23 AUGUST 2023

COSTAIN GROUP PLC
("Costain", the "Group", or the "Company")
RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

Strong performance in H1 and positive market outlook.

- **Reported and adjusted[1] H1 23 revenue of £664.4m (H1 22: £665.2m).**
- **Adjusted operating profit[1] increase of 7.1% to £15.0m (H1 22: £14.0m) resulting from increasing volumes and margin in Natural Resources, and benefits from our Transformation programme.**
- **Reported operating profit of £7.6m (H1 22: £11.9m), reflecting costs of repositioning digital services towards growth and our Transformation programme.**
- **Adjusted operating margin of 2.3%, with 20bp increase on H1 22.**
- **Net cash[3] increase at half year to £132.1m (FY 22: £123.8m, H1 22: £95.9m).**
- **Pension deficit payments substantially reduced following triennial review, and banking and surety facilities successfully refinanced.**
- **Resumption of dividend payments being progressed.**

Financial summary

£m	H1 23 adjusted[1]	H1 23 adjustments[1]	H1 23 reported	H1 22 adjusted[1]	H1 22 reported	Adjusted[1] change
Revenue	664.4	-	664.4	665.2	665.2	(0.1)%
Operating profit	15.0	(7.4)	7.6	14.0	11.9	7.1%
Operating margin	2.3%		1.1%	2.1%	1.8%	20bp
Profit before tax	15.9	(7.4)	8.5	13.3	11.2	19.5%
Basic EPS	4.4p		1.9p	3.9p	3.3p	12.8%
Adjusted free cash flow[2]	26.5			34.4		(23.0)%
			H1 23		**H1 22**	
Net cash balance[3]			132.1		95.9	37.7%

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.
2. Free cash flow is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.
3. Net Cash balance is cash and cash equivalents in H1 23 and is cash and cash equivalents less interest-bearing borrowings (excluding leases under IFRS16 and net of unamortised arrangement fees) in H1 22.

Alex Vaughan, Chief Executive Officer, commented:

"Costain's performance in the first half of 2023 demonstrates the strength and resilience of our business, with an increase in adjusted operating profit supported by the robust growth in Natural Resources, resilience in Transportation and continued positive cash generation.

"In the period, we delivered important actions to strengthen our balance sheet, including finalising our actuarial pension review, and securing the refinancing of our banking and bond surety facilities; both of which increases our ability to generate further cash for the Group. Our Transformation programme to create efficiencies within the Group is on track, with further benefits to come in H2 23 and FY 24. The increase in operating performance and the positive outcomes regarding the pension review and refinancing, enables the Board to consider the resumption of dividend payments, including the payment of an interim dividend in respect of the period to 30 June 2023.

"There remains a positive outlook across our markets, while recognising the short-term rephasing of the government's transport spending. We expect that the sectoral growth we have seen in Natural Resources, together with the rephasing and rescoping of some infrastructure projects in Rail and Road to continue for the remainder of the year and into 2024.

"While we are mindful of the macro-economic backdrop, recognising the timing of customer procurement cycles, the quality of our secured and preferred bidder work gives us good visibility on future revenue, with more than 90% of revenue secured for the remainder of 2023. Our expectations for 2023 remain unchanged and we continue to be confident in the Group's long-term prospects."

H1 23 performance

- **Adjusted[1] and reported revenue of £664.4m** (H1 22: £665.2m), reflecting growth in Natural Resources and the expected rephasing and rescoping of projects in Transportation.
- **Growth in adjusted operating profit[1]** up 7.1% to £15.0m (H1 22: £14.0m) reflecting growth in Natural Resources and benefits from our Transformation programme, more than offsetting a decline in Transportation as a result of the rephasing and rescoping of some Road contracts, with growth in our HS2 contract.
- **Adjusted operating margin of 2.3%** (H1 22: 2.1%), following operational improvements in Natural Resources and Transformation benefits.
- **Reported operating profit of £7.6m** (H1 22: £11.9m), due to the repositioning of digital towards services growth.
- **Free cash flow[2] in H1 23 of £26.5m** reflecting operating cashflow and continued good working capital management, with an increased H1 23 net cash position of £132.1m.
- **Pension scheme review and refinancing of bank and surety facilities** concluded in period and July 2023 respectively.
- **Health & Safety performance**. Our people are our principal asset, and the safety of our people is one of our core values. Our LTIR rate was 0.11 (H1 22: 0.06) and in early 2023 we experienced a rise in Lost Time Injuries which was addressed with action plans across both divisions.

- **Secured key contract wins:**
  - Magnox framework to deliver its decommissioning programme.
  - Appointed in July by United Utilities as Managed Service Provider (AMP8) for a further two years.
  - Contracts awarded with bp, and post H1 23 with DfT and TfL. Further smart motorway safety works moved from preferred bidder to our orderbook.
- **Good visibility for FY23** with 90% of revenue (£630m+) secured[3] for H2 23.
- **On track to meet adjusted operating margin milestones** run-rate of 3.5% during the course of FY24 and 4.5% during the course of FY25.
- **High quality order book and preferred bidder book[3]** of £4.0bn (FY 22: £4.4bn, H1 22: £4.3bn):
  - Order book of £2.5bn (FY 22: £2.8bn, H1 22: £2.7bn), reflecting market cycles, continued disciplined approach to contract bidding and the rephased timing of major contract bids.
  - Preferred bidder book of £1.5bn (FY 22: £1.6bn, H1 22: £1.6bn), reflecting bids and contracts mainly in Road, Water and Integrated Transport, including Heathrow H7.
- **Interim dividend payment** under consideration by Board with announcement expected to be made shortly.

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.
2. Free cash flow is defined as cash from operations, excluding adjusting items and pension deficit contributions, less taxation and capital expenditure.
3. 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

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Analyst & investor presentation

A live webcast of our results by Alex Vaughan (CEO) and Helen Willis (CFO) will be at 9am on 23 August 2023. Please go to https://stream.brrmedia.co.uk/broadcast/64426af472587f8b7a6c9276 to register for the event.

We will also host a live presentation relating to results via Investor Meet Company at 10am on 24 August 2023. Investors can sign up to Investor Meet Company for free and add to meet Costain Group PLC via: https://www.investormeetcompany.com/costain-group-plc/register-investor

Board changes

There have been no changes to the Board of Directors in H1 23.

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. To aid understanding of the underlying and overall performance of the Group, 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 because they are not long term in nature and will not reflect the long-term 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 notes 1 to 4 on pages 28 to 33.

GROUP TRADING PERFORMANCE

A positive financial performance
We report both our statutory results, 'reported', and results excluding adjusting items, 'adjusted'. Key adjusting items for H1 23 include the impairment of an intangible asset and the impact of Transformation and restructuring.

Reported and adjusted revenue was £664.4m in H1 23 (H1 22: £665.2m), flat on the prior period. We saw increased Natural Resources revenue in Water, and Defence and Nuclear. In Transportation, we saw continued growth in Rail, and the rephasing and rescoping of certain contracts in Road. Within Transportation, in Integrated Transport, we successfully completed the Preston contract, are growing activity on our Heathrow H7 contract, have won strategic consultancy contracts with Transport for London, and grown our services revenue across a range of local authorities.

Adjusted operating profit grew by 7.1% to £15.0m (H1 22: £14.0m), driven mainly by increased profitability in Natural Resources and the benefits of our Transformation programme across the Group. The adjusted operating margin increased to 2.3% (H1 22: 2.1%) and reflected operational improvements in Natural Resources, partially offset by a decline in Transportation due to reduced margins in Road. Reported operating profit decreased from £11.9m in H1 22 to £7.6m profit in H1 23, due mainly to the £5.3m impairment of an intangible asset as we reposition our digital portfolio, see page 7 for details.

Adjusted profit before tax increased 19.5% to £15.9m (H1 22: £13.3m), with adjusted basic earnings per share (EPS) up by 12.8% at 4.4p (H1 22: 3.9p). Reported profit before tax was down 24.1% at £8.5m (H1 22: £11.2m) and reported basic earnings per share (EPS) was also down 42.4% at 1.9p (H1 22: 3.3p), due to the above impairment.

Adjustments to reported items
We incurred £2.1m (H1 22: £2.6m) on transformation and restructuring costs, and £5.3m (H1 22: £nil) on the impairment of an intangible asset relating to the repositioning of digital services. In H1 22 we recognised £0.5m on the sale of a non-core asset.

Cashflow and liquidity
During the period we completed the March 2022 review of our defined benefit pension scheme, and the refinancing of our bond and surety facilities, with the positive outcomes of both increasing our ability to generate cash for the Group. We continue to implement our Transformation programme to increase efficiencies within the Group, which is on track to deliver further operational efficiencies in H2 23 and FY 24.

Cash from operations in H1 23 was £16.9m (H1 22: cash used by operations £19.1m), following increased adjusted operating profits, with the H1 22 comparison impacted by the settlement of the Peterborough & Huntingdon contract of £43.4m in February 2022.

Free cash flow in H1 23 of £26.5m reflected continued good working capital management, which benefitted from further positive cash collection timings during the half. We expect our year end net cash position to be broadly similar to that at the end of H1 23, as the underlying free cash flow from the business is likely to be offset by the unwinding of positive working capital timing benefits accumulated

at the end of FY 22 and throughout H1 23. Reflecting the above, this resulted in a strong net cash position at the end of H1 23 of £132.1m (FY 22: £123.8m, H1 22: £95.9m).

During H1 23 we paid more than 98% of invoices within 60 days (H1 22: 97%). In August 2023, Costain was re-confirmed as one of the top three fastest-paying lead contractors in construction following the submissions to the Government's Duty to Report on Payment Practices and Performance, on an average days-to-pay basis.

Business resilience

As a result of key actions, the Group has built solid business resilience through the following measures:

- Broad and growing strategic blue-chip customer base:
    - Continued focus on significant Government Transportation and Defence investment.
    - Positioned for a significant increase in regulatory investment in Water and Energy.
    - Increasing focus on growing devolved government spending.
    - Growth in private customer Transportation and Defence investment.
    - Leading expertise to address growing energy transition investment plans.
- Broad expertise-led service mix, helping our customers by shaping, creating, and delivering pioneering infrastructure solutions to meet their needs, leveraging our core contracting expertise.
- A strong balance sheet with good levels of positive cash generation, financing capacity and reduced pension costs.

Our markets remain characterised by strong long-term customer demand and strategic procurement approaches aligned to five-year business plan periods. Costain enjoys good forward visibility with our combined order book and preferred bidder book at H1 23 of £4.0bn (FY22: £4.4bn, H1 22: £4.3bn), as well as the anticipated customer procurement periods from which we will benefit in the next eighteen months. This holistic view of our forward visibility is increasingly relevant as we anticipate a shift in our business mix towards the preferred bidder book as we secure long-term (5-to-10-year) framework positions with our customers, providing a reliable stream of future work.

Our order book stood at £2.5bn at the end of H1 23 (FY 22: £2.8bn, H1 22: £2.7bn). This reflected the timing of major contract bids, our customers' investment programmes, maintaining discipline in contract selection and the shorter lead time of consulting and digital work. The order book evolves as contracts progress and as new contracts are added at periods aligned to our customers' strategic procurement windows which are typically every five years, and therefore does not provide a complete picture of the Group's potential future revenue expectations.

The preferred bidder book comprises awards for which there is no other competitor and we are in final negotiations prior to entering a contract, or exclusive frameworks where a further works order is required. The preferred bidder book was £1.5bn at the end of H1 23 (FY 22: £1.6bn, H1 22: £1.6bn), with contracts in Road, Water and Integrated Transport, including Heathrow. During H1 23, we agreed with National Highways that our involvement in the A66 scheme, which was in our preferred bidder book, will come to an organised and managed end.

We note that some of our framework and consulting revenue is not recorded in our order book, or preferred bidder book, and is expected to represent an increasing proportion of our future revenue.

We have more than £630m of secured Group revenue for H2 23 at the end of H1 23, representing 90% of forecast revenue for the period. Awards have yet to be made on the very high level of bids undertaken in H1 22 and we currently expect awards on these bids to be made during late FY 23 and into FY 24. The Transport, Water, Energy and Defence markets continue to offer significant long-term opportunities for the Group. We expect Water investment to double during the next regulatory period. In addition, Integrated Transport has seen strategic wins with Heathrow, Manchester Airports Group, Transport for London (TfL), and a number of local councils.

We have good momentum going into H2 23 and FY 24 and are making progress with our operational performance and against our strategic priorities. Our Transformation programme, which targets to simplify and increase efficiencies within the business is progressing well, delivering operating profits and operating margin uplift.

Following an extensive market review, we are reorganising our digital activities to increase our growth focus on service capabilities including: situational intelligence (real-time monitoring systems) and digital twins (construction and operational); and ceasing the more commoditised development and manufacturing activities of operational technology.

The assessment and management of risk and uncertainty is central to our culture, business processes and strategy. This is achieved through rigorous risk management and commercial control throughout our operations in three key areas:

- A disciplined approach to contract selection, which includes robust commercial and legal reviews, proactive shaping of procurement approaches with our customers, and a rigorous multi-stage gating process.
- Commercial and operational assurance, which includes project level controls, our Operational Excellence Model (OEM), and management oversight of forecasts, and cross-disciplinary contract review meetings on all projects.
- Strategic supply chain partners, with application of robust supply chain management processes.

As a result of the implementation of our strategy and risk management processes, at the end of H1 23, our order book does not include any fixed-price construction contracts.

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, 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, and the potential impact of the “dividend parity” arrangement relating to the defined benefit pension scheme, which continues until 31 March 2027.

Under the “dividend parity” arrangement, an additional matching contribution (the excess of the total dividend above the Scheme contribution) to the Costain Pension Scheme will be made when the total of

the interim and final dividends for a financial year paid to the shareholders of Costain are greater than the contributions paid into the Scheme in the previous Scheme financial year, which runs from 1 April to 31 March. In addition, If the funding level is above 101% as at 31 March each year, then no contributions will be payable in respect of dividend parity for the following year.

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.

Dividend

Given the Group's improved financial performance, strong net cash position and growth prospects, the Board is considering resuming dividend payments starting in respect of the six months ended 30 June 2023. Any dividends will typically be paid 1/3 as interim and 2/3 as final dividends.

While the dividend parity arrangements remain in place, the Board is considering paying a minimum annual dividend to match broadly the £3.3m per year plus inflation (CPI) payment to the defined pension scheme. Potential increased dividends above this level may be considered by the Board during this period depending upon the Group's underlying cash flow generation and the pension scheme funding level (and any associated dividend parity requirement) in line with the Group's policy of a target dividend cover of around three times underlying earnings.

Any dividend in respect of the six months ended 30 June 2023 is subject to the expiry of the requisite notice to be given to the Group's bank and surety providers. Costain expects to announce the Board's decision on any resumption of an interim dividend payment shortly.

Outlook

We continue to trade in line with Board expectations for FY 23. Our pipeline of future opportunities remains strong across our markets.

We remain mindful of the macro-economic and geopolitical backdrop, recognising the challenges it has created for inflation and energy costs, and its impact on the rephasing and rescoping of some major contracts, in particular in Transportation. With our broad customer focus, further improvements to our operational performance, strong cash position and clear strategic priorities, we remain confident of navigating these market headwinds and are well positioned for further growth.

As a result of the successful implementation of our strategy and ongoing operational improvements, benefits from our Transformation programme and our revenue mix expectations, we remain on track to deliver an adjusted operating margin run-rate of 3.5% during the course of FY 24 and 4.5% during the course of FY 25; in line with our ambition to deliver margins in excess of 5%.

We remain confident in the Group's strategy in our chosen markets and in our longer-term prospects.

STRATEGY UPDATE

The Group operates in the UK infrastructure market, focused on infrastructure solutions that safeguard the future of our planet and transform the performance of the UK's infrastructure ecosystem, aligned to our purpose of 'Improving People's Lives'.

We are strategically positioned in our four chosen markets of Transport, Water, Energy, and Defence, where significant long-term strategic investment is being prioritised. Our leading market expertise, strong customer focus, and differentiated broader offering, positions the business strongly to benefit from our customers' long-term investment plans, providing significant opportunities for growth.

We have specifically chosen to work with customers who wish to partner with their supply chain partners 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 enable us to understand the specific needs of our individual customers across their strategic, operational and asset creation requirements. With our broad service offering, we are able to service more of the market and are successfully creating greater competitive advantage. We work as construction, consulting and digital infrastructure partners, solving problems and delivering innovative engineered solutions. Our vision is to create connected, sustainable infrastructure to help people and the planet thrive.

Despite the current macro-economic challenges, looking forward, we expect further progress and remain confident in the Group delivering on its medium-term objectives.

We recognise the short-term constraints on government funding. However, in order to meet the UK's key critical needs, there remains a significant commitment to approximately £60bn per year of infrastructure investment in the period 2020-2030, all of which is underpinned by legislative and regulatory commitments, as the government and private customers address today's mega trends. These include climate change and climate resilience, and the net zero imperative; resource, environmental and economic resilience; addressing inequality and low levels of regional and national growth; and the need for infrastructure transformation to support affordability and investment growth plans.

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

Performance

Key measures of our performance are:

- Strong financial performance.
- Customer wins.

Strong financial performance

We continue to operate strong risk management processes on contracts, ensuring a robust operational performance. In addition, we have secured further opportunities with our customers, demonstrating our strategic progress.

Our strategy provides for assured delivery, lower risk contracts in our orderbook, and a broader business mix; and our ambition remains to deliver improving long-term operating margins.

We are on track to deliver on our operational milestones as outlined in March 2023:

- An adjusted operating margin run-rate of 3.5% during the course of FY 24, as we increase effectiveness within the business through the implementation of our Transformation programme, the implementation of our Operating Excellence Model (OEM), growth of consultancy services and increased effectiveness in procurement and ongoing control of operating costs.
- An adjusted operating margin run-rate of 4.5% during the course of FY 25 to be reached by improving margins within complex programme delivery (construction contracts), further efficiencies from our Transformation programme, our OEM and an increasing mix of higher-margin contracts.
- We continue to have an ambition for an adjusted operating margin in excess of 5%.
- We expect that central costs will be held around 0.8% to 0.9% of revenue during FY 23 to FY 25 and we expect divisional margins to increase during the period to achieve our Group target. We continue to monitor and manage the impact of inflationary pressures on FY 23 revenue and costs.

Customer wins

During H1 23, we have:

- Continued 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 number of opportunities during the period.

- Been appointed by Magnox to deliver its decommissioning programme, supporting the company across 11 sites and ensuring the safe and secure closure of locations through to 2029.

- Further grown our delivery partner consultancy roles building on our current positions with AWE, Babcock, Cadent and National Highways. We are also increasing our activity at Heathrow, where we will work as a solution delivery partner providing construction, consulting and digital capabilities during its next regulatory period.

- Expanded our presence in the water sector with our first AMP8 win; appointed by United Utilities in July to extend our work as its Managed Service Provider for a further two years.

- Secured further strategic wins to provide consultancy advice and support to bp and Yorkshire Water, and post period with the Department for Transport and TfL.

With both new wins and existing contracts, we continue to improve operational contract delivery via a rollout of our new approach OEM, with comprehensive financial reviews and senior management ownership.

People

We track safety performance through our lost time injury rate (LTIR) of 0.11 in H1 23 (H1 22: 0.06), and in early 2023 we did experience a rise in Lost Time Injuries which was addressed with action plans across both divisions.

We continue making progress towards our goal to have a workforce representative of society. Compared to FY 22 our overall gender and ethnic diversity have both increased, gender by 0.8% and ethnicity by 1.6%.

	June 2023	Dec 2022
Female % of total population	28.2%	27.5%
Female % Senior Leadership	33.3%	35.7%
Female no. Executive team	5 of 8	5 of 8
Female no. Board	4 of 8	4 of 8
BAME % of total population	15.3%	14.5%
BAME % Senior Leadership	3%	3%
BAME no. Executive Team	1 of 8	1 of 8
BAME no. Board	2 of 8	2 of 8

To increase transparency, we disclosed our ethnicity pay gap in the 2022 Annual Report, alongside our gender pay gap. We continue to proactively address our gender pay gap and in H1 23 we launched an 'Empowerment Programme' to support women in progressing in their careers, building on the feedback of our employee networks.

Costain plays a significant role in enhancing the prosperity of local communities by channelling our spend with small and medium-sized business (SME). In H1 23 this was £340m, representing 38% of Costain's total spend in the period. This is a positive trend, exceeding the UK Government target of 33%, and consistent with the FY 22 performance of 38%.

We continue to maintain a strategic partnership with education and were pleased to publish an employer impact report for our eight years working with the London Design and Engineering University Technical College (LDE UTC). Beyond the high levels of diversity and social mobility served by the school, the report found that the level of employer engagement at the LDE UTC is some 20 times greater than that recommended by Gatsby Foundation.

Planet

As part of our focus on innovation and decarbonising how we deliver infrastructure projects, our team working on our National Highways A30 Chiverton to Carland scheme has been the first UK Highways project to use 3D printing of concrete instead of pre-casting the material offsite. This solution could offer cost, programme, and carbon efficiencies if scaled up.

In 2022, we submitted our climate change action plan to the Science Based Target initiative (SBTi) and we are expecting an outcome imminently. All relevant construction delivery contracts have developed

detailed carbon baselines and have reduction targets, supported by implementation plans for achieving their target in line with PAS 2080.

Costain recently completed the Preston Western Distributor Project, opening the new road to traffic in June. Through the construction of the road, we innovated to save the equivalent of 6,134 tonnes of carbon dioxide emissions, which equated to financial savings of almost £7m. Additionally, 55% of employees (including from the supply chain) came from the local area, with ten apprentices from local colleges employed on the programme.

As a result of a successful designated fund application, the M6 J21a-26 project has completed works to create the Sandyforth Green Gateway, which is 5.9ha of Wet Woodland, 24ha of new grassland alongside seven new ponds and ditch works. Working in partnership with Wigan County Council, the site which is immediately adjacent to the M6 scheme north of J25, is forecast to help the National Highways project achieve a greater than 10% biodiversity net gain (BNG) more than originally forecast for the project (17% reduction in BNG units).

DIVISIONAL REVIEW

TRANSPORTATION

£m	H1 23 adjusted[1]	H1 23 reported	H1 22 adjusted[1]	H1 22 reported	Adjusted[1] change
Road	*201.8*	*201.8*	*239.2*	*239.2*	*-15.6%*
Rail	*259.3*	*259.3*	*219.2*	*219.2*	*18.3%*
Integrated transport	*26.0*	*26.0*	*36.2*	*36.2*	*-28.2%*
Total revenue	487.1	487.1	494.6	494.6	-1.5%
Operating profit	12.2	6.9	15.9	15.9	-23.3%
Operating margin	2.5%	1.4%	3.2%	3.2%	-0.7ppt

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

- Reported and adjusted revenue of £487.1m was down 1.5% against H1 22, with strong growth in Rail, the impact of the rephasing and rescoping of some contracts in Road, and a reduction in Integrated Transport as the Preston Western road completed prior to ramp up of our work with Heathrow.
- Adjusted operating margin was 2.5%, down 0.7 percentage points compared to prior year, mainly reflecting inflation and cost pressures impacting margins in Road.
- Revenue secured for H2 23 is £422m for Transportation as at 30 June 2023.

Our revenue was driven mainly by complex scheme delivery for High Speed 2 (HS2) and National Highways, which currently represent the majority of Transportation activities.

Road revenue declined by 15.6% in H1 23 over the prior year driven by a decline in schemes delivery due to the completion, rephasing and rescoping of projects. As a strategic partner for National Highways, we support their key investment programmes through the Regional Delivery Partnerships (RDP) major projects framework, and the Smart Motorways Programme (SMP) Alliance delivering smart motorway safety enhancements.

On RDP, our work to upgrade the A1 around Newcastle is making good progress with the widening of the Birtley to Coal House section, and in Cornwall our project continues to widen the last section of the A30 to dual carriageway between Chiverton and Carland Cross. We have led the work to submit the Development Consent Order application for the A12 Chelmsford to A120 widening project, along with a package of enabling works for the scheme. We continue to develop the M60 Simister Island scheme in the North-West, and are concluding our scheme development work on the A66.

Within the SMP Alliance, our delivery of the M6 Junction 21a-26 smart motorway upgrade is progressing well, and we are supporting the National Emergency Area Retrofit program for smart motorways through design and delivery of additional stopping areas.

The development consent order (DCO) for the A303 Stonehenge Improvements Scheme was given in July 2023, where we are appointed as delivery assurance partner in joint venture with Mott MacDonald.

Costain also continued to provide specialist advice to National Highways under the SPaTS2 framework, to shape the future and help critical challenges around automation, decarbonisation and future programme delivery.

Rail revenue increased by 18.3% in H1 23, principally as a result of the volume of work in delivering HS2.

Our contract with the Skanska Costain STRABAG JV to construct the southern section of route, which has a twin bore tunnel, now has three (of seven) tunnel boring machines (TBMs) in operation, with the first two machines having now completed one mile of tunnelling. Our TBMs are fully serviced by rail heads at Willesden and at Northolt and the project has now transported over one million tonnes of spoil via rail, taking more than 100,000 lorry movements off the roads in the process.

We are working closely with HS2 Ltd to optimise our delivery schedule in order to best progress the project delivery within the introduced near-term financial constraints.

Our work to upgrade the Gatwick Airport Station for Network Rail is ongoing and due to complete in H2 23. We have expanded our portfolio of work for Network Rail through our framework contracts, where we are providing professional consulting services on multiple projects including supporting the weather resilience task force.

Integrated Transport provides a mix of consulting and complex project delivery to local and sub-national bodies, Central Government and to customers in Aviation. Revenue decreased by 28.2% in H1 23 on the prior year, reflecting the timing of complex schemes delivery, including the completion of the Edith Rigby Way (Preston Western scheme) which links the M55 with the A583.

During H1 23, we continued work for TfL with design and feasibility work for Gallows Corner and George Green / Green Man, design work on the Piccadilly Line and continued support for TfL's CCTV service. We have also secured further works with TfL on a road project. We have successfully expanded services to a range of local authorities, including Bradford, Liverpool, Swindon and Cornwall.

During H1 23, we ramped up our work with Heathrow to shape, create and deliver asset renewal and construction projects through the Terminal Asset Renewal Partner and Major Project Partner lots of the H7 framework. We continue to support other aviation customers at Stansted, Gatwick and Manchester airports.

NATURAL RESOURCES

£m	H1 23 adjusted[1]	H1 23 reported	H1 22 adjusted[1]	H1 22 reported	Adjusted[1] change
Water	*107.2*	*107.2*	*106.9*	*106.9*	*0.3%*
Energy	*24.0*	*24.0*	*27.3*	*27.3*	*-12.1%*
Defence and Nuclear[2]	*46.1*	*46.1*	*36.4*	*36.4*	*26.6%*
Total revenue	177.3	177.3	170.6	170.6	3.9%
Operating profit	7.5	7.5	2.6	2.4	188.5%
Operating margin	4.2%	4.2%	1.5%	1.4%	2.7ppt

1. See notes 1 to 4 of the financial statements for adjusted metric details and definitions, and reconciliation to reported metrics.

2 Defence and Nuclear includes nuclear-related revenue previously included in Energy, following the Natural Resources reorganisation.

- Adjusted revenue was £177.3m, up 3.9% driven by Defence and Nuclear.
- Adjusted operating profit was £7.5m, up £4.9m, and adjusted operating margin was 4.2%, 2.7 percentage points higher compared to prior year, due to an improved operational performance as well as revenue growth.
- Revenue secured for H2 23 is £212m for Natural Resources as at 30 June 2023.

Water delivers a broad range of services to improve asset and operational resilience across the water sector, together with decarbonisation capabilities. Reported and adjusted revenue was up 0.3% on the prior year with good visibility across our five-year water AMP7 programmes through to 2025. We continue to make good progress in delivering on Tideway where, in a joint venture, we are responsible for the eastern section.

The breadth of our service offering continues to grow with capital delivery programmes for Anglian Water, Severn Trent Water, Southern Water, and Thames Water; maintenance service provider services for United Utilities under AMP7; a range of consultancy services for Yorkshire Water, Thames Water, Southern Water; and digital services to Anglian Water.

In July 2023, we were appointed by United Utilities to work as its Managed Service Provider for a further two years, which represents our first AMP8 programme. We expect to see growth in the water sector, and we aim to expand our current portfolio under the AMP8 programme. Alongside core AMP8 requirements, we continue to engage with customers to understand their potential needs for new value-added solutions for AMP8 to meet their ESG requirements and are in an early stage of working with customers regarding the Strategic Water Resource Options programme, which will run alongside AMP8.

Energy revenue decreased by -12.1% in H1 23 on the prior year. Nuclear-related revenue is now included within the Nuclear and Defence sector. We continue with our contract with Cadent, managing the mains replacement across the East of England. We have performed well in energy resilience and are building our position in energy transition. Throughout H1 23 we have strengthened our core strategy to support the development of the industrial clusters throughout the UK. We have completed delivery of the feed for bp on the track 1 net zero contract at Teesside (part of the East coast cluster) and continue to work on future phases of the project.

We have seen growth in project delivery and opportunities in supporting our long-standing petrochemical customers in decarbonising their midstream operations through large scale energy switching engineering projects, including hydrogen generation and transportation.

Defence and Nuclear supports several public and private sector organisations, in a variety of customer-side, delivery partnership roles, across the UK Defence Nuclear Enterprise. Defence and Nuclear includes nuclear-related revenue previously included in Energy, following the reorganising of the Natural Resources division. Reported and adjusted revenue increased by £9.7m, 26.6% on the prior year, driven by a growth in demand for support within our current delivery partnership roles, with Babcock and the Atomic Weapons Establishment (AWE). In both contracts, we work as a construction delivery partner, delivering major infrastructure projects, and providing expertise in design and construction management.

We also provide ongoing support to the Defence Nuclear Organisation (DNO), helping it develop portfolio management capabilities and developing its programme definition for future infrastructure requirements. We are currently well positioned across the Defence Nuclear Enterprise, supporting the UK’s Continuous at Sea Deterrent (CASD), and our ambition is to be the delivery partner of choice for the Ministry of Defence’s (MoD) future strategic infrastructure needs.

During H1 23, we were awarded a place on a new six-year framework for Magnox Ltd. We secured a position on both Lot 1 and Lot 2 of the framework, utilising our full complex delivery and consultancy capability, to support Magnox across 11 sites and deliver its decommissioning programme through to 2029. In addition to our work on decommissioning, we also see opportunities for growth in support to the nuclear fuel sector.

FINANCIAL REVIEW

Divisional adjusted to reported reconciliation

	Transportation			Natural Resources			Group		
	H1 23	H1 22	Change	**H1 23**	H1 22	Change	**H1 23**	H1 22	Change
Revenue £m									
Adjusted	**487.1**	494.6	-1.5%	**177.3**	170.6	3.9%	**664.4**	665.2	-0.1%
Reported	**487.1**	494.6	-1.5%	**177.3**	170.6	3.9%	**664.4**	665.2	-0.1%
Operating profit £m									
Adjusted	**12.2**	15.9	-23.7%	**7.5**	2.6	183.8%	**15.0**	14.0	7.1%
Adjusting items	**(5.3)**	-		**-**	(0.2)		**(7.4)**	(2.1)	
Reported	**6.9**	15.9	-56.9%	**7.5**	2.4	207.1%	**7.6**	11.9	-36.1%

Adjusting items

We incurred £2.1m (H1 22: £2.6m) on transformation and restructuring costs, and £5.3m (H1 22: £nil) on the impairment of an intangible asset that had arisen from development costs incurred as we reposition our digital services towards growth, and the further development of this asset was not consistent with the strategic decision to exit our digital hardware business. In H1 22 we recognised £0.5m on the sale of a non-core asset. We expect additional Transformation cost as we increase efficiencies, as well as further one-off costs relating to the change in our digital services strategy in H2 23.

Net financial income / (expense)

Net finance income amounted to £0.9m (H1 22: net finance expense (£0.7m)). The interest payable on bank overdrafts, loans and other similar charges was £1.6m (H1 22: £1.2m) related to the amortisation of costs in respect of the amend and extend of our facilities in H2 22, partially offset by lower interest charges following the repayment of our term loan at the same time. Interest income from bank deposits amounted to £1.6m (H1 22: £nil), on increased amounts held on deposit at a higher interest rate. In addition, the net financial income for H1 23 includes the interest income on the net assets of the pension scheme of £1.6m (H1 22: £0.6m) and the interest expense on lease liabilities of £0.7m (H1 22: £0.1m) under IFRS16.

Tax

The Group has a tax charge of £3.4m (H1 22: £2.1m) giving an effective tax rate of 40.0% (H1 22: 18.8%). The H1 23 charge primarily results from the recognition of a £5.3m impairment accounted for during the

first half of the year, which is not tax deductible. The adjusted effective tax rate was 24.5% (H1 22: 19.5%). We expect the effective tax rate in 2023 to remain close to the blended statutory tax rate of 23.5% (19% until April 2023, and 25% subsequently).

Cashflow

The Group generated a £26.5m free cash inflow for the year (H1 22: £34.4m).

£m	**H1 23**	**H1 22**
Cash from operations	16.9	(19.1)
Add back adjusting items	4.0	48.4
Add back pension deficit contributions	5.7	5.2
Less taxation	-	-
Less capital expenditure	(0.1)	(0.1)
Free cash flow	**26.5**	**34.4**

The Group had a positive net cash balance of £132.1m as of 30 June 2023 (FY 22: £123.8m; H1 21: £95.9m) comprising Costain cash balances of £77.6m (FY 22: £67.3m; H1 22: £76.5m), cash held by joint operations of £54.5m (FY 22: £56.5m; H1 22: £55.4m,) and borrowings of £nil (FY22: £nil; H1 22: £36.0m excluding arrangement fees of £0.2m). During H1 23, the Group's average month-end net cash balance was £127.9m (FY 22: £99.2m; H1 22: £91.9m). Utilisation of the total bonding facilities as of 30 June 2023 was £78.9m (FY 22: £88.8m, H2 22: £88.5m).

£m	**H1 23**	**H1 22**	**FY 22**
Cash and cash equivalents at the beginning of year	123.8	159.4	159.4
Net cash flow	8.3	(27.5)	(35.6)
Cash and cash equivalents at the end of year	132.1	131.9	123.8
Borrowings (excluding leases and unamortised arrangement fee of £0.6m in FY21)	-	(36.0)	-
Net cash	**132.1**	**95.9**	**123.8**

Bank and bonding facilities

On 26 July 2023, we announced that we had successfully concluded negotiations with our bank and surety facility providers to refinance a new three-year agreement of our bank and bonding facilities.

The Group's new facilities agreement to September 2026 comprises an £85m sustainability-linked revolving credit facility (RCF) (previously £125m), and surety and bank bonding facilities totalling £270m (previously £280m). This new agreement replaces the previous one-year "amend and extend" of our facilities from September 2023 to September 2024, as announced in November 2022.

The new facility is backed by a group of four banks and five sureties. Lloyds Bank acted as coordinator, Lloyds Bank and HSBC as joint sustainability coordinators, together with Crédit Industriel et Commercial (CIC) and National Westminster Bank (NatWest), the latter being a new addition to the banking group. The surety bonding facilities are provided by Euler Hermes SA (NV), HCC International Insurance Company Plc, Liberty Mutual Insurance Europe SE, QBE UK Limited and Zurich Insurance Company Ltd, UK Branch.

Costain has agreed with its banks and sureties that it will not declare a dividend should liquidity (undrawn revolving credit facility, plus Costain cash balances) be less than, or expected to be less than, £100m for the next twelve months (as certified by Costain).

The sustainability interest rate margin linkage has three key performance indicators (KPIs) relating to reduction in greenhouse gas emissions, spend with small, local business and charities, and an increase in gender diversity.

Pensions

On 30 June 2023, we announced that agreement has been reached with the Trustee of the Company's defined benefit pension scheme on the 31 March 2022 triennial actuarial funding valuation and ongoing contributions to the Scheme.

The new contribution plan from the Group to the Costain Pension Scheme runs from 1 July 2023 to 31 March 2027 and is for a payment of £3.3m per year, payable in pro rata monthly instalments, which will increase in line with inflation (CPI) each 1 April. This replaces the previous contribution plan to the Scheme, which from April 2023 had increased to an annual payment of £11.98m paid in monthly instalments.

As a result of the new contribution plan, the full year 2023 pension contribution payment by the Group will total £7.4m, and payments for 2024 and thereafter will be £3.3m annually, plus inflationary increases as outlined above. The Scheme funding position on a Technical Provisions basis as at 31 March 2022 was a deficit of £25.1m (a funding level of around 97%).

An assessment of the Scheme funding position will be carried out each 31 March and, if the funding level (on a Technical Provisions basis) is more than 101%, contributions will stop from the following 1 July to 30 June. If the funding level falls below 101% at the following 31 March, contributions will resume for the next year starting 1 July to 30 June at the agreed new level.

As at 30 June 2023, the Group's pension scheme was in surplus in accordance with IAS 19 at £58.7m (FY 22: £60.2m surplus, H1 22: £86.2m surplus).

The movement in the IAS 19 valuation, being a slight reduction in surplus from 31 December 2022 to 30 June 2023 was due to the impact of a reduction in the value of scheme assets being slightly greater than the reduction in scheme liabilities, primarily driven by performance of the growth assets.

Cash contributions were made to the scheme during the half year amounted to £5.7m (H1 22: £5.2m) and the charge to operating profit in respect of the administration cost of the UK Pension Scheme in the year was £0.1m (H1 22: £0.2m).

DIRECTORS REPORT

Going concern

In determining the appropriate basis of preparation of the financial statements for the six months ended 30 June 2023, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts. Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, 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. Please see note 1 for more details.

Principal Risks and Uncertainties

The Directors consider that the principal risks facing the Group, including those that would threaten the successful and timely delivery of its strategic priorities, future performance, solvency and liquidity, remain substantially unchanged from those identified on pages 41 to 43 of the Group's Annual Report for the year ended 31 December 2022 which can be found at www.costain.com.

There 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 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 and that the interim management 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 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 2022.

For and on behalf of the Board

Alex Vaughan	**Helen Willis**
Chief Executive Officer	Chief Financial Officer
22 August 2023	

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 2023

£m	Note	H1 23 unaudited	H1 22 unaudited
Revenue	4	**664.4**	665.2
Cost of Sales		**(618.0)**	(627.4)
Gross profit		**46.4**	37.8
Impairment of intangible asset	10	**(5.3)**	-
Other administrative expenses		**(33.5)**	(25.9)
Administrative expenses	5	**(38.8)**	(25.9)
Operating profit		**7.6**	11.9
Profit from operations	4	**7.6**	11.9
Finance income	6	**3.2**	0.6
Finance expense	6	**(2.3)**	(1.3)
Net finance income/ (expense)		**0.9**	(0.7)
Profit before tax		**8.5**	11.2
Taxation	7	**(3.4)**	(2.1)
Profit for the period attributable to equity holders of the parent		**5.1**	**9.1**
Earnings per share			
Basic	8	**1.9p**	3.3p
Diluted (as restated)	8	**1.8p**	3.3p

See note 15 for more information on restatements.

GROUP STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE

For the six months ended 30 June 2023

£m	H1 23 unaudited	H1 22 unaudited
Profit for the period	**5.1**	9.1
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	-	(0.1)
Total items that may be reclassified subsequently to profit or loss	-	(0.1)
Items that will not be reclassified to profit or loss:		
Remeasurement of retirement benefit asset	**(8.7)**	13.4
Tax recognised on remeasurement of retirement benefit asset	**2.0**	(3.3)
Total items that will not be reclassified to profit or loss	**(6.7)**	10.1
Other comprehensive (expense)/ income for the period	**(6.7)**	10.0
Total comprehensive (expense)/ income for the period attributable to equity holders of the parent	**(1.6)**	**19.1**

GROUP BALANCE SHEET

£m	Note	30 June 2023 unaudited	31 December 2022 audited (as restated)
Assets			
Non-current assets			
Intangible assets	10	**46.6**	52.2
Property, plant and equipment	11	**29.0**	32.0
Equity accounted investments		**0.4**	0.4
Retirement benefit asset		**58.7**	60.2
Trade and other receivables		**3.9**	3.5
Insurance recovery asset		**4.0**	4.0
Deferred tax		**13.7**	14.5
Total non-current assets		**156.3**	166.8
Current assets			
Inventories		**0.2**	0.2
Trade and other receivables		**192.7**	187.4
Insurance recovery asset		**8.5**	9.4
Cash and cash equivalents	12	**132.1**	123.8
Total current assets		**333.5**	320.8
Total assets		**489.8**	487.6
Liabilities			
Non-current liabilities			
Other payables		**0.8**	1.1
Lease liabilities		**13.7**	18.5
Provisions for other liabilities and charges		**3.7**	3.7
Total non-current liabilities		**18.2**	23.3
Current liabilities			
Trade and other payables		**242.5**	232.5
Taxation		**0.8**	0.2
Lease liabilities		**10.3**	11.0
Provisions for other liabilities and charges		**7.7**	9.4
Total current liabilities		**261.3**	253.1
Total liabilities		**279.5**	276.4
Net assets		**210.3**	**211.2**
Equity			
Share capital	14	**138.3**	137.5
Share premium		**16.4**	16.4
Translation reserve		**0.6**	0.6
Retained earnings		**55.0**	56.7
Total equity		**210.3**	**211.2**

See Note 15 for more information on restatements.

GROUP STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

£m	Share capital	Share premium	Translation reserve	Retained earnings	Total equity
At 1 January 2022 audited	137.5	16.4	0.6	44.5	199.0
Profit for the period	-	-	-	9.1	9.1
Other comprehensive income	-	-	(0.1)	10.1	10.0
Issue of shares under employee share schemes	0.1	-	-	(0.1)	-
Equity-settled share-based payments	-	-	-	0.8	0.8
At 30 June 2022 unaudited	137.6	16.4	0.5	64.4	218.9
At 1 January 2023 audited	**137.5**	**16.4**	**0.6**	**56.7**	**211.2**
Profit for the period	**-**	**-**	**-**	**5.1**	**5.1**
Other comprehensive expense	**-**	**-**	**-**	**(6.7)**	**(6.7)**
Issue of ordinary shares under employee share schemes (see note 14)	**0.8**	**-**	**-**	**(0.8)**	**-**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Equity-settled share-based payments	**-**	**-**	**-**	**0.8**	**0.8**
At 30 June 2023 unaudited	**138.3**	**16.4**	**0.6**	**55.0**	**210.3**

GROUP CASH FLOW STATEMENT

For the six months ended 30 June 2023

£m	Note	H1 23 unaudited	H1 22 unaudited
Cash flows from/ (used by) operating activities			
Profit for the year		**5.1**	9.1
Adjustments for:			
Finance income	6	**(3.2)**	(0.6)
Finance expense	6	**2.3**	1.3
Taxation	7	**3.4**	2.1
Profit on sale of interest in joint ventures and associates		**-**	(0.5)
Impairment of intangible asset		**5.3**	-
Depreciation of property, plant and equipment	11	**6.9**	4.7
Amortisation of intangible assets	10	**0.4**	0.3
Shares purchased to satisfy employee share schemes		**(0.1)**	-
Share-based payments expense		**0.8**	0.8
Cash from operations before changes in working capital and provisions		**20.9**	17.2
Decrease in inventories		**-**	0.1
Increase in trade and other receivables		**(4.8)**	(1.6)
Increase in trade and other payables		**9.7**	11.3
Payment of Peterborough & Huntingdon final settlement provision		**-**	(43.4)
Movement in other provisions and employee benefits		**(8.9)**	(2.7)
Cash from/ (used by) operations		**16.9**	(19.1)
Interest received		**1.6**	0.1
Interest paid		**(0.7)**	(1.2)
Net cash from/ (used by) operating activities		**17.8**	(20.2)
Cash flows from/ (used by) investing activities			
Additions to property, plant and equipment		**-**	(0.1)
Additions to intangible assets		**(0.1)**	-
Proceeds on sale of investment		**-**	0.5
Net cash (used by)/ from investing activities		**(0.1)**	0.4
Cash flows from/ (used by) financing activities			
Repayments of lease liabilities		**(9.4)**	(3.7)
Repayment of loans		**-**	(4.0)
Net cash used by financing activities		**(9.4)**	(7.7)
Net increase/ (decrease) in cash and cash equivalents		**8.3**	(27.5)
Cash and cash equivalents at beginning of the period	12	**123.8**	159.4
Cash and cash equivalents at end of the period	12	**132.1**	**131.9**

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 2023 comprise the Group and the Group's interests in associates, joint ventures and joint operations and have been prepared and approved by the directors 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 2022, 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 the half year ended 30 June 2023, has been calculated on the basis of the forecasted year end estimated tax rate for FY 23.

The Group has applied the following standards and amendments for the first time for the period commencing 1 January 2023:

• IFRS 17 Insurance Contracts;

• Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;

• Definition of Accounting Estimates – Amendments to IAS 8.

The Group also elected to adopt the following amendments early:

• Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

The comparative figures for the financial year ended 31 December 2022 are not the Group'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 2022. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The audit report for 2022 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. In July 2023, the Group announced that it had successfully concluded negotiations with its bank and surety facility providers to refinance a new three-year agreement of its bank and bonding facilities.

The Group's new facilities agreement to September 2026 comprises an £85m sustainability-linked revolving credit facility (RCF) (previously £125m), and surety and bank bonding facilities totalling £270m (previously £280m). This new agreement replaces the previous one-year "amend and extend" of the Group's facilities from September 2023 to September 2024, as announced in November 2022.

These facilities have a leverage covenant of net debt/EBITDA ≤1.5 times, an interest covenant of EBITA/net interest payable covenant of ≥4.0 times and a liquidity covenant whereby the aggregate of, without double counting, any cash and cash equivalent investments and the available commitment under the facility does not fall below £50.0m. These financial covenants are tested quarterly. As at 30 June 2023, the Group had a leverage covenant ratio of below zero (the Group had no net debt) and an interest covenant ratio of 8.7 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 £20m bank bonding and £250m surety company bonding facilities.

In determining the appropriate basis of preparation of the financial statements for the six months ended 30 June 2023, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future, being a period of at least twelve months from the date of approval of the accounts.

In assessing the going concern assumption, the Board reviewed the Group's base case plans for the period to 31 December 2024, being the first covenant deadline more than 12 months after the approval of the financial statements. The directors have assumed that the current RCF remains in place with the same covenant requirements through to its current expiry date, which is beyond the end of the period reviewed for Going Concern purposes. The base case assumes delivery of the Board approved strategic and financial plans. As part of the assessment, the Board also identified severe but plausible downsides affecting future profitability, working capital requirements and cash flow. The severe but plausible downsides include applying the aggregated impact of lower revenue, lower margins, higher working capital requirements and adverse contract settlements.

Both the base case and severe but plausible forecasts show significant headroom and indicate that the Group will be able to operate within its available banking facilities and covenants throughout this period.

Having undertaken a rigorous assessment of the financial forecasts, including its liquidity and compliance with covenants, the Board considers that the Group has adequate resources to remain in operation for the foreseeable future and, therefore, the directors have adopted the going concern basis in the preparation of the financial statements.

Alternative performance measures

Income statement presentation - Adjusting items

To aid understanding of the underlying and overall performance of the Group, 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 because they are not long-term in nature and will not reflect the long-term performance of the Group. 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 period 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 and reported in the presentation of segmental reporting in note 4.

The Group also presents net cash/ bank debt as an alternative performance measure. 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 153 to 155 of the Annual Report for the year ended 31 December 2022.

3. RECONCILIATION OF REPORTED REVENUE AND OPERATING PROFIT TO ADJUSTED REVENUE AND OPERATING PROFIT

Adjusted revenue, operating profit and earnings per share are presented as non-GAAP alternative performance measurements. The Board considers the adjusted measures better reflect the underlying trading performance of the Group for the reasons described in note 1.

The profit adjustments represent amounts included in the income statement. The Group incurred £2.1m (H1 22: £2.6m) on transformation and restructuring costs, fully impaired a technology intangible asset by £5.3m (H1 22: £nil) (see note 10) and recognised £nil profit (H1 22: £0.5m) on the sale of a non-core asset.

Six months ended 30 June 2023	**Adjusted**	**Intangible impairment**	**Other items**	**Total**
	£m	**£m**	**£m**	**£m**
Revenue	**664.4**	**-**	**-**	**664.4**
Cost of sales	**(618.0)**	**-**	**-**	**(618.0)**
Gross profit	**46.4**	**-**	**-**	**46.4**
Administrative expenses before other items	**(31.4)**	**-**	**-**	**(31.4)**
Impairment of intangible asset	**-**	**(5.3)**	**-**	**(5.3)**
Transformation costs	**-**	**-**	**(2.1)**	**(2.1)**
Administrative expenses	**(31.4)**	**(5.3)**	**(2.1)**	**(38.8)**
Operating profit/ (loss)	**15.0**	**(5.3)**	**(2.1)**	**7.6**
Profit/ (loss) from operations	**15.0**	**(5.3)**	**(2.1)**	**7.6**
Net finance income	**0.9**	**-**	**-**	**0.9**
Profit/ (loss) before tax	**15.9**	**(5.3)**	**(2.1)**	**8.5**
Taxation	**(3.9)**	**-**	**0.5**	**(3.4)**
Profit/ (loss) for the period	**12.0**	**(5.3)**	**(1.6)**	**5.1**
Basic earnings per share	**4.4p**			**1.9p**

Six months ended 30 June 2022	Adjusted	Other items	Total
	£m	£m	£m
Revenue	665.2	-	665.2
Cost of sales	(627.9)	0.5	(627.4)
Gross profit	37.3	0.5	37.8
Administrative expenses	(23.3)	(2.6)	(25.9)
Operating profit/ (loss)	14.0	(2.1)	11.9
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	**10.7**	**(1.6)**	**9.1**
Basic earnings per share	3.9p		3.3p

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 and before 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.

Six months ended 30 June 2023	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Total revenue	**177.3**	**487.1**	**-**	**664.4**
Segment profit/ (loss)				
Adjusted operating profit/ (loss)	**7.5**	**12.2**	**(4.7)**	**15.0**
Profit/ (loss) from operations before other items	**7.5**	**12.2**	**(4.7)**	**15.0**
Other items:				
Intangible impairment	**-**	**(5.3)**	**-**	**(5.3)**
Transformation costs	**-**	**-**	**(2.1)**	**(2.1)**
Profit/ (loss) from operations	**7.5**	**6.9**	**(6.8)**	**7.6**
Net finance income				**0.9**
Profit before tax				**8.5**

Six months ended 30 June 2022	Natural Resources £m	Transportation £m	Central costs £m	Total £m
Segment revenue				
Total revenue	**170.6**	**494.6**	**-**	**665.2**
Segment profit/ (loss)				
Adjusted operating profit/ (loss)	2.6	15.9	(4.5)	14.0
Profit/ (loss) 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/ (loss) from operations	**2.4**	**15.9**	**(6.4)**	**11.9**
Net finance expense				(0.7)
Profit before tax				**11.2**

5. ADMINISTRATIVE EXPENSES

The Group incurred administrative expenses of £38.8m in H1 23, an increase of £12.9m on the same period last year (H1 22: £25.9m). £5.3m of the increase relates to the impairment of an intangible asset. £3.6m of the increase has resulted from a reclassification of costs previously shown within cost of sales, now reflected in administrative expenses, as we have improved alignment, ownership and understanding of our cost base across the Group as part of our Transformation programme. The balance of the increase has been driven by cost and wage inflation as well as the timing of incremental investment that will facilitate further net benefits from our Transformation programme through the balance of the year and into FY 24, partially offset by the year-on-year benefit of cost management actions taken in the second half of FY 22.

6. NET FINANCE INCOME/ (EXPENSE)

£m	H1 23	H1 22
Interest income from bank deposits	**1.6**	-
Interest income on the net assets of the defined benefit pension scheme	**1.6**	0.6
Finance income	**3.2**	**0.6**
Interest payable on interest bearing bank loans, borrowings and other similar charges	**(1.6)**	(1.2)
Interest expense on lease liabilities	**(0.7)**	(0.1)
Finance expense	**(2.3)**	**(1.3)**
Net finance income/ (expense)	**0.9**	**(0.7)**

Other similar charges include arrangement and commitment fees payable.

7. TAXATION

£m	H1 23	H1 22
On profit for the period		
Current tax charge for the period	**(0.7)**	**(0.5)**
Deferred tax charge for the period	**(2.7)**	**(1.6)**
Tax charge in the consolidated income statement	**(3.4)**	**(2.1)**

£m	H1 23	H1 22
Tax reconciliation		
Profit before tax	**8.5**	**11.2**
Taxation at 23.5% (H1 22: 19.0%)	**(2.0)**	(2.1)
Disallowed expenses	**(1.3)**	-
Rate adjustment relating to deferred taxation	**(0.1)**	-
Tax charge in the consolidated income statement	**(3.4)**	**(2.1)**

8. EARNINGS PER SHARE

The calculation of earnings per share is based on profit of £5.1m (H1 22: 9.1m) and the number of shares set out below.

	H1 23 Number (millions)	H1 22 Number (millions) (as restated)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**275.8**	275.0
Dilutive potential ordinary shares arising from employee share schemes	**4.6**	1.0
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**280.4**	**276.0**

See Note 15 for more information on restatements.

9. DIVIDENDS

No dividends were paid or provided for in respect of the six months ended 30 June 2023 (H1 22: none).

10. INTANGIBLE ASSETS

	Goodwill	Customer relationships	Other acquired intangibles	Other intangibles	Total
	£m	£m	£m	£m	£m
Cost					
At 1 January 2022	54.1	15.4	9.7	15.9	95.1
Additions	-	-	-	0.3	0.3
At 31 December 2022	54.1	15.4	9.7	16.2	95.4
At 1 January 2023	**54.1**	**15.4**	**9.7**	**16.2**	**95.4**
Additions				**0.1**	**0.1**
Impairment	**-**	**-**	**-**	**(5.3)**	**(5.3)**
At 30 June 2023	**54.1**	**15.4**	**9.7**	**11.0**	**90.2**
Accumulated amortisation/ impairment					
At 1 January 2022	9.0	15.4	9.7	8.5	42.6
Charge in year	-	-	-	0.6	0.6
At 31 December 2022	9.0	15.4	9.7	9.1	43.2
At 1 January 2023	**9.0**	**15.4**	**9.7**	**9.1**	**43.2**
Charge in period	**-**	**-**	**-**	**0.4**	**0.4**
At 30 June 2023	**9.0**	**15.4**	**9.7**	**9.5**	**43.6**
Net book value					
At 30 June 2023	**45.1**	**-**	**-**	**1.5**	**46.6**
At 31 December 2022	45.1	-	-	7.1	52.2

On 6 July 2023, the Board ratified a proposal to restructure the Group's digital activities to increase growth focus on service capabilities. As a result, the capitalised development costs of a product being developed under the Group's manufacturing capabilities has been impaired (shown within Other intangibles) at the balance sheet date by £5.3m to £nil.

Goodwill has been allocated to the applicable cash generating units of the Transportation segment (£15.5m (H1 22: £15.5m)) and the Natural Resources segment (£29.6m (H1 22: £29.6m)).

The Group reviews the value of goodwill and in the absence of any identified triggering events, 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.

At 30 June 2023, the Group carried out a review of potential goodwill impairment indicators or triggers in order to determine if a full impairment review is required. No triggers were identified. As such, a full impairment review of each CGU will be carried out at 31 December 2023.

At 31 December 2022, the point of the most recent full impairment review, discount rates were estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The rate used to discount the forecast cash flows for both the Transportation and Natural Resources CGUs was 15.5%. In 2021, the discount rates used for the two CGUs were Transportation 13.2% and Natural Resources 13.6%.

The value in use calculations use the Group's four-year cash flow forecasts, which are based on the expected revenues and profitability of each CGU, taking into account the current level of secured and anticipated orders, extrapolated for future years by the expected growth applicable to each CGU, as follows:

	2022 Transportation %	**2022 Natural Resources %**	**2021 Transportation %**	**2021 Natural Resources %**
Growth Rates				
Year 5	**1.5**	**1.5**	**1.9**	**1.9**
Long-term average	**1.5**	**1.5**	**1.9**	**1.9**

At 31 December 2022, based on the internal value in use calculations, management concluded that the recoverable value of the Transportation cash generating unit exceeded its carrying amount with substantial headroom.

At 31 December 2022, based on the internal value in use calculations, which included a sensitivity aligned to a 30% reduction in absolute business unit operating profit, management concluded that the recoverable amount of the Natural Resources cash generating unit exceeded its carrying amount, with headroom of £32.1m. The recoverable amount of the Natural Resources goodwill therefore continues to be subject to further sensitivities and changes in the value in use assessment assumptions would have resulted in the following changes:

- An increase in the discount rate of 1.0% (from 15.5% to 16.5% pre-tax), reduces headroom by £7.9m;
- A decrease in the long-term growth rate of 1.0% (from 1.5% to 0.5%), reduces headroom by £5.8m; and
- A further reduction in CGU operating profit by an additional 20%, on top of the 30% reduction already modelled, reduces headroom by £19.3m.

Based on the above sensitivities the directors consider that there is no reasonable possible change in any key assumption that, in isolation, would result in an impairment of goodwill. However, if the sensitivities modelled above were to occur in combination, this would give rise to an impairment.

11. PROPERTY, PLANT AND EQUIPMENT

		Right-of-use assets		
	Plant & Equipment	Land & Buildings	Vehicles, plant & equipment	Total
	£m	£m	£m	£m
At 31 December 2022				
Cost (as restated)	24.6	21.8	28.3	74.7
Accumulated depreciation and impairment	(23.3)	(7.6)	(11.8)	(42.7)
Net book value (as restated)	1.3	14.2	16.5	32.0
Period ended 30 June 2023				
Cost				
At 1 January 2023	**24.6**	**21.8**	**28.3**	**74.7**
Additions	**-**	**-**	**4.5**	**4.5**
Disposals	**(9.4)**	**(1.2)**	**(2.0)**	**(12.6)**
At 30 June 2023	**15.2**	**20.6**	**30.8**	**66.6**
Accumulated depreciation and impairment				
At 1 January 2023	**23.3**	**7.6**	**11.8**	**42.7**
Charge in period	**0.6**	**3.7**	**2.6**	**6.9**
Disposals	**(9.4)**	**(0.6)**	**(2.0)**	**(12.0)**
At 30 June 2023	**14.5**	**10.7**	**12.4**	**37.6**
Net book value				
At 30 June 2023	**0.7**	**9.9**	**18.4**	**29.0**

See Note 15 for more information on restatements.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are analysed below and include the Group's share of cash held by joint operations of £54.4m (FY 22: £56.5m).

	30 June 2023	31 December 2022
	£m	£m
Cash and cash equivalents	**132.1**	123.8
Net cash	**132.1**	**123.8**

13. PENSIONS

The Group operates a defined benefit pension scheme in the UK; contributions are paid by subsidiary undertakings. There are also two defined contribution pension schemes in place in the UK and contributions are made both by subsidiary undertakings and employees. The total pension charge in the income statement is defined benefit scheme net income of £0.2m, and defined contribution scheme operating costs of £6.1m (H1 22: defined benefit scheme net expense of £0.4m, and defined contribution scheme operating costs of £5.5m).

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 2022 and this was updated to 30 June 2023 by a qualified independent actuary. At 30 June 2023, there were 2,877 retirees and 2,462 deferred members (2022: 2,867 retirees and 2,529 deferred members). The weighted average duration of the obligations is 11.5 years (2022: 11.9 years).

	At 30 June 2023 £m	**At 31 December 2022 £m**	**At 31 December 2021 £m**
Present value of defined benefit obligations	**(512.9)**	(527.1)	(837.5)
Fair value of scheme assets	**571.6**	587.3	904.6
Recognised asset for defined benefit obligations	**58.7**	60.2	67.1

Movements in present value of defined benefit obligations

	At 30 June 2023 £m	**At 31 December 2022 £m**
At 1 January	**527.1**	837.5
Interest cost	**12.9**	14.8
Remeasurements – demographic assumptions	**(3.8)**	(0.3)
Remeasurements – financial assumptions	**(13.6)**	(321.4)
Remeasurements – experience adjustments	**8.9**	29.7
Benefits paid	**(18.6)**	(33.2)
At end of period	**512.9**	**527.1**

Movements in fair value of scheme assets

	At 30 June 2023 £m	At 31 December 2022 £m
At 1 January	**587.3**	904.6
Interest income	**14.5**	16.1
Remeasurements – return on assets	**(17.2)**	(310.7)
Contributions by employer	**5.7**	10.8
Administrative expenses	**(0.1)**	(0.3)
Benefits paid	**(18.6)**	(33.2)
At end of period	**571.6**	**587.3**

Expense recognised in the income statement

	H1 23 £m	H1 22 £m
Administrative expenses paid by the pension scheme	**(0.1)**	(0.2)
Administrative expenses paid directly by the Group	**(1.3)**	(0.8)
Interest income on the net assets of the defined benefit pension scheme	**1.6**	0.6
	0.2	**(0.4)**

Fair value of scheme assets

	At 30 June 2023 £m	At 31 December 2022 £m
Global equities	**103.5**	109.8
Multi-asset growth funds	**51.3**	56.1
Multi-credit fund	**101.6**	110.9
LDI plus collateral	**302.4**	307.2
Cash	**12.8**	3.3
	571.6	**587.3**

Principal actuarial assumption (expressed as weighted averages)

	At 30 June 2023 %	At 31 December 2022 %
Discount rate	**5.30**	5.00
Future pension increases	**3.00**	2.90
Inflation assumption	**3.20**	3.10

Weighted average life expectancies from age 65 as per mortality tables used to determine benefits at 30 June 2023 and 31 December 2022 are:

	At 30 June 2023		At 31 December 2022	
	Male (years)	**Female (years)**	**Male (years)**	**Female (years)**
Currently aged 65	**21.9**	**23.7**	21.9	23.9
Non-retirees currently aged 45	**22.9**	**25.0**	22.9	25.1

In accordance with the pension regulations, a triennial actuarial review of the Costain defined benefit pension scheme was carried out as at 31 March 2022. In June 2023, the valuation and updated deficit recovery plan were agreed with the Scheme Trustee resulting in cash contributions of £3.3m for each year commencing 1 July 2023 (increasing annually with inflation) until the deficit is cleared, which would be in 2027, on the basis of the assumptions made in the 2022 valuation and agreed recovery plan. This replaces the previous contribution plan to the Scheme, which from April 2023 had increased to an annual payment of £11.98m paid in monthly instalments.

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.

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.

Defined contribution schemes

Two defined contribution pensions are operated. The total expense relating to these plans was £6.1m (H1 22: £5.5m).

14. SHARE CAPITAL

	H1 23		H1 22	
	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**	**137.5**	275.1	137.6
Issued in year (see below)	**1.6**	**0.8**	-	-
Shares in issue at end of period - ordinary shares of 50p each, fully paid	**276.7**	**138.3**	**275.1**	**137.6**

The Company's issued share capital comprised 276,684,741 ordinary shares of 50 pence each as at 30 June 2023.

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

15. PRIOR PERIOD RESTATEMENTS

IFRS 16 – leases

Due to a mathematical error in the model used to calculate the IFRS 16 right of use assets' cost and lease liabilities on initial recognition, the cost of right of use assets and the lease liabilities reported at 31 December 2022 as reported in the 2022 annual report and accounts were both understated by £5.4m. There is no material impact on the profit and loss account or the statement of cash flows from this error and the impact of the restatement is as shown in the table below. There was also no material impact at the opening balance sheet date of the earliest period presented, being 1 January 2022.

	As reported 2022 £m	**As restated 2022 £m**
Right of use assets	**25.3**	30.7
Lease liabilities – current	**9.1**	11.0
Lease liabilities – non-current	**15.0**	18.5

Diluted EPS

An error in applying the treasury stock method was made in the calculation of the dilutive potential ordinary shares at H1 22. The number of shares was reported as 13.7 million and should have been 1.0 million. This has the effect of reducing the weighted average number of ordinary shares in issue for diluted earnings per share calculation by 12.7 million from 288.7 million to 276.0 million. This increases the diluted earnings per share from 3.1p to 3.3p. The position as reported at 31 December 2022 in the 2022 annual report and accounts was correct and does not require restatement.

16. EVENTS AFTER THE REPORTING DATE

Refinancing

On 26 July 2023, the Group refinanced its banking and surety facilities in a new three-year agreement. The new facilities comprise an £85m sustainability-linked revolving credit facility (previously £125m), and surety and bank bonding facilities totalling £270m (previously £280m).

There is no resulting impact on these interim financial statements.

Dividend

The Board is considering an interim dividend payment, as noted above, with an announcement expected to be made shortly.

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 for the six months ended 30 June 2023 (the "Results").

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 2023;
- the Group Income Statement and the Group Statement of Comprehensive Income and Expense 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 ("ISRE (UK) 2410"). 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 ISRE (UK) 2410. 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
22 August 2023