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

Results for the half-year ended 30 June 2014

Costain, the engineering solutions provider, announces a record order book along with an increase in underlying operating profit[2] and an interim dividend of 3.25 pence per share for the first six months of 2014.

	H1 2014	H1 2013	FY 2013
Revenue[1]	**£529.1m**	**£462.9m**	**£960.0m**
Operating Profit			
- Underlying[2]	**£11.2m**	**£10.7m**	**£27.4m**
Profit before tax			
- Adjusted[3]	**£9.1m**	**£8.4m**	**£31.0m**
- Reported	**£5.8m**	**£3.1m**	**£12.9m**
Basic earnings per share			
- Adjusted[3]	**9.2p[4]**	**9.8p[5]**	**41.0p[5]**
- Reported	**5.8p[4]**	**3.9p[5]**	**17.6p[5]**
Net Cash balance	**£133.8m**	**£64.3m**	**£57.7m**
Dividend per share	**3.25p[4]**	**3.75p**	**11.5p**

1. Including share of joint ventures and associates
2. Underlying operating profit before Other items; amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc.
3. Results stated before other items; amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc and in full year non-cash impairment of £9.8m on carrying value of assets in non-core Land Development activity in Spain
4. On the enlarged capital base following the capital raise completed in March 2014
5. Restated for the bonus element only of the capital raise completed in March 2014.

Highlights

- Underlying operating profit[2] up 5% to £11.2 million (2013: £10.7 million)
- Increase of 8% in adjusted profit before tax[3] to £9.1 million (2013: £8.4 million)
- Record forward order book up 10% to £3.2 billion (2013: £2.9 billion) with over £700 million of new contracts and extensions secured in the first half. Over £950 million of revenue secured for FY 2014 by 30 June (2013: over £850 million secured for FY 2013)
- New contracts in the period include:
    - Appointment to Network Rail's £2bn National Electrification Programme
    - Further Barrow Gas Terminals commission with Centrica
    - Crossrail North East Spur appointment by Network Rail
    - Appointment by National Grid to three transmission frameworks
- Nature of new contract awards reflect Costain's position as the engineering solutions provider with an established reputation for innovation
- Over 90% of high quality order book comprises repeat orders and over 90% lower risk, target cost, cost reimbursable forms of contract

- Successful capital raise of £70.3 million (net of expenses) to take advantage of the growing number of opportunities available to accelerate the Group's development

- Net cash balance of £133.8 million (2013: £64.3 million)

- Interim dividend of 3.25 pence per share on enlarged capital base (2013: 3.75 pence)

David Allvey, Chairman, commented:

"We have delivered a strong performance in the first half of the year. As well as increases in revenue and underlying operating profit, our order book continued to grow and now stands at a record £3.2 billion.

"Costain has an established reputation for innovation that enables the Group to win large, long term contracts addressing the UK's essential energy, water and transportation needs.

"The successful capital raise earlier this year is enabling us to take advantage of a growing number of opportunities to accelerate the Group's development.

"Costain remains on course to deliver a result for the year in line with the Board's expectations."

21 August 2014

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

Costain, the engineering solutions provider, delivers integrated consulting, project delivery and operations and maintenance services, with a portfolio spanning almost 150 years of innovation and technical excellence. The Group's core business segments are in Infrastructure (Highways, Rail and Power) and Natural Resources (Water, Oil & Gas, and Nuclear Process).

The Group's 'Engineering Tomorrow' strategy involves focusing on blue chip customers in chosen sectors whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements.

Costain has worked on a number of high profile infrastructure projects in the UK, including the St Pancras Station redevelopment and the Channel Tunnel Rail Link. The Group's current major contracts include EVAP D at Sellafield, one of the largest decommissioning nuclear projects in the UK; the redevelopment of London Bridge Station for Network Rail; the design, installation and commissioning of railway systems for Crossrail; and the design and delivery of the water cooling systems for the new nuclear power station at Hinkley for EDF.

There will be a presentation to analysts today at Instinctif Partners, 65 Gresham Street, EC2V 7NQ. To register your attendance please contact helen.tarbet@instinctif.com

Chairman's and Chief Executive's statement

We are pleased to report a strong first half performance with increases in revenue, underlying operating profit and an order book at a record level of £3.2 billion.

Costain is established as a leading engineering solutions provider. We have achieved this through building a reputation for innovation that enables us to address national needs across some of the UK's most essential infrastructure requirements.

Moreover, Costain is one of a select group of companies with the integrated consulting, project delivery and operational capability required to meet the increasingly complex and challenging needs of major blue chip customers.

Those major customers are continuing to invest billions of pounds in capital, operations and maintenance contracts across the transport, water and energy markets where we have focused our resources.

The nature and scale of the contract awards in the period increasingly reflect Costain's breadth and depth of capability and include:

- Appointment to Network Rail's £2 billion National Electrification Programme, secured in joint venture;
- Engineering, Procurement and Construction contract for Centrica's Barrow Gas Terminals;
- Crossrail North East Spur appointment for Network Rail;
- Appointment by National Grid to three frameworks for overhead lines, underground cables and front end engineering for gas compressor stations.

Our collaborative approach and reputation for excellent delivery are key factors behind our success in securing an order book which comprises over 90% repeat business.

Furthermore, the increasingly strategic nature of our long-term customer relationships has ensured that over 90% of the order book comprises target cost, cost reimbursable, collaborative forms of contract. Although the transition to this form of contract has altered the cash flow dynamics, it has substantially improved the risk profile of the Group and provides increased visibility over long term margins for the projects in our order book.

The opportunities across all our markets are substantial as investment by our customers in transportation, energy and water resources is expected to grow significantly and, as anticipated, supplier consolidation is continuing. As a consequence, the level of tendering activity across the Group's targeted markets remains high.

The successful capital raise of £70.3 million (net of expenses) completed earlier this year is enabling Costain to capitalise on these opportunities.

Order Book

During the first half, we were successful in securing a number of major new contract awards and extensions to existing contracts. Consequently, the order book, as at 30 June 2014, was up 10% to a record £3.2 billion (2013: £2.9 billion) and we have increased the revenue secured for 2014 to over £950 million (2013: over £850 million secured for 2013).

The order book also provides good long-term visibility with over £800 million of revenue secured for 2015 (2013: over £700 million secured for 2014), and in excess of a further £1.8 billion of revenue secured for 2016 and beyond.

In addition, the Group has maintained a strong preferred bidder position of over £400 million.

Results

Revenue, including the Group's share of joint ventures and associates, for the half-year ended 30 June 2014 increased to £529.1 million (2013: £462.9 million), and Group underlying operating profit was up to £11.2 million (2013: £10.7 million).

The adjusted profit before tax increased by 8% to £9.1 million (2013: £8.4 million).

The Infrastructure division had a strong first half of the year with increases in revenue, operating profit and order book. The Natural Resources division saw a return to profit from operations excluding the impact of a provision taken to complete the legacy Greater Manchester Waste PFI contract awarded in 2007.

Net finance expense amounted to £2.0 million in the period (2013: £1.6 million).

The Group's effective rate of tax was 12.1%, owing to the reversal of timing differences, not previously recognised as deferred tax assets, and the effect on the brought-forward deferred tax balances of the reduced rate of corporation tax.

Adjusted basic earnings per share were 9.2 pence on the enlarged capital base following the capital raise (2013: 9.8 pence).

Capital Raising

In March, we successfully completed a capital raise of £70.3 million (net of expenses) to enable the business to take greater advantage of the opportunities in its chosen markets and thereby accelerate the Group's medium and long term growth prospects.

The proceeds are being, and will be, utilised:

- to demonstrate to customers the Group's financial capacity to support the anticipated further increases in contract size and duration;
- to invest in innovation and technology necessary to enhance the service offering to customers;
- to finance bid costs associated with a greater number of large scale projects for which the Company is in a position to tender;
- to fund likely increased working capital requirements arising from the move in the market towards target cost, cost reimbursable contracts;
- to provide flexibility to make selected in-fill acquisitions to complement Costain's existing capabilities as opportunities arise; and
- for general corporate purposes.

Cash Flow

The Group's net cash position at 30 June 2014 was £133.8 million (2013: £64.3 million), with no significant debt.

The increase in the net cash position reflects the successful £70.3 million (net of expenses) capital raise in March, and benefitted from positive contract cash flows at the period end. As previously highlighted, we anticipate some further impact on the Group's net cash position as a result of our strategic focus on major customers who utilise lower-risk target cost, cost reimbursable contracts which now account for over 90% of the order book.

The Group has flexible financing in place to support its future growth and has total banking and bonding facilities of £495 million with a maturity date of 30 June 2017.

Dividend

At the time of the capital raise, the Group confirmed that it intended to implement a progressive dividend policy, targeting an ongoing dividend cover of around two times underlying earnings.

In light of our continuing successful performance and our confidence in the long-term prospects for the Group, the Board has declared an interim dividend of 3.25 pence per share on the enlarged share capital base of the Group (2013: 3.75 pence per share). On the basis of the enlarged share capital, this represents an increase of 32% in the total amount of dividend paid to shareholders as compared to the 2013 interim dividend.

The dividend will be paid on 24 October 2014 to shareholders on the register as at the close of business on 19 September 2014.

Group Pension Scheme

The deficit on the Group's legacy Costain Pension Scheme ('CPS') at 30 June 2014 in accordance with IAS 19, net of deferred tax, was £40.7 million (June 2013: £31.6 million). The increase in the deficit is due primarily to the impact of a lower discount rate used to calculate the long term liabilities.

Agreement has been reached with the Trustee of the CPS regarding the triennial actuarial review as at March 2013 and the associated deficit recovery plan. As anticipated, the annual cash contributions to the scheme deficit have been agreed at £7 million per annum (increasing annually with inflation) plus an additional contribution to bring the total contribution to match the total dividend amount paid by the company over the next 3 years.

Board

Alison Wood joined Costain as a non-executive Director in February 2014, succeeding Mike Alexander as Chair of the Remuneration Committee when he retired from the Board in March.

We were also pleased to announce the appointment of David McManus as a non-executive Director in May 2014.

Operational Review

We have two core operating and reporting divisions within our business; Infrastructure and Natural Resources.

We continue to focus and prioritise our resources on a group-wide basis and through our customer-aligned divisional structure, on identifying the most attractive new opportunities for the Company as a whole.

Infrastructure Division

The division, which incorporates the Group's activities in the highways, rail and power sectors, has had a strong first half with an increase in revenue, operating profit and order book.

Revenue increased to £358.7 million (2013: £262.8 million) whilst operating profit rose to £16.9 million (2013: £14.4 million) as we delivered an excellent performance across the division including the award of gain-share on a number of contracts and with margins in the period in-line with our expectations.

The forward order book for the division has grown to £2.2 billion (2013: £1.7 billion) and the level of tendering activity remains high with a significant opportunity pipeline.

In Highways, having completed the professional services commission, we have commenced the delivery phase on the M6 Heysham Link Road for Lancashire County Council, which is the first scheme to be taken through the Government's new planning process for significant infrastructure. We have continued to be a leading supplier to the Highways Agency delivering a broad range of Technology, Asset Management and Construction Delivery services across a wide range of contracts. We have commenced work on the M1 junction 28-35 Managed Motorway scheme utilising the latest technology in smart motorways and our AOne+ joint venture is performing well on Managing Agent Contracts in Areas 7, 12 and 14. For the Welsh Government we are delivering the All Wales Technology framework and taking the A465 Heads of the Valley's upgrade through the statutory approval processes. Work also continues to progress well on strengthening the Hammersmith Flyover, one of Transport for London's highest profile projects.

In Rail we have secured significant additional contracts with Crossrail and Network Rail. Our joint venture with Alstom and Babcock has been successful in securing from Network Rail over £1 billion of electrification work for the London North West (South) region, the Welsh Valley's Line, and the Edinburgh to Glasgow Improvement Project. Progress has been good on our major Network Rail projects at London Bridge and Reading. We have commenced the North East Spur contract for Network Rail incorporating Crossrail related work on the network between Stratford and Shenfield. We are well into the engineering services phase of Crossrail's system-wide design, install and commission railway engineering and power supply contracts. Further progress has also been made on our other Crossrail contracts including the stations at Paddington and Bond Street. We continue to provide engineering consultancy services on HS2. Significant progress has also been made for London Underground on the Bond Street Station Upgrade.

In Power, we have added a commission at Longannet Power Station in Scotland to our portfolio of maintenance contracts on the UK's fleet of coal fired power stations. National Grid has appointed us to three new transmission frameworks for gas and high voltage overhead and underground cables. Progress is being made on the London Power Tunnel contract for National Grid with the successful completion of the 4 metre diameter tunnel drive. Work has continued on the framework contract for UK Power Networks with the completion of the overhead line works at Stowmarket. We continue to undertake engineering services related to our appointment by EdF for the cooling water systems on the new nuclear facility at Hinkley C.

In Airports, we have completed our contracts with Heathrow Ltd and continue to deliver infrastructure schemes for the Manchester Airport Group.

Natural Resources Division

The Natural Resources division is focused on the oil & gas, nuclear process and water markets.

Revenue (including share of joint ventures and associations) in the division for the year was £169.4 million (2013: £199.2 million), with a loss from operations of £ 2.6 million (2013: £0.1 million loss). The loss for the year to date includes additional costs for the completion of the waste PFI contract awarded in 2007 for the Greater Manchester Waste Disposal Authority as described below. The Group is not pursuing any further contracts in the Waste sector. Excluding these costs the division generated an operating profit and is trading in line with expectations.

The division has a forward order book of £1.0 billion (2013: £1.2 billion) and the level of estimating and tendering is high across all three of the division's sectors.

The Group has mobilised new Oil & Gas contracts for Centrica on the Barrow Terminal optimisation and for Perenco on the Freon replacement processes at Dimlington. The appointments include front-end engineering design, detailed design, project management and procurement. We continue to deliver support services for the Oil and Pipelines Agency (OPA) including operations, maintenance and upgrade services across the network of jet fuel pipelines and storage facilities; with a further one year extension to our contract being awarded since the period end. Costain Upstream has been successfully launched as a full lifecycle upstream oil & gas business based in Aberdeen.

In Nuclear Process, the delivery of the Evaporator-D at the Sellafield Nuclear Reprocessing Facility in West Cumbria continues with the commencement of the commissioning phase expected later this year. The Fuel Element Debris facility at the Magnox Bradwell plant is close to completion and has been handed over for active commissioning.

We continue to deliver successfully the Water AMP-5 frameworks for United Utilities, Southern Water, Severn Trent Water, Welsh Water and Northumbrian Water. We have also continued with the delivery of large waste water treatment plants at Liverpool and the award winning Brighton & Hove scheme. Good progress is also being made in the early mobilisation and development of AMP-6 appointments for Thames Water and Severn Trent Water.

The division is completing a legacy PFI contract awarded in 2007 for the Greater Manchester Waste Disposal Authority, which utilises a range of sophisticated waste management technologies. Of the forty-six waste facilities under the contract, thirty-six have reached final acceptance, three are seeking to obtain final acceptance, six are currently in the post-completion (warranty) period and one remains to be completed. Design faults have been identified at four sites, including the site that remains to be completed and remedial work and testing is on-going in respect of that site which is expected to be completed in the second half of 2014. Costain is in discussions with relevant contract counterparties and the Group's insurers regarding the issues that have arisen. Whilst the Board expects a successful outcome to these discussions it believes it is prudent to take a provision for additional costs to complete the project. It has been the Group's policy since 2009 not to pursue fixed price contracts of this nature.

Land Development

Our non-core Land Development activity in Spain, undertaken in joint venture with Santander Bank, continued to be subject to challenging market conditions although the Spanish economy is showing some early signs of improvement.

Revenue was £1.0 million (2013: £0.9 million) and the loss after tax was £0.5 million (2013: £0.7 million loss). The expected loss reflects the Group's share of the running and financing costs of the joint venture. Our current activities are focused on our leisure businesses of golf courses and a 600 berth marina, with a continued moratorium on development activity on the land-bank.

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's medium term performance, and the factors which mitigate these risks, are set out on pages 24 and 25 of the Group's Annual Report for 2013, a copy of which is available from our website www.costain.com.

The Chairman's and Chief Executive's Statement and the notes to these interim financial statements include consideration of uncertainties affecting the Group in the remaining six months of the year.

Summary & Outlook

We have delivered a strong performance in the first half of the year. As well as increases in revenue and underlying operating profit, our order book continued to grow and now stands at a record £3.2 billion.

Costain has an established reputation for innovation that enables the Group to win large, long term contracts addressing the UK's essential energy, water and transportation needs.

The successful capital raise earlier this year is enabling us to take advantage of a growing number of opportunities to accelerate the Group's development.

Costain remains on course to deliver a result for the year in line with the Board's expectations.

David Allvey, Chairman

Andrew Wyllie, Chief Executive

21 August 2014

Interim results for the half-year ended 30 June 2014

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December		**2014 Half-year**			2013 Half-year			2013 Year		
	Notes	**Before other items £m**	**Other items £m**	**Total £m**	Before other items £m	Other items £m	Total £m	Before other items £m	Other items £m	Total £m
Revenue	3	**529.1**	-	**529.1**	462.9	-	462.9	960.0	-	960.0
Less: Share of revenue of joint ventures and associates		**(25.1)**	-	**(25.1)**	(36.1)	-	(36.1)	(74.8)	-	(74.8)
Group revenue		**504.0**	**-**	**504.0**	426.8	-	426.8	885.2	-	885.2
Cost of sales		**(478.4)**	**-**	**(478.4)**	(402.0)	-	(402.0)	(826.7)	-	(826.7)
Gross profit		**25.6**	**-**	**25.6**	24.8	-	24.8	58.5	-	58.5
Administrative expenses		**(14.4)**	-	**(14.4)**	(14.1)	-	(14.1)	(31.1)	-	(31.1)
Exceptional transaction costs		**-**	**-**	**-**	-	(3.7)	(3.7)	-	(3.7)	(3.7)
Amortisation of acquired intangible assets		**-**	**(1.6)**	**(1.6)**	-	(0.6)	(0.6)	-	(1.8)	(1.8)
Employment related and other deferred consideration		**-**	**(1.3)**	**(1.3)**	-	(1.0)	(1.0)	-	(2.8)	(2.8)
Group operating profit		**11.2**	**(2.9)**	**8.3**	10.7	(5.3)	5.4	27.4	(8.3)	19.1
Profit on sale of interests in joint ventures and associates		**-**	**-**	**-**	-	-	-	9.1	-	9.1
Share of results of joint ventures and associates		**(0.5)**	**-**	**(0.5)**	(0.7)	-	(0.7)	(1.5)	(9.8)	(11.3)
Profit from operations	3	**10.7**	**(2.9)**	**7.8**	10.0	(5.3)	4.7	35.0	(18.1)	16.9
Finance income		**0.3**	-	**0.3**	0.4	-	0.4	0.7	-	0.7
Finance expense		**(1.9)**	**(0.4)**	**(2.3)**	(2.0)	-	(2.0)	(4.7)	-	(4.7)
Net finance expense	4	**(1.6)**	**(0.4)**	**(2.0)**	(1.6)	-	(1.6)	(4.0)	-	(4.0)
Profit before tax		**9.1**	**(3.3)**	**5.8**	8.4	(5.3)	3.1	31.0	(18.1)	12.9
Income tax	5	**(1.0)**	**0.3**	**(0.7)**	(1.4)	1.1	(0.3)	(1.8)	1.4	(0.4)
Profit for the period attributable to equity holders of the parent		**8.1**	**(3.0)**	**5.1**	7.0	(4.2)	2.8	29.2	(16.7)	12.5
Earnings per share										
Basic *	6	9.2p	(3.4)p	5.8p	9.8p	(5.9)p	3.9p	41.0p	(23.4)p	17.6p
Diluted *	6	8.8p	(3.2)p	5.6p	9.6p	(5.8)p	3.8p	39.4p	(22.5)p	16.9p

* 2013 interim and 2013 year have been restated for the bonus element in the 2014 capital raise

During the period, previous period and previous year the impact of business disposals was not material and, therefore all results are classified as arising from continuing operations.

Condensed consolidated statement of comprehensive income and expense

Half-year ended 30 June, year ended 31 December	**2014 Half-year £m**	2013 Half-year £m	2013 Year £m
Profit for the period	**5.1**	2.8	12.5
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(1.3)**	(0.7)	(0.2)
Cash flow hedges			
Group:			
Effective portion of changes in fair value during period	**-**	-	(0.1)
Net changes in fair value transferred to retained earnings	**0.1**	0.2	0.2
Joint ventures and associates:			
Effective portion of changes in fair value (net of tax) during period	**-**	(0.1)	(0.2)
Net changes in fair value (net of tax) transferred to the income statement	**-**	-	1.2
Total items that may be reclassified subsequently to profit or loss	**(1.2)**	(0.6)	0.9
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations	**(14.8)**	6.5	8.6
Tax recognised on remeasurement of defined benefit obligations	**1.3**	(1.5)	(5.3)
Total items that will not be reclassified to profit or loss	**(13.5)**	5.0	3.3
Other comprehensive income/(expense) for the period	**(14.7)**	4.4	4.2
Total comprehensive income and expense for the period attributable to equity holders of the parent	**(9.6)**	7.2	16.7

Condensed consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Hedging reserve	Merger reserve (note 6)	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2013	32.8	3.7	5.0	(1.2)	-	(8.5)	31.8
Profit for the period	-	-	-	-	-	2.8	2.8
Other comprehensive (expense)/income	-	-	(0.7)	0.1	-	5.0	4.4
Issue of ordinary shares under employee share plans	0.3	-	-	-	-	(0.3)	-
Equity-settled share-based payments	-	-	-	-	-	1.0	1.0
Dividend paid (note 7)	-	0.2	-	-	-	(4.7)	(4.5)
At 30 June 2013	33.1	3.9	4.3	(1.1)	-	(4.7)	35.5
Profit for the period	-	-	-	-	-	9.7	9.7
Other comprehensive income/(expense)	-	-	0.5	1.0	-	(1.7)	(0.2)
Issue of ordinary shares under employee share plans	0.2	0.6	-	-	-	-	0.8
Shares purchased to satisfy employee share schemes	-	-	-	-	-	(1.5)	(1.5)
Equity-settled share-based payments	-	-	-	-	-	1.2	1.2
Dividend paid (note 7)	0.1	0.2	-	-	-	(2.5)	(2.2)
At 31 December 2013	33.4	4.7	4.8	(0.1)	-	0.5	43.3
Profit for the period	**-**	**-**	**-**	**-**	**-**	**5.1**	**5.1**
Other comprehensive (expense)/income	**-**	**-**	**(1.3)**	**0.1**	**-**	**(13.5)**	**(14.7)**
Shares issued	**16.7**	**-**	**-**	**-**	**53.6**	**-**	**70.3**
Transfer	**-**	**-**	**-**	**-**	**(53.6)**	**53.6**	**-**
Issue of ordinary shares under employee share plans	**0.3**	**-**	**-**	**-**	**-**	**(0.3)**	**-**
Shares purchased to satisfy employee share schemes	**-**	**-**	**-**	**-**	**-**	**(1.9)**	**(1.9)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**0.9**	**0.9**
Dividend paid (note 7)	**0.1**	**0.5**	**-**	**-**	**-**	**(5.2)**	**(4.6)**
At 30 June 2014	**50.5**	**5.2**	**3.5**	**-**	**-**	**39.2**	**98.4**

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December	Notes	**2014 Half-year £m**	2013 Half-year £m	2013 Year £m
Assets				
Non-current assets				
Intangible assets	8	**32.1**	18.5	33.0
Property, plant and equipment	8	**8.1**	8.8	7.9
Investments in equity accounted joint ventures		**25.3**	34.9	27.1
Investments in equity accounted associates		**0.3**	0.8	0.2
Loans to equity accounted joint ventures		**1.3**	1.7	-
Loans to equity accounted associates		**4.7**	4.8	4.8
Other		**26.5**	19.4	22.0
Deferred tax		**10.2**	15.2	9.8
Total non-current assets		**108.5**	104.1	104.8
Current assets				
Inventories		**1.4**	1.6	1.6
Trade and other receivables		**212.6**	191.9	190.6
Cash and cash equivalents		**134.9**	75.3	84.3
Total current assets		**348.9**	268.8	276.5
Total assets		**457.4**	372.9	381.3
Equity				
Share capital	10	**50.5**	33.1	33.4
Share premium		**5.2**	3.9	4.7
Foreign currency translation reserve		**3.5**	4.3	4.8
Hedging reserve		**-**	(1.1)	(0.1)
Retained earnings		**39.2**	(4.7)	0.5
Total equity attributable to equity holders of the parent		**98.4**	35.5	43.3
Liabilities				
Non-current liabilities				
Retirement benefit obligations	9	**50.9**	41.1	37.2
Other payables		**5.5**	2.2	4.3
Provisions for other liabilities and charges		**0.2**	0.8	0.4
Total non-current liabilities		**56.6**	44.1	41.9
Current liabilities				
Trade and other payables		**297.9**	278.3	266.1
Income tax liabilities		**1.5**	1.7	1.6
Bank overdrafts		**1.1**	1.0	1.6
Interest bearing loans and borrowings		**-**	10.0	25.0
Provisions for other liabilities and charges		**1.9**	2.3	1.8
Total current liabilities		**302.4**	293.3	296.1
Total liabilities		**359.0**	337.4	338.0
Total equity and liabilities		**457.4**	372.9	381.3

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	**2014** **Half-year** **£m**	2013 Half-year £m	2013 Year £m
Cash flows from operating activities			
Profit for the period	**5.1**	2.8	12.5
Adjustments for:			
Share of results of joint ventures and associates	**0.5**	0.7	11.3
Finance income	**(0.3)**	(0.4)	(0.7)
Finance expense	**2.3**	2.0	4.7
Income tax	**0.7**	0.3	0.4
Profit on sales of interests in joint ventures and associates	**-**	-	(9.1)
Depreciation of property, plant and equipment	**0.8**	0.9	2.4
Amortisation of intangible assets	**1.8**	0.7	2.3
Employment related and other deferred consideration	**1.3**	1.0	2.8
Shares purchased to satisfy employee share schemes	**(1.9)**	-	(1.5)
Share-based payments expense	**1.1**	1.3	2.7
Cash from operations before changes in working capital and provisions	**11.4**	9.3	27.8
Decrease in inventories	**0.2**	0.1	0.1
Increase in receivables	**(26.6)**	(13.1)	(12.2)
Increase/(decrease) in payables	**37.1**	(23.1)	(40.7)
Movement in provisions and employee benefits	**(2.0)**	(6.3)	(7.9)
Cash from/(used by) operations	**20.1**	(33.1)	(32.9)
Interest received	**0.3**	0.4	0.6
Interest paid	**(1.0)**	(0.6)	(2.9)
Income tax paid	**(0.1)**	-	(0.3)
Net cash from/(used by) operating activities	**19.3**	(33.3)	(35.5)
Cash flows from investing activities			
Dividends received from joint ventures and associates	**0.1**	1.3	1.3
Additions to property, plant and equipment	**(1.0)**	(0.6)	(1.3)
Additions to intangible assets	**(0.9)**	(0.5)	(1.2)
Proceeds of disposals of property, plant and equipment	**-**	-	0.2
Additions to loans to joint ventures and associates	**(1.3)**	(3.7)	(2.2)
Additions to cost of investments	**-**	-	(2.7)
Proceeds of sale of interests in associates	**-**	-	11.7
Acquisition of interest in joint operation (note 8)	**(2.4)**	-	-
Acquisition related deferred consideration	**(3.4)**	-	(3.0)
Acquisition of subsidiary (net of acquired cash and cash equivalents and overdrafts)	**-**	-	(9.4)
Net cash used by investing activities	**(8.9)**	(3.5)	(6.6)
Cash flows from financing activities			
Issue of ordinary share capital	**70.3**	-	0.8
Ordinary dividends paid	**(4.6)**	(4.5)	(6.7)
(Repayment)/proceeds from borrowings	**(25.0)**	10.0	25.0
Cash from financing activities	**40.7**	5.5	19.1
Net increase/(decrease) in cash, cash equivalents and overdrafts	**51.1**	(31.3)	(23.0)
Cash, cash equivalents and overdrafts at beginning of the period	**82.7**	105.7	105.7
Effect of foreign exchange rate changes	**-**	(0.1)	-
Cash, cash equivalents and overdrafts at end of the period	**133.8**	74.3	82.7

Notes to the interim financial statements

1. General information

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

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

The comparative figures for the financial year ended 31 December 2013 are not the Company's full statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

2. Statement of compliance

This interim financial information for the half-year ended 30 June 2014 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and with the Disclosure and Transparency Rules of the Financial Conduct Authority. The interim financial information should be read in conjunction with the Annual Report for the year ended 31 December 2013.

In the current financial year, the Group has adopted the following new and revised standards, none of which has had a material impact on the Group's results. Otherwise, the same accounting policies, presentation and methods of computation are followed in the condensed consolidated financial statements as applied in the Group's latest annual audited financial statements.
IAS 27 (Revised) 'Separate Financial Statements'
IAS 28 (Revised) 'Investments in Associates and Joint Ventures'
IAS 32 amendment 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'
IFRS 10 'Consolidated Financial Statements'
IFRS 12 'Disclosure of Interests in Other Entities'
IFRS 10, IFRS 11 and IFRS 12 amended 'Investment Entities'

Income statement presentation - Other items
In order to aid understanding of the underlying and overall performance of the Group, certain amounts are shown in the consolidated income statement in a separate column headed "Other items". Items are included under this heading where the Board considers them to be of a one-off and unusual nature or related to the accounting treatment of acquisitions.

The Board approved the unaudited interim financial statements on 21 August 2014.

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2013. The Directors consider that the significant areas of judgment made by management that have significant effect on the Group's performance and estimates with a significant risk of material adjustment in the second half of the year are unchanged from those identified on pages 99 and 100 of the Annual Report for the year ended 31 December 2013.

3. Business segment information

The Group has two core business segments: Natural Resources and Infrastructure plus the Land Development operations in Spain. The core segments are strategic business units with separate management and have different core customers or offer different services. This information is provided to the Chief Executive who is the chief operating decision maker.

Half-year ended 30 June 2014	Natural Resources	Infrastructure	Land Development	Central costs	Total
	£m	£m	£m	£m	£m
External revenue	**152.3**	**351.7**	**-**	**-**	**504.0**
Share of revenue of JVs and associates	**17.1**	**7.0**	**1.0**	**-**	**25.1**
Total segment revenue	**169.4**	**358.7**	**1.0**	**-**	**529.1**
Group operating profit/(loss)	**(2.6)**	**16.9**	**-**	**(3.1)**	**11.2**
Share of results of JVs and associates	**-**	**-**	**(0.5)**	**-**	**(0.5)**
Profit/(loss) from operations before other items	**(2.6)**	**16.9**	**(0.5)**	**(3.1)**	**10.7**
Other items:					
Amortisation of acquired intangible assets	**(0.8)**	**(0.8)**	**-**	**-**	**(1.6)**
Employment related and other deferred consideration	**(1.3)**	**-**	**-**	**-**	**(1.3)**
Profit/(loss) from operations	**(4.7)**	**16.1**	**(0.5)**	**(3.1)**	**7.8**
Net finance expense					**(2.0)**
Profit before tax					**5.8**

Half-year ended 30 June 2013	Natural Resources	Infrastructure	Land Development	Central costs	Total
	£m	£m	£m	£m	£m
External revenue	164.0	262.8	-	-	426.8
Share of revenue of JVs and associates	35.2	-	0.9	-	36.1
Total segment revenue	199.2	262.8	0.9	-	462.9
Group operating profit/(loss)	(0.1)	14.4	-	(3.6)	10.7
Share of results of JVs and associates	-	-	(0.7)	-	(0.7)
Profit/(loss) from operations before other items	(0.1)	14.4	(0.7)	(3.6)	10.0
Other items:					
Exceptional transaction costs	-	-	-	(3.7)	(3.7)
Amortisation of acquired intangible assets	(0.3)	(0.3)	-	-	(0.6)
Employment related and other deferred consideration	(0.8)	(0.2)	-	-	(1.0)
Profit/(loss) from operations	(1.2)	13.9	(0.7)	(7.3)	4.7
Net finance expense					(1.6)
Profit before tax					3.1

Year ended 31 December 2013

	Natural Resources	Infrastructure	Land Develop-ment	Central costs	Total
	£m	£m	£m	£m	£m
External revenue	324.6	560.6	-	-	885.2
Share of revenue of JVs and associates	73.0	-	1.8	-	74.8
Total segment revenue	397.6	560.6	1.8	-	960.0
Group operating profit/(loss)	3.1	31.4	-	(7.1)	27.4
Profit on sales of JVs and associates	9.1	-	-	-	9.1
Share of results of JVs and associates	0.6	-	(2.1)	-	(1.5)
Profit/(loss) from operations before other items	12.8	31.4	(2.1)	(7.1)	35.0
Other items:					
Exceptional transaction costs	-	-	-	(3.7)	(3.7)
Amortisation of acquired intangible assets	(1.2)	(0.6)	-	-	(1.8)
Employment related and other deferred consideration	(2.1)	(0.7)	-	-	(2.8)
Impairment of assets of joint venture	-	-	(9.8)	-	(9.8)
Profit/(loss) from operations	9.5	30.1	(11.9)	(10.8)	16.9
Net finance expense					(4.0)
Profit before tax					12.9

Costs of £3.7m associated with the lapsed all share merger with May Gurney Integrated Services plc have been shown as exceptional transaction costs within Other items in the 2013 comparative results.

In December 2013, the Group sold three minority shareholdings in three joint venture companies to Severn Trent Plc for an aggregate cash consideration of £12.0 million. The three companies were Severn Trent Costain Holdings Limited, Severn Trent Costain Services Limited and Severn Trent Costain Limited. As a result of the sale, the Group realised a profit of £9.1 million. £1.2 million of fair value adjustments on the PFI financial assets relating to cash flow hedges were recycled through the income statement as part of this profit.

4. Net finance expense

Finance expense includes the interest cost on the net liabilities of the pension scheme of £0.8 million (2013 half-year £1.1 million, 2013 year £2.1 million).

5. Income tax

	2014	2013	2013
	Half-year £m	Half-year £m	Year £m
UK taxation	**-**	-	0.1
Deferred tax	**(0.7)**	(0.3)	(0.5)
Income tax expense in the condensed consolidated income statement	**(0.7)**	(0.3)	(0.4)
Effective tax rate	**12.1%**	9.7%	3.1%

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

6. Earnings per share

The calculation of earnings per share is based on the profit for the period of £5.1 million (2013 half-year £2.8 million, 2013 year £12.5 million) and the number of shares set out below.

	2014 **Half-year Number (m)**	2013 Half-year Number (m) Restated *	2013 Year Number (m) Restated *
Weighted average number of shares for basic earnings per share calculation	**88.3**	70.8	71.2
Dilutive potential ordinary shares arising from employee share scheme	**3.4**	1.5	2.9
Weighted average number of shares for fully diluted earnings per share calculation	**91.7**	72.3	74.1

* The number of shares has been adjusted for the bonus element within the 2014 capital raise detailed below.

Capital raise

On 27 February 2014, the Group announced a capital raise of £70.3 million (net of expenses) by way of a 33,382,068 ordinary shares of 50 pence each at 225 pence per share. 11,111,112 shares were to be issued through a firm placing and 22,270,956 through a placing and open offer. The capital raise was completed successfully on 18 March 2014.

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

7. Dividends

	Dividend Per share pence	**Half-year ended 30 June 2014 £m**	Half-year ended 30 June 2013 £m	Year ended 31 December 2013 £m
Final dividend for the year ended 31 December 2012	7.25	-	4.7	4.7
Interim dividend for the year ended 31 December 2013	3.75	**-**	-	2.5
Final dividend for the year ended 31 December 2013	7.75	**5.2**	-	-
Amount recognised as distributions to equity holders in the period		**5.2**	4.7	7.2
Dividends settled in shares		**(0.6)**	(0.2)	(0.5)
Dividends settled in cash		**4.6**	4.5	6.7

The proposed interim dividend of 3.25 pence (2013: 3.75 pence) has not been included as a liability in these interim financial statements because it had not been approved at the period end date. The dividend totalling £3.3 million will be paid on 24 October 2014 to shareholders on the register at the close of business on 19 September 2014. A scrip dividend alternative will be offered.

8. Non-current assets

During the interim period, the Group spent £1.0 million on plant and equipment and £0.9 million on software and development (2013 half-year £0.6 million on plant and equipment and £0.5 million on software and development, 2013 year £1.3 million on plant and equipment and £1.2 million on software and development).

In December 2013, the Group acquired the 27% interest from its partner Serco Group plc in their Managed Motorway Technology joint venture arrangement for a cash consideration of £2.4 million, comprising intangible assets, paid in January 2014. The joint venture arrangement, in which Costain already held the remaining 73% interest, has a place on the Highways Agency framework to deliver new technology-led highways improvements.

9. Retirement benefit obligations

	2014	2013	2013
	Half-year £m	Half-year £m	Year £m
Present value of defined benefit obligations	**(650.7)**	(621.8)	(629.7)
Fair value of scheme assets	**599.8**	580.7	592.5
Recognised liability for defined benefit obligations	**(50.9)**	(41.1)	(37.2)

Movements in present value of defined benefit obligations:	**2014**	2013	2013
	Half-year £m	Half-year £m	Year £m
Opening balance	**629.7**	610.7	610.7
Interest cost	**14.3**	13.1	26.2
Remeasurements	**21.0**	11.7	21.6
Benefits paid	**(14.3)**	(13.7)	(28.8)
Closing balance	**650.7**	621.8	629.7

Movements in fair value of scheme assets:	**2014**	2013	2013
	Half-year £m	Half-year £m	Year £m
Opening balance	**592.5**	558.8	558.8
Interest income	**13.5**	12.0	24.1
Remeasurements	**6.2**	18.2	30.2
Contributions by employer	**1.9**	5.4	8.2
Benefits paid	**(14.3)**	(13.7)	(28.8)
Closing balance	**599.8**	580.7	592.5

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

	2014 Half-year %	2013 Half-year %	2013 Year %
Discount rate	**4.30**	4.70	4.60
Future pension increases	**3.10**	3.30	3.20
Inflation assumption	**3.20**	3.40	3.30

The discount rate, inflation and pension increase and mortality assumptions have a significant effect on the amounts reported. Changes in these assumptions would have the following effects on the Group's defined benefit scheme:

	Pension liability £m
Increase discount rate by 0.25%, decreases pension liability by	24.4
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	21.4
Increase life expectancy by one year, increases pension liability by	18.8

10. Share capital

Issued capital as at 30 June 2014 amounted to £50.5 million (2013 half-year £33.1 million, 2013 year £33.4 million) and comprised 100,989,714 ordinary shares of 50 pence each.

On 18 March 2014, 33,382,068 ordinary shares of 50 pence each were issued in connection with the capital raise approved by shareholders at the general meeting on 17 March 2014 raising £70.3 million (net of expenses) (note 6).

The Company announced on 25 April 2014 that shareholders had, pursuant to the Scrip Dividend Scheme, elected to receive 191,503 ordinary shares of 50 pence each in the Company in lieu of cash in respect of all or part of their final dividend for the year ended 31 December 2013.

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

The 2011 LTIP award vested in April 2014 resulting in the issue of 603,275 ordinary shares. During the period, the Company also issued 19,927 ordinary shares of 50 pence each on exercise of options granted under the 2008 5 year Save As You Earn scheme. Full details will be disclosed in the annual financial statements.

11. Related party transactions

Details of transactions between the Group and The Costain Pension Scheme are included in Note 9. There have been no other changes in the nature of related party transactions since the last annual financial statements as at, and for the year ended, 31 December 2013.

12. Cautionary forward-looking statements

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

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

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

David Allvey - Chairman
Andrew Wyllie – Chief Executive
21 August 2014

Independent review report to Costain Group PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises The Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income and expense, the Condensed consolidated statement of changes in equity, the Condensed consolidated statement of financial position, the Condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Andrew Marshall
for and on behalf of KPMG LLP
Chartered Accountants
London
21 August 2014

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently, some shareholders may receive unsolicited mail, including correspondence from unauthorised investment firms. Shareholders who wish to limit the amount of unsolicited mail they receive can contact:
The Mailing Preference Service
Freepost (LON 20771)
London WE1 0ZT

Company's registrar

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

Scrip dividend scheme

A scrip dividend alternative will be offered in respect of the interim dividend, enabling shareholders to receive new ordinary shares instead of cash if they so wish. Those shareholders who have already elected to join the scrip dividend scheme will automatically have their interim dividend sent to them in this form. Shareholders wishing to join the scheme for the interim dividend (and all future dividends) should return their completed mandate form to the Registrar, Equiniti, by 3 October 2014. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website www.costain.com or obtained from Equiniti by telephoning 0871 384 2268*.

Dividend payments

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

ShareGift

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

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