219.2	173.4	26.4%
Integrated transport	36.2	38.9	-6.9%
Natural Resources adjusted[1] revenue (£m)	**170.6**	**152.9**	**11.6%**
Water	106.9	100.4	6.5%
Energy	41.4	31.8	30.2%
Defence	22.3	20.7	7.7%
	H1 22	H1 21	Change
Non-financial			
Order book[2] at 30 June (£bn)	2.7	4.0	-32.5%
Lost time injury rate (LTIR)	0.06	0.11	~(50)%

[1] Excluding the impact of specified contract provision adjustments and other items (see financial statements notes 3 and 4).
[2]Order book and secured revenue includes revenue from contracts which are partially or fully unsatisfied and probable revenue from water frameworks included at allocated volume.

Enquiries

Investors and analysts
Helen Willis, CFO, Costain — +44 (0) 7826 291 021

Financial media – Headland — costain@headlandconsultancy.com
Andy Rivett-Carnac — +44 (0) 7968 997 365
Charlie Twigg — +44 (0) 7946 494 568

Analyst & investor presentation

A presentation of our results by Alex Vaughan (CEO) and Helen Willis (CFO) will be at 9.00am (BST).

Please go to https://stream.brrmedia.co.uk/broadcast/62f396132c785a4107c39693 to register for the event.

To register a question please call 0800 279 6877 or +44 (0)330 165 4012 with confirmation code: 8726721.

Board changes

On 6 April 2022, Fiona MacAulay joined the Board as an independent non-executive director and became a member of the Company's Audit, Nomination and Remuneration Committees. Fiona became chair of the Remuneration Committee at the conclusion of the Annual General Meeting on 5 May 2022, taking over from Jacqueline de Rojas, who chaired the Remuneration Committee on an interim basis following the resignation of Alison Wood.

The Nomination Committee is progressing the search for a successor to Paul Golby, who announced on 9 March 2022 that he intended to step down as Chair. An update will be provided when the process is completed.

Use of alternative performance measures

Throughout this release we use a number of 'adjusted' measures to provide users with a clearer picture of the underlying performance of the business. Certain amounts that the Board considers to be material or non-recurring in size or nature, or related to the accounting treatment of acquisitions, are adjusted to aid understanding of the underlying and overall performance of the Group. This is in line with how management monitors and manages the business on a day-to-day basis. These adjustments are discussed in further detail in Note 3 on page 28.

GROUP TRADING PERFORMANCE

We report both our statutory reported results and adjusted results excluding various adjusting items. Key adjusting items for H1 22 comprise £2.6m of transformation and restructuring costs and profit of £0.5m on the sale of a non-core asset.

Reported and adjusted Group revenue was up 19.5% to £665.2m (H1 21: £556.8m). This was driven by increased volumes in Rail and Road, and inflation protection mechanisms built into our contracts in Transportation, as well as increased revenue in Natural Resources, predominantly in Energy.

Reported Group operating profit increased from £11.2m to £11.9m, while Group adjusted operating profit grew by 21.7% to £14.0m (FY21: £11.5m), driven by improved profitability in both divisions. The adjusted operating margin was 2.1% (H1 21: 2.1%) and reflected volume increases, an improved mix and operational improvements, offset by up-front investment in our digital and consultancy capability, and the timing and additional cost of increased bid activity on a series of major opportunities during the period, primarily in Transportation.

Overall, our adjusted operating margin absorbed around 80bps of margin dilution in H1 22 due to a high level of bid activity costs, and targeted investment in consultancy and digital. Overall, we saw inflation indexation delivering stable adjusted operating margins on H1 21.

Adjusted profit before tax was up 41.5% to £13.3m (H1 21: £9.4m), and adjusted basic earnings per share (EPS) increased by 39.3% to 3.9p (H1 21: 2.8p), due mainly to the improved profitability. Reported profit before tax was £11.2m (H1 21: £9.1m) and diluted reported basic earnings per share (EPS) was lower at 3.3p (H1 21: 3.5p), due to the recognition of a tax credit in H1 21.

Our secured revenue for H2 22 is more than £560m, representing around 90% of Group expectations for the second half. Our order book stood at £2.7bn at the end of H1 22 (H1 21: £4.0bn, FY 21: £3.4bn). This reflected the timing of major contract bids, our clients' investment programmes, maintaining discipline in contract selection and the shorter lead time of consulting and digital work. We have undertaken a series of bids on major contracts in H1 22, which we expect to provide an uplift to the order book during H2 22 and H1 23. The order book evolves as contracts progress and as new contracts are added at periods aligned to our clients' strategic procurement windows, therefore it does not provide a complete picture of potential future revenue.

In addition to the contracted order book, we have a further £0.8bn of contracts where we are preferred bidder and more than 50 further secured frameworks for higher margin, short lead time consulting and digital services that are expected to yield revenue growth.

Adjustments to reported items

We incurred £2.6m (H1 21: £nil) on transformation and restructuring costs, £nil (H1 21: £0.3m) on amortisation of acquired intangible assets, which we discuss in detail below, and recognised a profit of £0.5m (H1 21: £nil) on the sale of a non-core asset. We expect a small additional transformation and restructuring cost in H2 22.

Cash flow and liquidity

Adjusted free cash inflow was £34.4m in H1 22 (H1 21: £28.2m), after adjusting for capital expenditure, taxation and pension deficit contributions, driven by the improvement in operating profit and a £9.8m inflow on working capital. The enhanced working capital performance was driven by a continued focus on cash collections. In addition, during H1 22 we paid more than 97% of invoices within 60 days.

After expected payments in relation to historic contracts of £48.4m, including £43.4m related to the settlement of the Peterborough & Huntingdon contract, cash outflow from operations in the period was £19.0m (H1 21: cash inflow £18.6m). This has resulted in a net cash position at the end of H1 22 of £95.9m (FY 21: £119.4m). The Group continues to maintain sufficient committed facilities to meet its funding requirements over the medium term and, as at 30 June 2022, committed facilities totalled £310m in contract bonding and bank bonding facilities.

The Group's current banking facilities expire in September 2023. Management is in negotiations with the respective facility providers to secure a one year "amend and extend" of these facilities. The Board considers an "amend and extend" to be in the best interest of shareholders given the current state of the debt market.

Capital allocation

We understand the importance of delivering long-term sustainable value for shareholders and are committed to maintaining a balanced approach between investment in the business for growth, maintaining a strong balance sheet and returns to shareholders. We look to prioritise uses of cash as follows:

1. Investing for growth – disciplined investment in key areas such as digital to help accelerate our business transformation
2. Progressive dividend – the Board recognises the importance of dividends for shareholders and expects to target dividend cover of around three times underlying earnings taking into account the cash flow generated in the period
3. Selective M&A – retaining optionality to pursue strategic investments in technology, skills and capabilities to enhance our ability to support clients in the face of significant change
4. Returning surplus capital – after ensuring a strong balance and cash position, surplus capital is identified and returned to shareholders through share buy backs or special dividends.

Dividends

The Board is committed to returning to dividend payments at the appropriate time. For now, we are focused on investment for growth, maintaining discipline in contract selection, increasing our cash balances and strengthening our balance sheet.

Outlook

FY 22 adjusted operating profit is expected to show good growth year-on-year and our expectations are unchanged, reflecting our continued improvement and the robust operating performance of the business, together with new contracts being won on attractive commercial terms with appropriate risk. We generated good free cash flow in H1 22 and expect further positive cash inflow in H2 22.

Our pipeline of new opportunities is strong and during H1 22 we have undertaken major contract bids with awards decisions expected in H2 22 and in H1 23.

We remain mindful of the macro-economic and geopolitical backdrop, and recognise the challenges created by higher commodity and energy costs. Given this backdrop, we continue to monitor and work with clients to mitigate these headwinds, as well as challenges in the supply chain. At the same time, we note that the inflation recovery mechanisms built into our contracts has enabled the Group to demonstrate its financial resilience in the face of these challenges.

STRATEGIC PROGRESS

In order to meet key critical national needs, there is more than £650bn of infrastructure investment planned over the next 10 years, underpinned by legislative and regulatory commitments, as the government addresses issues such as security of primary services, inequality of regional growth and climate change. We are strategically positioned in four chosen markets of Transport, Water, Energy and Defence providing for a diversified and resilient business. This sector focus combined with our differentiated offering positions the business strongly to benefit from these long-term investment plans, giving us significant opportunities for growth.

We have specifically chosen to work with clients who wish to partner with us to help them shape, create and deliver their business plan commitments and investment programmes, and navigate the challenges facing their businesses. Our expertise and focus on our key sectors allow us to understand the specific needs of our clients across their strategic, operational and asset creation requirements. With our broad service offering, we are able to service more of the market and create greater competitive advantage. We work as construction, consulting and digital partners, solving problems and delivering innovative engineered solutions. Our vision is to create connected, sustainable infrastructure to help people and the planet thrive.

We are focused on three strategic priorities to drive our strategic ambition.

People

Safety, diversity and inclusion, and social impact are key values for the Group.

In July, the company experienced a fatality on one of its Rail projects. We are shocked and saddened by this tragic incident and we are working with the authorities and our client to investigate and fully understand its causes. Our focus at this time is on supporting the individual's family and on the wellbeing of our colleagues.

During H1 22:

- We had five reportable accidents recorded during 16 million work hours. Our Accident Frequency Rate in H1 22 was 0.03 alongside a Lost Time Injury Frequency Rate of 0.06 (H1 21: 0.11).
- Through our Employee Forums, we have refreshed our Values and linked them to core behaviours that will enhance the delivery of our strategy. Our core Values are Integrity, Customer Focus, Safety & Wellbeing and Environmental & Social Responsibility. Our core behaviours are to be curious, collaborative, courageous and caring.
- In April 2022, we held our first Inclusion-themed Leadership Impact Day. Our 3,500 people, site teams, clients and suppliers came together to discuss increasing inclusion and it received positive feedback from across our stakeholders.
- During H2 22 we will be undertaking our first ethnicity pay gap analysis alongside gender pay gap reporting. In preparation we have sought to increase the number of employees sharing diversity data in our HR system. In 2019, 50% of our workforce had disclosed ethnicity on their personnel record and, after targeted effort, this has since increased to 91%.

Planet

We continue to implement our climate change action plan, working towards net zero carbon by 2035. To validate our plan, we have submitted our climate change action plan to the Science-Based Target Initiative and await endorsement in H2 22.

During H1 22:

- We continue to improve climate and carbon literacy of our broader leadership team, with colleagues completing our bespoke in-house training. We plan to increase training completion to all our identified colleagues, ensuring we have the necessary skills and literacy to drive our journey to net zero carbon.
- In support of our objective to drive carbon reductions on our contracts, all relevant construction contracts have established a baseline and have carbon reduction plans in place. Additionally, these contracts have also set plant idling baselines and are seeking to drive greater fuel efficiency using behavioural science and enhanced data analytics.
- This year marked our first completely diesel-free construction site, on the HS2 Canterbury Works Vent Shaft (working in joint venture with Skanska and STRABAG). Innovations on this site include one of the UK's first 160 tonne emissions-free fully electric crawler cranes; the use of biofuels to power plant and machinery on site; an electric compressor and access to mains power on a 100% renewable energy tariff.

Performance

Infrastructure increasingly needs to deliver more and cost less, both economically and environmentally. We are investing in our digital and consulting capabilities to help our clients with a broadened offering, to optimise existing networks and future proof new ones.

During H1 22:

- We continue to embed our risk controls in securing new business (contract selection, independent risk review and enhanced legal process). As a result, we have managed the risk and return criteria of contracts to meet our requirements and chose not to bid on a small number of opportunities during H1 22.

- We have also enhanced operational contract delivery via an Operational Excellence Model (OEM), comprehensive financial reviews, and senior management ownership. This has improved contract margin resilience.

We have continued to make further strategic progress in the delivery of our strategy during H1 22, which will support future margin and profit growth including:

- Continued development and enhancement of our complex programme delivery expertise and risk management.
- Growth of our delivery partner consultancy role building on our positions with AWE, Babcock and Cadent.
- 30% growth in our energy operations, including the award of the bp net zero for carbon capture and storage, Industrial Cluster footprint growth, and new framework awards for other energy majors.
- Broadening of our design services including the award of the TfL Piccadilly line improvements and water process solutions.
- Securing positions on clients' digital procurement frameworks including positions with National Highways, Network Rail and Central Government.
- First-of-a-kind digital and innovation led contracts including a data-led consultancy programme for the Department of Transport, and National Highways Digital Roads strategy.
- Selected by Ofwat to deliver two innovation projects bringing Hydrogen to the water industry and optimising operational performance through open data systems.

Operating profit growth

Our strategy aims to deliver a transformation in the business over the medium-term, with a step change in performance to support the ambition to deliver a future Group operating margin of 5-6%. We continue to monitor the impact of the expected inflationary pressures on FY 23 revenue and costs.

The key levers being used to deliver increasing adjusted operating profit are:

1. Improving margins on complex programme delivery (construction) contracts. Our Operational Excellence Model is enabling the delivery of construction contracts in line with our target net margin range of 3-5% and we are trading out the proportion of revenue from historically lower margin contracts.
2. Growing our consulting services. The scale of our consultancy activities continues to grow, with contract margins increasing as the scale of the operations supports our cost base, with targets for net consulting margins of more than 5%.

3. Growing digital services. Building on our digital expertise, we are helping our clients shape and develop their plans and we are actively shaping the considerable opportunity as infrastructure markets move to greater digital infrastructure to enhance business performance. We expect net contract margins in this area to be well above 5%. Currently our digital services are loss making as we continue to invest in building this important capability.

At the same time as our complex programme delivery services benefit from our consulting and digital expertise, and will therefore increase margins, we are also growing our standalone consulting and digital services. Taken together, over time, we expect to deliver a progressive increase in both operating profit and operating margin as we implement our strategy.

DIVISIONAL REVIEW

TRANSPORTATION

£m	H1 22 adjusted[1]	H1 22 reported	H1 21 adjusted[1]	H1 21 reported	Adjusted[1] change
Road	*239.2*	*239.2*	*191.6*	*191.6*	*24.8%*
Rail	*219.2*	*219.2*	*173.4*	*173.4*	*26.4%*
Integrated transport	*36.2*	*36.2*	*38.9*	*38.9*	*-6.9%*
Total revenue	494.6	494.6	403.9	403.9	22.5%
Operating profit/(loss)	15.9	15.9	15.5	15.5	2.6%
Operating margin	3.2%	3.2%	3.8%	3.8%	-0.6pp

[1] Excluding the impact of specified contract provision adjustments and other items (see financial statements notes 3 and 4).

- Reported and adjusted revenue up 22.5% as a result of volume increases and inflation protection mechanisms in contracts.
- Reported and adjusted operating margin was 3.2%, down 0.6 percentage points due to up-front investment in our digital and consultancy capability and the timing of increased bid activity on a series of major opportunities during the period, partially offset by increased volumes.

We have seen growth in each of our portfolios driven by work for High Speed 2 (HS2), National Highways, and Network Rail, which represent the majority of Transportation revenue.

Reported and adjusted revenue for **Road** increased by 24.8% in H1 22 on the prior year driven by volume increases and the inflation protection in our contracts. As a strategic partner for National Highways, we support their key investment programmes through the Regional Delivery Partnerships (RDP) major projects framework, and the SMP Alliance delivering smart motorway upgrades. On RDP we have continued to upgrade the A1 around Newcastle and to upgrade to dual carriageway a section of the A30 in Cornwall. Pre-construction and design activities are continuing on the A12 Chelmsford to A120 scheme. Our work delivering the M6 Junctions 21a-26 smart motorway upgrades continues.

Reported and adjusted revenue for **Rail** increased by 26.4% in H1 22 on the prior year, principally as a result of volume increases and the inflation protection of contracts. During H1 22, we completed the delivery of Paddington Station and continue to provide systems-wide rail systems for the Elizabeth Line. Our work on the Gatwick Airport Station Project for Network Rail continues. We will commence work on the HS2 main tunnel bores this summer, and in total we will drive seven tunnel boring machines with scheduled contract completion in 2027. We started operating HS2's first diesel-free construction site this year, and HS2 expects all of its construction sites to be diesel-free by 2029. We continue to expand our portfolio of advisory work with our recent appointment on the Victoria station masterplan project.

Reported and adjusted revenue for **Integrated Transport** decreased by 6.9% in H1 22 on the prior year. We continue to focus on supporting clients with intermodal connectivity and decarbonisation solutions. In H1 22, we completed works on A40 Westway for Transport for London (TfL) five weeks ahead of schedule, and we were appointed by TfL to design critical upgrades to the signalling infrastructure on the Piccadilly line. We have also successfully grown work across a range of clients in Local Authorities and Aviation where we provide consulting and advisory services.

We continue to grow our consulting services to central and local government clients in support of accelerating progress to net zero carbon, green economic recovery and levelling up the UK, and have secured places on all our targeted frameworks.

During the half we secured £81.2m of new work, with major awards expected to be confirmed in H2 22 and FY 23. Revenue secured for H2 22 is £405m for Transportation as of 30 June 2022.

NATURAL RESOURCES

£m	H1 22 adjusted[1]	H1 22 reported	H1 21 adjusted[1]	H1 21 reported	Adjusted[1] change
Water	*106.9*	*106.9*	*100.4*	*101.9*	*6.5%*
Energy	*41.4*	*41.4*	*31.8*	*31.8*	*30.2%*
Defence	*22.3*	*22.3*	*20.7*	*20.7*	*7.7%*
Total revenue	170.6	170.6	152.9	152.9	11.6%
Operating profit/(loss)	2.6	2.4	0.4	0.1	550.0%
Operating margin	1.5%	1.4%	0.3%	0.1%	1.2pp

[1] Excluding the impact of specified contract provision adjustments and other items (see financial statements notes 3 and 4).

- Reported and adjusted revenue up 11.6% primarily driven by strong growth in Energy.
- Adjusted operating margin was 1.5%, up 1.2 percentage points due mainly to revenue growth, improved mix on the addition of new higher margin contracts within Energy, and operational improvements, partially offset by upfront investment in our digital and consultancy capabilities.

Reported and adjusted revenue for **Water** was up 6.5% in H1 22 on the prior year with good visibility across our five-year water AMP7 programmes for Anglian Water, Severn Trent Water, Southern Water, Thames Water and United Utilities, delivering a broad range of services to deliver improved asset and operational resilience, together with decarbonisation capabilities. We are on schedule on Tideway, where, in a joint venture, we are responsible for the eastern section, with tunnelling completed during the period. During H1 22, we have secured Ofwat innovation funding for two projects as part of the 'Transform' stream. We are also engaging with clients to understand their potential requirements for new value-added solutions for AMP8.

Reported and adjusted revenue for **Energy** has shown good growth, increasing by 30.2% in H1 22 on the prior year, building our position in energy transition, with wins including the bp net zero contract at Teesside (part of the East coast cluster), and a new framework appointment by a Tier 1 energy business. Our contracts with Cadent, EDF and Sellafield continue to perform strongly. We are two years into a 10-year service delivery partnership with Cadent, managing the mains replacement programme across the East of England, and during H1 22, we won a new framework with Cadent. We have established positions in a number of projects to enable the wide scale deployment of hydrogen and carbon capture, utilisation and storage (CCUS) technologies. We have completed our first year as deployment lead on the South Wales Industrial Cluster deployment project, and we continue work on the Front End Engineering Design (FEED) for the Acorn carbon capture and storage scheme in St Fergus, Scotland. We have appointed Matt Browell-Hook as Energy sector director.

Reported and adjusted revenue for **Defence** increased by 7.7% in H1 22 on the prior year, with growth in our current delivery partnership role at Devonport and wider defence projects. Revenue in the year was driven by our contract with AWE on a major infrastructure project, where we are providing expertise in design and construction management, and the coordination of the work of several subcontractors. We are well positioned across the UK's strategic Continuous at Sea Deterrent enterprise, and our ambition is to be the delivery partner of choice for the Ministry of Defence's (MoD) strategic infrastructure needs. Our work with the Defence Nuclear Organisation continues. We are helping the organisation to develop its portfolio management capabilities and support its programme definition for future infrastructure requirements.

During the half we secured £40.9m of new work with major awards to be confirmed in H2 22 and FY 23. Revenue secured for H2 22 is £162m for Natural Resources as of 30 June 2022.

FINANCIAL REVIEW

Adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	H1 22	H1 21	Change	H1 22	H1 21	Change	H1 22	H1 21	Change
Revenue £m									
Adjusted	494.6	403.9	22.5%	170.6	152.9	11.6%	665.2	556.8	19.5%
Adjusting items	-	-		-	-		-	-	
Reported	494.6	403.9	22.5%	170.6	152.9	11.6%	665.2	556.8	19.5%
Operating profit £m									
Adjusted	15.9	15.5	2.6%	2.6	0.4	550.0%	14.0	11.5	21.7%
Adjusting items	-	-		(0.2)	(0.3)		(2.1)	(0.3)	
Reported	15.9	15.5	2.6%	2.4	0.1	2300%	11.9	11.2	6.3%

Adjusting items

We incurred £2.6m (H1 21: £nil) on transformation and restructuring costs and £nil (H1 21: £0.3m) on amortisation of acquired intangible assets, and recognised a profit of £0.5m (H1 21: £nil) on the sale of a non-core asset.

Net finance expense

Net finance expense amounted to £0.7m (H1 21: £2.1m). The interest payable on bank overdrafts, loans and other similar charges was £1.2m (H1 21: £1.8m) on the reduced term loan balance. In addition, the net finance expense includes the interest income on the net assets/liabilities of the pension scheme of £0.6m (H1 21: £nil) and the interest expense on lease liabilities of £0.1m (H1 21: £0.3m) under IFRS16.

Tax

The Group has a tax charge of £2.1m in the half (H1 21: £0.4m credit) giving an effective tax rate of 18.8% (H1 21: -3.8%). The 2021 net tax credit arose primarily from the impact of the rate change (from 19% to 25% in 2023, which was substantively enacted in the prior year) on deferred tax recognised in respect of losses and pensions. The tax charged has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending December 2022 using rates substantively enacted as required by IAS 34 Interim Financial Reporting. We expect the effective tax rate to remain close to the statutory tax rate of 19% until 2023.

Cashflow

The Group generated a £34.4m adjusted free cash inflow for H1 22 (H1 21: £28.2m), after adjusting items of £48.4m which included the £43.4m payment to settle the Peterborough & Huntingdon contract, made early in the year.

£m	H1 22	H1 21
Cash (used by) / from operations	(19.1)	18.6
Add back adjusting items	48.4	5.2
Add back pension deficit contributions	5.2	5.2
Less taxation	-	(0.1)
Less capital expenditure	(0.1)	(0.7)
Adjusted free cash flow(1)	34.4	28.2

(1) Adjusted free cash flow is an adjusted metric and is calculated as cash flow from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.

The Group had a positive net cash balance of £95.9m as of 30 June 2022 (31 December 2021: £119.4m) comprising Costain cash balances of £76.5m (31 December 2021: £101.3m), cash held by joint operations of £55.4m (31 December 2021: £58.1m) and borrowings of £36.0m (31 December 2021: £40.0m) (before arrangement fees of £0.2m (31 December 2021: £0.6m)). During the half, the Group's average month-end net cash balance was £91.9m (FY 21: £107.0m).

£m	H1 22	H1 21	FY 21
Cash and cash equivalents at the beginning of period	159.4	150.9	
Net cash flow	(27.5)	6.0	
FX	-	0.1	
Cash and cash equivalents at the end of period	131.9	157.0	159.4
Borrowings	(36.0)	(44.0)	(40.0)
Net cash	95.9	113.0	119.4

Note: Borrowings are stated excluding associated arrangement fees of £0.2m (H1 21 : £1.0m; FY 21: £0.6m), which are being amortised over the period of the facility.

Financial resources

The Group has in place banking and bonding facilities from banks and surety bond providers to meet the current and projected usage requirements. The Group has banking facilities of £167.0m with its relationship banks with a maturity date of 24 September 2023. These facilities are made up of a £131.0m revolving credit facility (RCF) and a £36.0m term loan.

In addition, the Group has in place committed and uncommitted bonding facilities of £310m. Utilisation of the total bonding facilities as at 30 June 2022 was £88.5m (31 December 2021: £100.7m).

Pensions

As of 30 June 2022, the Group's pension scheme surplus in accordance with IAS 19, was £86.2m (31 December 2021: £67.1m).

The movement in the IAS 19 valuation from 31 December 2021 to 30 June 2022 was due to the impact of growth in scheme assets and a reduction in scheme liabilities, primarily driven by a higher discount rate of 3.85% used in the IAS 19 valuation as at 30 June 2022 compared to the discount rate at 31 December 2021 of 1.80%.

Cash contributions were made to the scheme during the period amounting to £5.2m (H1 21: £5.2m) and the charge to operating profit in respect of the administration cost of the UK Pension Scheme in the period was £0.2m (H1 21: £0.1m).

DIRECTORS REPORT

Going concern

In determining the appropriate basis of preparation of the financial statements for the six months ended 30 June 2022, the Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. The Group's current banking facilities expire in September 2023. Management is in negotiations with the respective facility providers to secure a one year "amend and extend" of these facilities. The Board considers an "amend and extend" to be in the best interest of shareholders given the current state of the debt market. The Group has not utilised its revolving credit facility since July 2020. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants using the existing facilities, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements.

Principal Risks and Uncertainties

The Directors consider that the principal risks facing the Group, including those that would threaten the successful and timely delivery of it strategic priorities, future performance, solvency and liquidity, remain substantially unchanged from those identified on pages 44 to 48 of the Group's Annual Report for the year ended 31 December 2021 which can be found at www.costain.com.

On pages 44 and 45 of the Annual Report 2021, we set out the Group's approach to risk management and on pages 46 to 48, we define and describe the principal risks that are most relevant to the Group including controls and key mitigating actions assigned to them. In summary, the Group's principal risks and uncertainties are as follows: 1) prevent a major accident, hazard or incident 2) increase the profitability and margin performance of the Group 3) maintain a strong balance sheet 4) secure new work 5) people 6) deliver projects effectively 7) manage the legacy defined benefit (DB) pension scheme 8) ensure that our technology is robust, our systems secure and our data protected 9) anticipate and respond to changes in client circumstances and 10) climate change resilience.

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

Statement of Directors' Responsibilities

The Directors confirm that these condensed consolidated half year financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the United Kingdom and that the interim report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties that will continue to be monitored for the remaining six months of the financial year; and

- material related-party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

The current Directors of Costain Group PLC are listed in the Annual Report for the year ended 31 December 2021, except for Fiona MacAulay who was appointed to the board of Directors on 6 April 2022. Nicole Geoghegan replaced Sharon Harris as Company Secretary on 5 July 2022.

For and on behalf of the Board

Alex Vaughan
Chief Executive Officer
24 August 2022

Helen Willis
Chief Financial Officer

Cautionary statement

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

Shareholder information

There is a large amount of information about our business on our website, www.costain.com. This includes copies of recent investor presentations as well as London Stock Exchange announcements.

GROUP INCOME STATEMENT

For the six months ended 30 June 2022

£m	Notes	H1 22 unaudited	H1 21 unaudited
Group revenue	4	665.2	556.8
Cost of Sales		(627.4)	(525.8)
Gross profit		37.8	31.0
Administrative expenses		(25.9)	(19.8)
Group operating profit		11.9	11.2
Profit from operations	4	11.9	11.2
Finance income	5	0.6	-
Finance expense	5	(1.3)	(2.1)
Net finance expense		(0.7)	(2.1)
Profit before tax		11.2	9.1
Taxation	6	(2.1)	0.4
Profit for the year attributable to equity holders of the parent		9.1	9.5
Earnings per share			
Basic	7	3.3p	3.5p
Diluted	7	3.1p	3.4p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

£m	H1 22 unaudited	H1 21 unaudited
Profit for the period	9.1	9.5
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(0.1)	0.2
Cash flow hedges:		
Net changes in fair value transferred to the income statement	-	0.3
Total items that may be reclassified subsequently to profit or loss	(0.1)	0.5
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset/(obligations)	13.4	29.5
Tax recognised on remeasurement of retirement benefit asset/(obligations)	(3.3)	(5.5)
Total items that will not be reclassified to profit or loss	10.1	24.0
Other comprehensive income for the period	10.0	24.5
Total comprehensive income for the period attributable to equity holders of the parent	19.1	34.0

GROUP BALANCE SHEET

£m	Notes	30 June 2022 unaudited	31 December 2021 audited
Assets			
Non-current assets			
Intangible assets	9	52.2	52.5
Property, plant and equipment	10	33.8	32.0
Equity accounted investments		0.4	0.4
Retirement benefit asset		86.2	67.1
Trade and other receivables		3.6	5.5
Deferred tax		10.2	15.4
Total non-current assets		186.4	172.9
Current assets			
Inventories		0.2	0.3
Trade and other receivables		203.1	199.6
Taxation		-	0.2
Cash and cash equivalents	11	131.9	159.4
Total current assets		335.2	359.5
Total assets		521.6	532.4
Liabilities			
Non-current liabilities			
Retirement benefit obligations	12	-	-
Other payables		1.1	1.8
Interest bearing loans and borrowings		28.0	32.0
Lease liabilities		20.5	18.2
Total non-current liabilities		49.6	52.0
Current liabilities			
Trade and other payables		226.8	215.1
Current tax liabilities		0.2	-
Interest bearing loans and borrowings		7.8	7.4
Lease liabilities		9.0	8.6
Provisions for other liabilities and charges		9.3	50.3
Total current liabilities		253.1	281.4
Total liabilities		302.7	333.4
Net assets		218.9	199.0
Equity			
Share capital	13	137.6	137.5
Share premium		16.4	16.4
Translation reserve		0.5	0.6
Hedging reserve		-	-
Retained earnings		64.4	44.5
Total equity		218.9	199.0

GROUP STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

£m	Share capital	Share premium	Translation reserve	Hedging reserve	Merger reserve	Retained earnings	Total equity
At 1 January 2021 **audited**	137.5	16.4	0.6	(0.3)	-	2.3	156.5
Profit for the period	-	-	-	-	-	9.5	9.5
Other comprehensive (expense)/ income	-	-	0.2	0.3	-	24.0	24.5
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.1)	(0.1)
Equity-settled share-based payments	-	-	-	-	-	0.4	0.4
At 30 June 2021 **unaudited**	137.5	16.4	0.8	-	-	36.1	190.8
Loss for the period	-	-	-	-	-	(15.3)	(15.3)
Other comprehensive (expense)/ income	-	-	(0.2)	-	-	23.1	22.9
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(0.1)	(0.1)
Equity-settled share-based payments	-	-	-	-	-	0.7	0.7
At 1 January 2022 audited	137.5	16.4	0.6	-	-	44.5	199.0
Profit for the period	-	-	-	-	-	9.1	9.1
Issue of ordinary shares under employee share option plans	0.1					(0.1)	-
Other comprehensive income	-	-	(0.1)	-	-	10.1	10.0
Equity-settled share-based payments	-	-	-	-	-	0.8	0.8
At 30 June 2022 unaudited	137.6	16.4	0.5	-	-	64.4	218.9

GROUP CASH FLOW STATEMENT

For the six months ended 30 June 2022

£m	Notes	H1 22 unaudited	H1 21 unaudited
Cash flows from operating activities			
Profit for the period		9.1	9.5
Adjustments for:			
Finance income	5	(0.6)	-
Finance expense	5	1.3	2.1
Taxation	6	2.1	(0.4)
Profit on sale of interest in joint ventures and associates		(0.5)	-
Depreciation of property, plant and equipment	10	4.7	7.8
Amortisation and impairment of intangible assets	9	0.3	0.5
Shares purchased to satisfy employee share schemes		-	(0.1)
Share-based payments expense		0.8	0.4
Cash from operations before changes in working capital and provisions		17.2	19.8
Decrease in inventories		0.1	0.2
Increase in trade and other receivables		(1.6)	(4.0)
Increase in trade and other payables		11.3	7.6
Payment of P&H final settlement provision		(43.4)	-
Movement in other provisions and employee benefits		(2.7)	(5.0)
Cash (used by)/from operations		(19.1)	18.6
Interest received		0.1	-
Interest paid		(1.2)	(1.5)
Taxation received		-	0.1
Net cash (used by)/from operating activities		(20.2)	17.2
Cash flows from investing activities			
Additions to property, plant and equipment		(0.1)	(0.1)
Additions to intangible assets		-	(0.6)
Proceeds of sale of investment		0.5	-
Net cash from/(used by) investing activities		0.4	(0.7)
Cash flows from financing activities			
Repayments of lease liabilities		(3.7)	(6.7)
Drawdown of loans		-	-
Repayment of loans		(4.0)	(3.8)
Net cash used by financing activities		(7.7)	(10.5)
Net (decrease)/increase in cash and cash equivalents		(27.5)	6.0
Cash and cash equivalents at beginning of the period	11	159.4	150.9
Effect of foreign exchange rate changes		-	0.1
Cash and cash equivalents at end of the period	11	131.9	157.0

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Costain Group PLC ("the Company") is a public limited company domiciled in England and incorporated in England and Wales.

These condensed consolidated financial statements for the half-year ended 30 June 2022 have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 2021, which were prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards, with the exception of taxation which for half year ended 30 June 2022, has been calculated on the basis of the forecasted year end estimated tax rate for FY 22. The comparative figures for the financial year ended 31 December 2021 are not the Company's full statutory accounts for that financial year, 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 2021. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The audit report for 2021 was (i) unqualified and (ii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern

The Group's principal business activity involves work on the UK's infrastructure, mostly delivering long-term contracts with a number of customers. To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings and its borrowing facilities. These borrowing facilities give the Group access to a RCF cash drawdown component of £131m and a £36m five-year Term Loan, which reduces by £4m every six months on 30 June and 31 December.

These facilities have a liquidity covenant of net debt / EBITDA ≤1.5 times and an interest covenant of EBITA / net interest payable covenant of ≥4.0 times and these financial covenants are tested quarterly. As at 30 June 2022, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 13.0 times. As part of its contracting operations, the Group may be required to provide performance and other bonds. It satisfies these requirements by utilising its £35m bank bonding and £275m surety company bonding facilities.

In determining the appropriate basis of preparation of the financial statements for the six months ended 30 June 2022, the Directors are required to consider whether the Group and the Company can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. The Group's current banking facilities expire in September 2023. Management is in negotiations with the respective facility providers to secure a one year "amend and extend" of these facilities. The Board considers an "amend and extend" to be in the best interest of shareholders given the current state of the debt market. The Group has not utilised its revolving credit facility since July 2020.

Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants using the existing facilities, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, have adopted the going concern basis for the preparation of the financial statements. In assessing the going concern assumption, the Board reviewed the base case plans and also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The base case assumes delivery of the Board approved strategic and financial plans. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, future contractual issues, higher working capital requirements and adverse contract settlements.

These forecasts show significant headroom and support that the Group will be able to operate within its available banking facilities and covenants throughout this period. Covenants are calculated on a rolling 12-month basis each quarter and therefore for all quarters until Q2 of FY23, a portion of the EBITDA/EBITA has already been earned, reducing the risk of a potential breach. Taking this into account along with the forecasts reviewed, it is considered that the EBITA/net interest covenant for the rolling 12 months to Q4 of FY22 is the limiting factor, given the Group's net cash position. The Board concluded that there is liquidity headroom in severe but plausible downside scenarios, as well as headroom on the committed facilities and on the associated financial covenants.

Alternative performance measures

Income statement presentation - Adjusting items

Certain amounts that the Board considers to be material or non-recurring in size or nature, or related to the accounting treatment of acquisitions, are adjusted to aid understanding of the underlying and overall performance of the Group. This is in line with how management monitors and manages the business on a day-to-day basis. Presenting results on this adjusted basis is consistent with the internal reporting presented to the Board.

The Directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the Directors give consideration, both individually and collectively, as to an item's size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items.

The separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items. The tax impact of the above is shown in note 3 to the financial statements on the taxation line.

Consequently, the Group is disclosing as supplementary information 'Adjusted revenue, Adjusted profit and Adjusted earnings per share' alternative performance measurements. These are reconciled to statutory numbers in note 3 to the financial statements and reported in the presentation of segmental reporting in note 4.

The Group also presents free cash flow and net cash/ bank debt as alternative performance measures. The Directors consider that this provides useful information about the Group's liquidity position.

2. SIGNIFICANT AREAS OF JUDGEMENT AND ESTIMATION

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors consider that the significant areas of judgement made by management that have a significant effect on the Group's performance as well as those estimates with a significant risk of material adjustment during the second half of the year are unchanged from those identified on pages 139 to 140 of the Annual Report for the year ended 31 December 2021.

3. RECONCILIATION OF REPORTED REVENUE AND OPERATING (LOSS)/PROFIT TO ADJUSTED REVENUE AND OPERATING PROFIT

Adjusted revenue, operating profit and earnings per share are being used as non-GAAP alternative performance measurements. These measurements were introduced in 2020 and exclude the impact of significant one-off re-measurements of three specified contracts, Peterborough & Huntingdon, the A465 Heads of the Valley (A465) and the ASF South contracts, as well as the other items that the Board considers to be of a one-off and unusual nature or related to the accounting treatment of acquisitions. The Board considers the adjusted measures better reflect the underlying trading performance of the Group.

Revenue adjustments represent the reversal of the contract asset recorded in the statement of financial position immediately prior to the initial write down and any subsequent adjustment to overall contract revenue. There were no revenue adjustments in H1 22 or in H1 21. Details regarding the adjustments relating to Peterborough & Huntingdon, A465 and ASF South Contract in FY 21 were disclosed in the FY 21 Annual Report, and therefore are not repeated here.

Profit adjustments represent the amounts included in the income statement. We incurred £2.6m (H1 21: £nil) on transformation and restructuring costs and £nil (H1 21: £0.3m) on amortisation of acquired intangible assets, and recognised a profit of £0.5m (H1 21: £nil) on the sale of a non-core asset.

Six months ended 30 June 2022	Adjusted £m	Other items £m	Total £m
Revenue before contract adjustments	665.2	-	665.2
Contract adjustments	-	-	-
Group revenue	665.2	-	665.2
Cost of sales	(627.9)	0.5	(627.4)
Gross profit	37.3	0.5	37.8
Administrative expenses before other items	(23.3)	(2.6)	(25.9)
Administrative expenses	(23.3)	(2.1)	(25.4)
Group operating profit	14.0	(2.1)	11.9
Share of results of joint ventures and associates	-	-	-
Profit/(loss) from operations	14.0	(2.1)	11.9
Net finance expense	(0.7)	-	(0.7)
Profit/(loss) before tax	13.3	(2.1)	11.2
Taxation	(2.6)	0.5	(2.1)
Profit/(loss) for the period attributable to equity holders of the parent	10.7	(1.6)	9.1
Basic earnings/(loss) per share	3.9p		3.3p

Six months ended 30 June 2021	Adjusted £m	Other items £m	Total £m
Revenue before contract adjustments	556.8	-	556.8
Contract adjustments	-	-	-
Group revenue	556.8	-	556.8
Cost of sales	(525.8)	-	(525.8)
Gross profit	31.0	-	31.0
Administrative expenses before other items	(19.5)	-	(19.5)
Other items	-	(0.3)	(0.3)
Administrative expenses	(19.5)	(0.3)	(19.8)
Group operating profit	11.5	(0.3)	11.2
Share of results of joint ventures and associates	-	-	-
Profit/(loss) from operations	11.5	(0.3)	11.2
Net finance expense	(2.1)	-	(2.1)
Profit/(loss) before tax	9.4	(0.3)	9.1
Taxation	(1.7)	2.1	0.4
Profit/(loss) for the period attributable to equity holders of the parent	7.7	1.8	9.5
Basic earnings/(loss) per share	2.8p		3.5p

4. OPERATING SEGMENTS

The Group has two core business segments: Transportation and Natural Resources. 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. The segments are discussed in the Strategic Report section of these financial statements.

The Group evaluates segment performance on the basis of profit or loss from operations before interest and tax expense before and after other items and contract adjustments. The segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Other items are allocated to the operating segments where appropriate, but otherwise are viewed as Central items.

6 months ended 30 June 2022	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Adjusted revenue	170.6	494.6	-	665.2
Contract adjustments	-	-	-	-
Group revenue	170.6	494.6	-	665.2
Segment profit				
Adjusted operating profit	2.6	15.9	(4.5)	14.0
Contract adjustments	-	-	-	-
Operating profit before other items	2.6	15.9	(4.5)	14.0
Share of results of joint ventures and associates	-	-	-	-
Profit from operations before other items	2.6	15.9	(4.5)	14.0
Other items:				
Transformation and restructuring costs	(0.2)	-	(2.4)	(2.6)
Profit on sale of non-core asset	-	-	0.5	0.5
Profit from operations	2.4	15.9	(6.4)	11.9
Net finance expense				(0.7)
Profit before tax				11.2

6 months ended 30 June 2021	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Adjusted revenue	152.9	403.9	-	556.8
Contract adjustments	-	-	-	-
Group revenue	152.9	403.9	-	556.8
Segment profit				
Adjusted operating profit	0.4	15.5	(4.4)	11.5
Contract adjustments	-	-	-	-
Operating profit before other items	0.4	15.5	(4.4)	11.5
Share of results of joint ventures and associates	-	-	-	-
Profit from operations before other items	0.4	15.5	(4.4)	11.5
Other items:				
Amortisation of acquired intangible assets	(0.3)	-	-	(0.3)
Profit from operations	0.1	15.5	(4.4)	11.2
Net finance expense				(2.1)
Profit before tax				9.1

5. NET FINANCE EXPENSE

£m	H1 22	H1 21
Interest income from bank deposits	-	-
Interest income on loans to related parties	-	-
Interest income on the net assets of the defined benefit pension scheme	0.6	-
Finance income	0.6	-
Interest payable on interest bearing bank loans, borrowings and other similar charges	(1.2)	(1.8)
Interest expense on lease liabilities	(0.1)	(0.3)
Finance expense	(1.3)	(2.1)
Net finance expense	(0.7)	(2.1)

Other similar charges includes arrangement and commitment fees payable. Interest income on loans to related parties relates to shareholder loan interest receivable from investments in equity accounted joint ventures and associates.

6. TAXATION

£m	H1 22	H1 21
On profit for the period		
UK corporation tax at 19.0% (H1 21: 19.0%)	0.5	-
Adjustment in respect of prior years	-	-
Current tax charge for the period	0.5	-
Deferred tax charge/(credit) for the period	1.6	(0.4)
Adjustment in respect of prior years	-	-
Deferred tax charge/(credit) for the period	1.6	(0.4)
Tax charge/(credit) in the consolidated income statement	2.1	(0.4)

£m		
	H1 22	H1 21
Tax reconciliation		
Profit before tax	11.2	9.1
Taxation at 19.0% (H1 21: 19.0%)	2.1	1.7
Adjustments in respect of rate changes	-	(2.1)
Tax charge/(credit) in the consolidated income statement	2.1	(0.4)

7. EARNINGS PER SHARE

The calculation of earnings per share is based on a profit of £9.1m (H1 21: £9.5m) and the number of shares set out below.

	H1 22 Number (millions)	H1 21 Number (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	275.0	274.9
Dilutive potential ordinary shares arising from employee share schemes	13.7	5.4
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	288.7	280.3

8. DIVIDENDS

No dividends were paid or proposed in respect of the 6 months to 30 June 2022 (H1 21: nil).

9. INTANGIBLE ASSETS

	Goodwill £m	Customer relationships £m	Other acquired intangibles £m	Other intangibles £m	Total £m
Cost					
At 1 January 2021	54.1	15.4	9.7	14.4	93.6
Additions	-	-	-	0.6	0.6
At 30 June 2021	54.1	15.4	9.7	15.0	94.2
At 1 January 2022	54.1	15.4	9.7	15.9	95.1
Additions	-	-	-	-	-
At 30 June 2022	54.1	15.4	9.7	15.9	95.1
Accumulated amortisation					
At 1 January 2021	9.0	15.0	9.7	7.8	41.5
Charge in year	-	0.3	-	0.2	0.5
Impairment	-	-	-	-	-
At 30 June 2021	9.0	15.3	9.7	8.0	42.0
At 1 January 2022	9.0	15.4	9.7	8.5	42.6
Charge in year	-	-	-	0.3	0.3
Impairment	-	-	-	-	-
At 30 June 2022	9.0	15.4	9.7	8.8	42.9
Net book value					
At 30 June 2022	45.1	-	-	7.1	52.2
At 30 June 2021	45.1	0.1	-	7.0	52.2

Goodwill has been allocated to the applicable cash generating units of the transportation segment (£15.5 million (H1 21: £15.5 million)) and the natural resources segment (£29.6 million (H1 21: £29.6 million)).

As described in note 2, the Group reviews the value of goodwill on an annual basis and in the absence of any identified impairment risks, tests are based on internal value in use calculations of the cash generating unit (CGU). The key assumptions for these calculations are: operating margins, discount rates and growth rates.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the Group's weighted average cost of capital and the risks specific to the CGU. The rate used to discount the forecast cash flows for the Transportation CGU was 13.2% (H1 21: 12.4%) and for the Natural Resources CGU was 13.6% (H1 21: 12.5%).

10. PROPERTY, PLANT AND EQUIPMENT

			Right-of-use assets		
	Land & Buildings £m	Plant & Equipment £m	Land & Buildings £m	Vehicles, plant & equipment £m	Total £m
Cost					
At 1 January 2021	0.6	27.0	20.5	30.3	78.4
Additions	-	0.1	1.2	16.1	17.4
Disposals	-	(0.2)	(1.4)	(7.3)	(8.9)
At 30 June 2021	0.6	26.9	20.3	39.1	86.9
At 1 January 2022	0.6	27.0	14.1	29.4	71.1
Additions	-	0.1	9.1	10.4	19.6
Disposals	-	-	(1.1)	(13.2)	(14.3)
At 30 June 2022	0.6	27.1	22.1	26.6	76.4
Accumulated depreciation					
At 1 January 2021	0.6	19.8	8.4	9.7	38.5
Charge in year	-	1.3	2.2	4.3	7.8
Disposals	-	(0.2)	(0.7)	(2.5)	(3.4)
At 30 June 2021	0.6	20.9	9.9	11.5	42.9
At 1 January 2022	0.6	21.6	6.1	10.8	39.1
Charge in year	-	1.1	1.6	2.1	4.8
Disposals	-	-	(0.4)	(0.9)	(1.3)
At 30 June 2022	0.6	22.7	7.3	12.0	42.6
Net book value					
At 30 June 2022	-	4.4	14.8	14.6	33.8
At 30 June 2021	-	6.0	10.4	27.7	44.0

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed below and include the Group's share of cash held by joint operations of £55.4m (H1 21: £57.0m).

	30 June 2022 £m	31 December 2021 £m
Cash and cash equivalents	131.9	159.4
Borrowings – current	(7.8)	(7.4)
Borrowings – non-current	(28.0)	(32.0)
Net cash (net of arrangement fees)	96.1	120.0
Arrangement fees	(0.2)	(0.6)
Net cash	95.9	119.4

Total borrowings of £35.8m (31 December 2021: £39.4m) are shown net of arrangement fees of £0.2m (31 December 2021: £0.6m).

12. PENSIONS

A defined benefit pension scheme is operated in the UK and a number of defined contribution pension schemes are in place in the UK. Contributions are paid by subsidiary undertakings and, to the defined contribution schemes, by employees. The total pension income in the income statement was £0.4m comprising £0.2m included in operating costs and £0.6m interest income included in net finance expense (H1 21: £0.2m total pension expense, comprising £0.2m in operating costs less £nil interest income included in net finance expense).

Defined benefit scheme

The defined benefit scheme was closed to new members on 31 May 2005 and from 1 April 2006 future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out as at 31 March 2019 and this was updated to 30 June 2022 by a qualified independent actuary.

	At 30 Jun 2022 £m	At 31 Dec 2021 £m	At 31 Dec 2020 £m
Present value of defined benefit obligations	(602.2)	(837.5)	(886.5)
Fair value of scheme assets	688.4	904.6	880.9
Recognised asset/(liability) for defined benefit obligations	86.2	67.1	(5.6)

Movements in present value of defined benefit obligations

	At 30 Jun 2022 £m	At 31 Dec 2021 £m
At 1 January	837.5	886.5
Past service cost – GMP equalisation charge		-
Interest cost	7.5	11.7
Remeasurements – demographic assumptions	(3.6)	(5.4)
Remeasurements – financial assumptions	(243.3)	(16.1)
Remeasurements – experience adjustments	20.3	(6.5)
Benefits paid	(16.1)	(32.7)
At end of period	602.2	837.5

Movements in fair value of scheme assets

	At 30 Jun 2022 £m	At 31 Dec 2021 £m
At 1 January	904.6	880.9
Interest income	8.1	11.7
Remeasurements – return on assets	(213.2)	34.6
Contributions by employer	5.2	10.4
Administrative expenses	(0.2)	(0.3)
Benefits paid	(16.1)	(32.7)
At end of period	688.4	904.6

Expense recognised in the income statement

	At 30 Jun 2022 £m	At 31 Dec 2021 £m
Administrative expenses paid by the pension scheme	(0.2)	(0.3)
Administrative expenses paid directly by the Group	(0.8)	(1.0)
Interest income on the net assets/liabilities of the defined benefit pension scheme	0.6	-
	(0.4)	(1.3)

Fair value of scheme assets

	At 30 Jun 2022 £m	At 31 Dec 2021 £m
Global equities	125.9	137.2
Multi-asset growth funds	62.6	133.7
Multi-credit fund	123.2	118.1
LDI plus collateral	368.0	494.6
Property	-	4.4
Cash	8.7	16.6
	688.4	904.6

Principal actuarial assumption (expressed as weighted averages)

	2022 %	2021 %
Discount rate	3.85	1.80
Future pension increases	3.00	3.25
Inflation assumption	3.15	3.40

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 30 June 2022 and 31 December 2021 is:

	At 30 Jun 2022		At 31 Dec 2021	
	Male (years)	Female (years)	Male (years)	Female (years)
Currently aged 65	21.9	23.9	22.1	24.0
Non-retirees currently aged 45	22.9	25.1	23.1	25.3

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2019. In March 2020, the valuation and an updated deficit recovery plan were agreed with the scheme Trustee resulting in cash contributions of £10.2m for each year commencing 1 April 2020 (increasing annually with inflation) until the deficit is cleared, which would be in 2029 on the basis of the assumptions made in the valuation and agreed recovery plan.

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. Any additional payments in this regard would have the effect of reducing the recovery period in the agreed plan. The Group will also pay the expenses of administration in the next financial year.

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. Accordingly, the Group does not expect to have to make provision for these additional contributions arising from this agreement in future accounts.

The next triennial valuation of the Costain Pension Scheme has an effective date of 31 March 2022. Initial results are expected from the Trustee's Actuary imminently and discussions on these are expected to take place over the second half of 2022. We have until 30 June 2023 to finalise the valuation.

Defined contribution schemes

Several defined contribution pensions are operated. The total expense relating to these plans was £5.5m (H1 21: £4.9m).

13. SHARE CAPITAL

	H1 22		H1 21	
	Number (millions)	Nominal value £m	Number (millions)	Nominal value £m
Issued share capital				
Shares in issue at beginning of period - ordinary shares of 50p each, fully paid	275.1	137.6	275.0	137.5
Issued in year	-	-	-	-
Shares in issue at end of period- ordinary shares of 50p each, fully paid	275.1	137.6	275.0	137.5

The Company's issued share capital comprised 275,084,741 ordinary shares of 50 pence each as at 30 June 2022.

All shares rank pari passu regarding entitlement to capital and dividends.

Independent review report to Costain Group Plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Costain Group Plc's condensed consolidated interim financial statements (the "interim financial statements") in the Results of Costain Group Plc for the six month period ended 30 June 2022 (the "period").

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

The interim financial statements comprise:

- the Group Balance Sheet as at 30 June 2022;
- the Group Income Statement and the Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group 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 of Costain Group Plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council 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 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. 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.

PricewaterhouseCoopers LLP

Chartered Accountants

London

23 August 2022