



24 August 2016

# Costain Group PLC

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

Results for the half-year ended 30 June 2016

**Costain, the engineering solutions provider, announces another strong performance with a 21% increase in underlying operating profit, a record order book and a 15% increase in the interim dividend for the first six months of 2016.**

	HY 2016	HY 2015	FY 2015
<b>Revenue<sup>1</sup></b>	<b>£791.4m</b>	<b>£621.1m</b>	<b>£1,316.5m</b>
<b>Operating Profit</b>			
- Underlying <sup>2</sup>	<b>£15.8m</b>	<b>£13.1m</b>	<b>£33.2m</b>
<b>Profit before tax</b>			
- Adjusted <sup>2</sup>	<b>£14.1m</b>	<b>£11.4m</b>	<b>£29.9m</b>
- Reported	<b>£11.3m</b>	<b>£10.0m</b>	<b>£26.0m</b>
<b>Basic earnings per share</b>			
- Adjusted <sup>2</sup>	<b>11.9p</b>	<b>9.6p</b>	<b>25.1p</b>
- Reported	<b>9.5p</b>	<b>8.4p</b>	<b>21.8p</b>
<b>Net Cash balance</b>	<b>£69.2m</b>	<b>£126.8m</b>	<b>£108.2m</b>
<b>Dividend per share</b>	<b>4.3p</b>	<b>3.75p</b>	<b>11.0p</b>

1. Including share of joint ventures and associates.

2. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration.

## Highlights

- **Another strong trading performance**
  - Revenue increased to £791.4 million (2015: £621.1 million)
  - Underlying operating profit<sup>2</sup> up 21% to £15.8 million (2015: £13.1 million)
  - Record order book of £3.9 billion, up 5% on June 2015
- **Accelerating growth both organically and by acquisition**
  - Post period-end acquisition of SSL for £17.0 million further enhances technology integration capability
  - Rhead Group acquired in August 2015 for £36.0 million, now fully integrated and performing well
  - Over 90% of order book is repeat business
  - Nature of service offering changing rapidly, with over 1,000 people now in consultancy and advisory roles, representing 25% of the total head count
- **Positive outlook**
  - Over £1.4 billion of revenue secured for FY 2016 by 30 June (2015: over £1.2 billion secured for FY 2015)
  - Net cash balance of £69.2 million (2015: £126.8 million) and increased banking facilities
  - Interim dividend increased by 15% to 4.3 pence per share (2015: 3.75 pence)

**Andrew Wyllie CBE, Chief Executive, commented:**

***"We have delivered another strong performance in the first half of the year, with a 21% increase in underlying operating profit, and our order book is at a record level. The dividend has been increased 15% in line with our progressive policy.***

***"These are exciting times as billions of pounds are being spent upgrading and renewing the country's energy, water and transportation infrastructure.***

***"There is a revolution in the deployment of technology-led innovative solutions to meet the increasingly complex requirements of our national infrastructure needs, and we are continuing to rapidly transform the Costain business to be at the heart of the opportunity this presents.***

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

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There will be a presentation to analysts today at 11:00 at Instinctif Partners, 65 Gresham Street, EC2V 7NQ. To register your attendance please contact [rosie.driscoll@instinctif.com](mailto:rosie.driscoll@instinctif.com)

**Notes to Editors (for further information please visit the company website: [www.costain.com](http://www.costain.com))**

Costain is an engineering solutions provider, delivering integrated consulting, project delivery and operations and maintenance services, with a portfolio spanning 150 years of innovation and technical excellence. The Group's core business segments are in Energy, Water and Transportation.

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 is working on a number of high profile contracts in the UK incorporating a broad range of innovative services across the whole life-cycle of our customers' assets, from inception right through to completion of a project and management of their assets.

## **CHIEF EXECUTIVE'S STATEMENT**

We have delivered another strong performance in the first half of the year, with increases in revenue and underlying operating profit, and our order book continues to be at a record level.

The 21% growth in underlying operating profit reflects further strong growth in the Infrastructure division as customers continue to invest in upgrading and renewing the UK's transportation networks, progress in the Natural Resources division, and is after a further provision for the legacy Manchester Waste PFI contract.

These are exciting times as our blue-chip customers continue to invest billions of pounds in upgrading and renewing the country's energy, water and transportation infrastructure. The way in which that money is being spent continues to change profoundly, and the Group's unique 'Engineering Tomorrow' strategy successfully positions the business to provide the range of innovative integrated services demanded by those customers.

Not only are our customers' programmes defined by significant and long-term planned expenditure underpinned by committed regulated spend and essential capital investment, but there is a revolution in the deployment of technology-led innovative solutions to meet the increasingly complex capacity and service delivery requirements of our national infrastructure needs. We are continuing to rapidly transform the Costain business to be at the heart of the opportunity this presents, including developing the necessary skills and capabilities within the Group. We finished the period with an increased total head count of over 4,200 of which over 1,000 are now deployed in advisory or consultancy roles.

We have continued to make good progress, in line with our stated objective of accelerating the growth of the Group, both organically and by acquisition. We have completed two acquisitions in the last twelve months, Rhead Group and Simulation Systems Limited, to further enhance the range of consulting and technology-led integrated services we can make available to meet our customers' rapidly evolving and complex requirements and to increase our addressable market.

Following the decision in June to leave the EU, and the resulting political and economic uncertainty, there has to date been no impact on Costain and it is still too early to predict longer-term outcomes. However, we believe that, as a consequence of our strategic focus on the major customers who are continuing to spend billions of pounds addressing critical UK infrastructure needs, we have a resilient business and can see as much significant potential opportunity as any downside in the new environment.

Following the strong start to the year, the Group is on course to deliver a result for the full year in line with the Board's expectations, and the interim dividend has been increased by 15%.

### **Strong trading performance**

Revenue, including the Group's share of joint ventures and associates, increased by 27% to £791.4 million in the first half of the year (2015: £621.1 million), and Group underlying operating profit increased by 21% to £15.8 million (2015: 13.1 million).

Net finance expense amounted to £1.9 million (2015: £1.5 million), with the increase due to the funding cost of the Group's investments and increased working capital.

Adjusted profit before tax increased by 24% to £14.1 million (2015: £11.4 million).

The Group's effective rate of tax was 14.2% (2015: 15.0%) which benefits from R&D tax relief and timing differences.

Adjusted basic earnings per share were 11.9 pence (2015: 9.6 pence).

## **Order book continuing to provide visibility of earnings**

Costain's strong market position, reputation for innovation and wide range of integrated services enabled us to be successful in securing over £700 million of new contract awards and extensions to existing contracts during the first half of the year, including:

- East Sussex County Council highways maintenance and improvement services contract
- Humber Estuary Crossing project services contract for National Grid
- Preston Western Distributor Road for Lancashire County Council
- Appointment to the Decommissioning Delivery Partnership framework by Sellafield Ltd
- Hydrochloric Acid Dosing Plant design and construction contract for Total

As a consequence, the Group has maintained its record year-end order book at £3.9 billion, which is also 5% higher than the £3.7 billion recorded at 30 June 2015. The strategic nature of Costain's long-term customer relationships has once again ensured that over 90% of the order book comprises repeat business.

As at 30 June 2016, the Group had secured over £1.4 billion of revenue for 2016 (2015: over £1.2 billion secured for 2015).

The order book also provides good long-term visibility with over £1.0 billion of revenue secured for 2017 (2015: over £950 million secured for 2016), and £2.2 billion secured for 2018 and beyond.

In addition, the Group has a preferred bidder position of over £400 million (2015: over £500 million).

## **Accelerating growth by targeted acquisition**

The Group has a stated objective of accelerating growth, both organically and by targeted acquisition.

In August 2015, the Group completed the £36.0 million acquisition of Rhead Group, a professional services consultancy with a focus on programme and commercial management, to enhance the range of services that we can provide to customers. The business has been fully integrated into Costain and is performing well. It has allowed us to secure additional programme management appointments such as the River Humber pipeline contract for National Grid.

On 6 July 2016, the Group announced the £17.0 million acquisition of Simulation Systems Limited ('SSL'), a provider of innovative technology based solutions, primarily in the highways sector but with the potential for wider application across the Group. This transaction reflects the increasing investment by our customers in technology and data management to enhance the capacity or improve the efficiency of their assets, and will add to our ability to deliver innovative technology based solutions.

SSL, established in 1979 and with 165 people, provides integrated hardware and software-based solutions across a broad spectrum of traffic monitoring and management requirements. SSL has an established blue-chip customer base including Highways England, Transport for London, the Scottish and Welsh governments and a number of English county and city councils. SSL's senior management team, including Louis Thompson, Managing Director, has remained with the business to further enhance the delivery of technology solutions for the Group's customers.

The full integration of SSL into the Group within the Infrastructure division has commenced and will be completed by the end of the year. It is expected that the acquisition will be earnings enhancing from 2017.

## **Robust cash position**

The Group's net cash position at 30 June 2016 was £69.2 million (2015: £126.8 million).

This reduction follows significant investment in the Group's strategic development including the £36.0 million acquisition of Rhead Group in August 2015, the payment of the 2015 final dividend and associated pension contribution and an increase in working capital requirements associated with the continued growth in target cost, cost reimbursable contracts. The average month-end net cash was £79.4 million for the period (2015: £131.7 million).

In addition to its net cash balance, the Group has flexible financing in place to support its future growth, and has recently increased its total banking facilities by an additional £30 million term loan to £155 million and extended the maturity of the entire facilities to June 2021. In addition, the Group has £400 million of bonding facilities.

### **Increased dividend**

The Group has a progressive dividend policy, targeting an ongoing dividend cover of around two times underlying earnings, and the Board has declared an increased interim dividend of 4.3 pence per share (2015: 3.75 pence per share).

The dividend will be paid on 21 October 2016 to shareholders on the register as at the close of business on 16 September 2016.

### **Group pension scheme**

As at 30 June 2016, the deficit on the Group's legacy Costain Pension Scheme ('CPS') in accordance with IAS 19, net of deferred tax was £46.5 million (June 2015: £29.6 million). The change in the deficit is a result of an increase in liabilities due to changes in the market based assumptions partially offset by asset returns and company contributions.

In accordance with the requirement for a triennial review a full actuarial valuation of the CPS, as at 31 March 2016, is being carried out.

### **Award winning team**

The success of Costain is built on the strength and experience of our people and it is therefore essential that we continue to attract, retain and develop the best talent. Costain today has over 4,200 people, up 14% on June 2015.

There are 212 graduates on our award-winning graduate development programme, and we have recruited a further 84 graduates from a wide range of disciplines to join the programme in September 2016. We also have 107 apprentices on a structured development programme undergoing training across the business.

In order to tap in to the outstanding academic research available, we currently have 10 sponsored PhD students at the UK's leading universities, including Cambridge, Edinburgh, Loughborough and UCL.

A number of our employees and teams have received external recognition in the year. Hayleigh Pearson, Process Engineer within our oil and gas projects team, was a winner in the Young Professional category at the 2016 Offshore Achievement Awards, and Charley Whitelock, Apprentice Community Relations Officer at our ATC Systemwide project, won both the Apprentice of the Year award and the title of Higher Business Apprentice at Crossrail's 2016 Apprentice Awards.

In addition, Costain received the Project of the Year award for the Perenco project and secured the Innovation award for Aerial Solutions at the annual Construction News awards.

Costain teams also won the Technical Excellence award for self-healing concrete and the Talent Champion award at the NCE100 awards.

The Board would like to thank everybody at Costain for their talent, professionalism and commitment.

## **Operational review**

Costain achieved a number of operational targets in the first half of the year.

Increasing the capacity and improving journey time reliability on the nation's highways network is fundamental to facilitating sustainable economic growth. Costain is a leading supplier to Highways England and has a large number of contracts and long-term frameworks. The recently awarded Area 4 Asset Support Contract, has been mobilised to full service levels. In addition, Costain has this year secured its first major local authority integrated highways services contract having been appointed by East Sussex County Council.

For the Welsh Government our highways contracts include the development of a solution for the M4 Corridor around Newport under an Early Contractor Involvement ('ECI') contract, and our All Wales Technology contract is also progressing well.

The Shieldhall Tunnel is one of the largest infrastructure investments in Scotland. It will form part of the biggest upgrade of Glasgow's wastewater network in more than a century and resolve water quality and reduce flooding issues. Costain has now commenced the main tunnel drive, and the project for Scottish Water is operating on schedule and within budget.

Further south, another major infrastructure programme is now underway to upgrade London's sewerage system to cope with the demands of the city into the 22<sup>nd</sup> century. Costain's joint venture for the east section of the Thames Tideway project has now successfully mobilised and activity will increase over the next twelve months.

The Group is now in year two of the AMP 6 five year programmes for Thames Water, Severn Trent and Southern Water. These programmes are utilising the full range of integrated capabilities available in the Group to deliver improved customer service and achieve significant total expenditure efficiency savings.

The reprocessing of spent nuclear fuel is a vital need in the UK nuclear industry and, at Sellafield, Costain is now commissioning the Evaporator D building, which will be used to reduce the quantities of Highly Active Liquor, a product of reprocessing of spent nuclear fuel.

Ensuring that the UK has a secure and reliable energy mix is another area of national need in which Costain is deeply involved. Costain continues to secure new repeat order work for its front end design studies, programme management, complex project delivery and asset support, including the new Hydrochloric Acid Dosing Plant Construction Contract with Total, building on the Condensate Mercury Removal System for its Edradour-Glenlivet facility.

The River Humber pipeline is a strategically important asset, connecting a gas import facility at Easington on the Yorkshire coast providing 70 – 100 million cubic metres of natural gas per day to the national network. Costain has been awarded the project services contract to deliver the replacement of the Humber Estuary Crossing for National Grid.

The Elizabeth Line Crossrail route will pass through 37 stations and run 73 miles through the heart of the south-east, increasing capacity to accommodate the expected further growth in population. Costain continues to play a significant part in the delivery of this project, Europe's largest infrastructure programme. Works to the major stations at Paddington and Bond Street continue as planned and our critical systems-wide contract to install the track and power supply systems will turn the civil engineering works on Crossrail into an operating railway system. We have a total of 13 contracts with Crossrail that have either concluded successfully or are in the delivery phase.

Network Rail's seven year £2 billion National Electrification Programme is delivering electrification to more than two thousand miles of the UK's rail system. Costain continues to deliver significant volumes of work within the programme in Scotland, the Midlands and the Wales and West region.

London Bridge station is the country's fourth busiest station, bringing around 56 million passengers into the city each year. The redevelopment of the station will meet growing transport needs by increasing both passenger and rail capacity at the station by 40 percent. The work to deliver London Bridge for Network Rail continues in line with schedule, with a significant part of the enhanced facility opening to the public in August 2016.

## **Divisional financial review**

### *Infrastructure division*

The Infrastructure Division, which operates in the highways, rail and nuclear markets, has had a strong first half with an increase in revenue and operating profit. Revenue (including share of joint ventures and associations) increased to £613.2 million (2015: £475.2 million) and operating profit rose to £27.4 million (2015: £23.6 million).

The forward order book for the division has increased to £2.9 billion (2015: £2.7 billion) and the level of tendering activity is high as we continue to prioritise the Group's bidding activity in the areas that currently provide the greatest opportunity.

### *Natural Resources division*

The Natural Resources Division, which operates in the water, power and oil & gas markets, has seen some good progress in underlying performance. Before the costs and provisions for the legacy Greater Manchester Waste Disposal Authority PFI contract, revenue and operating profit both increased as a consequence of the expected cyclical increase in spend in the AMP 6 programmes in the water sector, the full benefit from the integration of the acquisition of the Rhead Group in August 2015 and despite the impact of the continued difficult oil and gas market conditions. Revenue (including share of joint ventures and associations) increased to £175.7 million (2015: £145.0 million) with a loss from operations, including the impact of the increased costs and provisions on the legacy waste PFI contract detailed below, of £8.4 million (2015: £7.4 million loss).

The loss in the period includes further costs and provisions totalling £11.4 million in relation to the completion of the legacy Greater Manchester Waste Disposal Authority PFI contract awarded in 2007. As reported previously, all 46 facilities on the scheme are either fully completed or in the warranty period under the terms of the contract during which further work and plant modifications are to be completed. In the period, the Group has incurred further costs and has taken additional provisions to reach Final Acceptance on the project, which is now expected in early 2017, and to complete the remaining works in a time appropriate to the operational running of the plants. Costain remains in discussions with relevant contract counterparties and the Group's insurers regarding the issues that have arisen on this contract. It has been the Group's policy since 2009 not to pursue fixed price contracts of this nature.

The division has maintained a forward order book of £1.0 billion (2015: £1.0 billion).

### *Alcaidesa*

In July 2015, we announced, by mutual agreement with our partner Santander Bank, that we had completed a reorganisation of the Spanish non-core joint venture that resulted in the assets being split equally between the parties. Santander took ownership of the two largest pieces of development land and assumed a portion of the outstanding debt. Costain now owns the Alcaidesa Group, which incorporates the operating assets of the golf courses, the associated parcel of land and the marina concession, adjacent to Gibraltar, and has retained its portion of the debt, amounting to €11.5 million.

Revenue in the six months to 30 June 2016 was £2.5 million (2015: £0.9 million) and the loss from operations was £0.2 million (2015: £0.5 million loss). The result reflects some early improvement in market conditions in Spain for this non-core activity.

## Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The key risks that could affect the Group's medium term performance, and the factors that mitigate these risks, are set out on pages 45-50 of the Group's Annual Report for 2015, a copy of which is available from our website [www.costain.com](http://www.costain.com).

## Outlook

We have delivered another strong performance in the first half of the year, with a 21% increase in underlying operating profit, and our order book is at a record level. The dividend has been increased 15% in line with our progressive policy.

These are exciting times as billions of pounds are being spent upgrading and renewing the country's energy, water and transportation infrastructure.

There is a revolution in the deployment of technology-led innovative solutions to meet the increasingly complex requirements of our national infrastructure needs, and we are continuing to rapidly transform the Costain business to be at the heart of the opportunity this presents.

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

**Andrew Wyllie CBE, Chief Executive**  
**24 August 2016**

## Interim results for the half-year ended 30 June 2016

### Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December		2016 Half- year			2015 Half- year			2015 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	791.4	-	791.4	621.1	-	621.1	1,316.5	-	1,316.5
Less: Share of revenue of joint ventures and associates		(31.3)	-	(31.3)	(19.6)	-	(19.6)	(52.9)	-	(52.9)
<b>Group revenue</b>		<b>760.1</b>	<b>-</b>	<b>760.1</b>	<b>601.5</b>	<b>-</b>	<b>601.5</b>	<b>1,263.6</b>	<b>-</b>	<b>1,263.6</b>
Cost of sales		(727.3)	-	(727.3)	(572.6)	-	(572.6)	(1,196.9)	-	(1,196.9)
<b>Gross profit</b>		<b>32.8</b>	<b>-</b>	<b>32.8</b>	<b>28.9</b>	<b>-</b>	<b>28.9</b>	<b>66.7</b>	<b>-</b>	<b>66.7</b>
Administrative expenses		(17.0)	-	(17.0)	(15.8)	-	(15.8)	(33.5)	-	(33.5)
Amortisation of acquired intangibles assets		-	(2.0)	(2.0)	-	(1.2)	(1.2)	-	(3.2)	(3.2)
Employment related and other deferred consideration		-	(0.7)	(0.7)	-	-	-	-	(0.4)	(0.4)
<b>Group operating profit</b>		<b>15.8</b>	<b>(2.7)</b>	<b>13.1</b>	<b>13.1</b>	<b>(1.2)</b>	<b>11.9</b>	<b>33.2</b>	<b>(3.6)</b>	<b>29.6</b>
Share of results of joint ventures and associates		0.1	-	0.1	(0.4)	-	(0.4)	(0.1)	-	(0.1)



<b>Profit from operations</b>	3	<b>15.9</b>	<b>(2.7)</b>	<b>13.2</b>	12.7	(1.2)	11.5	33.1	(3.6)	29.5
Finance income		<b>0.2</b>	-	<b>0.2</b>	0.4	-	0.4	0.8	-	0.8
Finance expense		<b>(2.0)</b>	<b>(0.1)</b>	<b>(2.1)</b>	(1.7)	(0.2)	(1.9)	(4.0)	(0.3)	(4.3)
<b>Net finance expense</b>	4	<b>(1.8)</b>	<b>(0.1)</b>	<b>(1.9)</b>	(1.3)	(0.2)	(1.5)	(3.2)	(0.3)	(3.5)
<b>Profit before tax</b>		<b>14.1</b>	<b>(2.8)</b>	<b>11.3</b>	11.4	(1.4)	10.0	29.9	(3.9)	26.0
Taxation	5	<b>(2.0)</b>	<b>0.4</b>	<b>(1.6)</b>	(1.7)	0.2	(1.5)	(4.4)	0.6	(3.8)
Profit for the period attributable to equity holders of the parent		<b>12.1</b>	<b>(2.4)</b>	<b>9.7</b>	9.7	(1.2)	8.5	25.5	(3.3)	22.2
Earnings per share										
Basic	6	<b>11.9p</b>	<b>(2.4)p</b>	<b>9.5p</b>	9.6p	(1.2)p	8.4p	25.1p	(3.3)p	21.8p
Diluted	6	<b>11.5p</b>	<b>(2.3)p</b>	<b>9.2p</b>	9.2p	(1.1)p	8.1p	24.4p	(3.2)p	21.2p

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

### Condensed consolidated statement of comprehensive income and expense

Half-year ended 30 June, year ended 31 December	2016 Half-year £m	2015 Half-year £m	2015 Year £m
<b>Profit for the period</b>	<b>9.7</b>	8.5	22.2
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of foreign operations	2.5	(2.3)	(1.3)
Group cash flow hedges			
Effective portion of changes in fair value during period	(0.4)	(0.1)	-
Amounts recycled to the income statement	0.1	-	-
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>2.2</b>	(2.4)	(1.3)
<b>Items that will not be reclassified to profit or loss</b>			
Remeasurement of defined benefit obligations	(27.8)	(0.5)	(3.3)
Tax recognised on remeasurement of defined benefit obligations	3.5	0.1	0.7
<b>Total items that will not be reclassified to profit or loss</b>	<b>(24.3)</b>	(0.4)	(2.6)
<b>Other comprehensive expense for the period</b>	<b>(22.1)</b>	(2.8)	(3.9)
<b>Total comprehensive income and expense for the period attributable to equity holders of the parent</b>	<b>(12.4)</b>	5.7	18.3

### Condensed consolidated statement of changes in equity

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 January 2015	50.6	5.5	2.8	-	51.9	110.8
Profit for the period	-	-	-	-	8.5	8.5
Other comprehensive expense	-	-	(2.3)	(0.1)	(0.4)	(2.8)
Issue of ordinary shares under employee share plans	0.3	-	-	-	(0.3)	-
Shares purchased to satisfy employee share schemes	-	-	-	-	(0.9)	(0.9)
Equity-settled share-based payments	-	-	-	-	0.9	0.9
Dividend paid (note 7)	0.1	0.3	-	-	(6.3)	(5.9)
At 30 June 2015	51.0	5.8	0.5	(0.1)	53.4	110.6
Profit for the period	-	-	-	-	13.7	13.7
Other comprehensive income/(expense)	-	-	1.0	0.1	(2.2)	(1.1)

Issue of ordinary shares under employee share plans	0.1	-	-	-	(0.1)	-
Transfer	-	-	0.3	-	(0.3)	-
Shares purchased to satisfy employee share schemes	-	-	-	-	(0.1)	(0.1)
Equity-settled share-based payments	-	-	-	-	1.0	1.0
Dividend paid (note 7)	-	0.4	-	-	(3.9)	(3.5)
<b>At 31 December 2015</b>	<b>51.1</b>	<b>6.2</b>	<b>1.8</b>	<b>-</b>	<b>61.5</b>	<b>120.6</b>
Profit for the period	-	-	-	-	<b>9.7</b>	<b>9.7</b>
Other comprehensive income/(expense)	-	-	<b>2.5</b>	<b>(0.3)</b>	<b>(24.3)</b>	<b>(22.1)</b>
Issue of ordinary shares under employee share plans	<b>0.3</b>	-	-	-	<b>(0.3)</b>	-
Shares purchased to satisfy employee share schemes	-	-	-	-	<b>(1.4)</b>	<b>(1.4)</b>
Equity-settled share-based payments	-	-	-	-	<b>1.2</b>	<b>1.2</b>
Dividend paid (note 7)	-	<b>0.3</b>	-	-	<b>(7.4)</b>	<b>(7.1)</b>
<b>At 30 June 2016</b>	<b>51.4</b>	<b>6.5</b>	<b>4.3</b>	<b>(0.3)</b>	<b>39.0</b>	<b>100.9</b>

### Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December		<b>2016</b> Half-year £m	2015 Half-year £m	2015 Year £m
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets	8	<b>50.2</b>	29.6	52.3
Property, plant and equipment	8	<b>39.6</b>	9.6	37.3
Investments in equity accounted joint ventures		<b>0.4</b>	23.8	0.4
Investments in equity accounted associates		<b>0.4</b>	0.4	0.5
Loans to equity accounted associates		<b>1.7</b>	1.7	1.7
Other		<b>10.3</b>	31.9	8.2
Deferred tax		<b>12.9</b>	7.5	10.6
<b>Total non-current assets</b>		<b>115.5</b>	104.5	111.0
<b>Current assets</b>				
Inventories		<b>3.5</b>	1.2	2.9
Trade and other receivables		<b>347.0</b>	229.3	271.8
Cash and cash equivalents		<b>128.8</b>	126.8	146.7
<b>Total current assets</b>		<b>479.3</b>	357.3	421.4
<b>Total assets</b>		<b>594.8</b>	461.8	532.4
<b>Equity</b>				
Share capital	10	<b>51.4</b>	51.0	51.1
Share premium		<b>6.5</b>	5.8	6.2
Foreign currency translation reserve		<b>4.3</b>	0.5	1.8
Hedging reserve		<b>(0.3)</b>	(0.1)	-
Retained earnings		<b>39.0</b>	53.4	61.5
<b>Total equity attributable to equity holders of the parent</b>		<b>100.9</b>	110.6	120.6
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Retirement benefit obligations	9	<b>57.4</b>	37.0	36.7
Other payables		<b>2.1</b>	2.9	2.8
Interest bearing loans and borrowings		<b>30.0</b>	-	-
Provisions for other liabilities and charges		<b>0.2</b>	0.1	0.1
<b>Total non-current liabilities</b>		<b>89.7</b>	40.0	39.6
<b>Current liabilities</b>				
Trade and other payables		<b>369.9</b>	307.9	329.0
Current tax payable		<b>2.7</b>	1.5	2.7
Interest bearing loans and borrowings		<b>29.6</b>	-	38.5
Provisions for other liabilities and charges		<b>2.0</b>	1.8	2.0
<b>Total current liabilities</b>		<b>404.2</b>	311.2	372.2
<b>Total liabilities</b>		<b>493.9</b>	351.2	411.8
<b>Total equity and liabilities</b>		<b>594.8</b>	461.8	532.4

### Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	2016 Half-year £m	2015 Half-year £m	2015 Year £m
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>	<b>9.7</b>	8.5	22.2
Adjustments for:			
Share of results of joint ventures and associates	(0.1)	0.4	0.1
Finance income	(0.2)	(0.4)	(0.8)
Finance expense	2.1	1.9	4.3
Taxation	1.6	1.5	3.8
Depreciation of property, plant and equipment	2.0	0.8	2.9
Amortisation of intangible assets	2.2	1.8	3.9
Employment related and other deferred consideration	0.7	-	0.4
Shares purchased to satisfy employee share schemes	(1.4)	(0.9)	(1.0)
Share-based payments expense	1.2	1.1	2.4
<b>Cash from operations before changes in working capital and provisions</b>	<b>17.8</b>	14.7	38.2
(Increase)/decrease in inventories	(0.6)	0.1	0.1
Increase in receivables	(77.4)	(32.4)	(37.7)
Increase in payables	39.8	14.6	26.7
Movement in provisions and employee benefits	(7.6)	(5.5)	(9.1)
<b>Cash (used by)/from operations</b>	<b>(28.0)</b>	(8.5)	18.2
Interest received	0.3	0.4	0.8
Interest paid	(1.0)	(0.7)	(2.7)
Current tax paid	(0.8)	-	(0.6)
<b>Net cash (used by)/from operating activities</b>	<b>(29.5)</b>	(8.8)	15.7
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates	0.2	-	-
Additions to property, plant and equipment	(1.0)	(0.4)	(2.0)
Additions to intangible assets	(0.1)	(0.4)	(0.2)
Proceeds of disposals of property, plant and equipment	0.1	-	0.1
Additions to cost of investments	-	(1.0)	(1.0)
Acquisition related deferred consideration	(0.3)	(5.2)	(5.4)
Acquisition of subsidiary	-	-	(30.0)
<b>Net cash used by investing activities</b>	<b>(1.1)</b>	(7.0)	(38.5)
<b>Cash flows from financing activities</b>			
Ordinary dividends paid	(7.1)	(5.9)	(9.4)
Drawdown of revolving credit facility	50.0	-	38.5
Repayment of loans	(30.0)	-	(8.1)
<b>Cash from/(used by) financing activities</b>	<b>12.9</b>	(5.9)	21.0
<b>Net decrease in cash and cash equivalents</b>	<b>(17.7)</b>	(21.7)	(1.8)
Cash and cash equivalents at beginning of the period	146.7	148.5	148.5
Effect of foreign exchange rate changes	(0.2)	-	-
<b>Cash and cash equivalents at end of the period</b>	<b>128.8</b>	126.8	146.7

## 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 2015 are not the Company's full statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

### 2. Statement of compliance

This interim financial information for the half-year ended 30 June 2016 has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The accounting policies, presentation and methods of computation adopted in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2015 which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. 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 2015. No material new standards, amendments to standards or interpretations are effective for the half-year ended 30 June 2016.

#### Going concern

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

#### Income statement presentation - Other items

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

The Board approved the unaudited interim financial statements on 23 August 2016.

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2015. 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 2015.

### 3. Business segment information

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

Half-year ended 30 June 2016	Natural Resources	Infrastructure	Alcaidesa	Central costs	Total
	£m	£m	£m	£m	
<b>External revenue</b>	<b>172.1</b>	<b>585.5</b>	<b>2.5</b>	<b>-</b>	<b>760.1</b>
Share of revenue of JVs and associates	3.6	27.7	-	-	31.3
<b>Total segment revenue</b>	<b>175.7</b>	<b>613.2</b>	<b>2.5</b>	<b>-</b>	<b>791.4</b>
<b>Group operating profit/(loss)</b>	<b>(8.5)</b>	<b>27.4</b>	<b>(0.2)</b>	<b>(2.9)</b>	<b>15.8</b>
Share of results of JVs and associates	0.1	-	-	-	0.1
<b>Profit/(loss) from operations before other items</b>	<b>(8.4)</b>	<b>27.4</b>	<b>(0.2)</b>	<b>(2.9)</b>	<b>15.9</b>
Other items:					
Amortisation of acquired intangible	(1.2)	(0.8)	-	-	(2.0)
Employment related and other deferred consideration	(0.7)	-	-	-	(0.7)
<b>Profit/(loss) from operations</b>	<b>(10.3)</b>	<b>26.6</b>	<b>(0.2)</b>	<b>(2.9)</b>	<b>13.2</b>
Net finance expense					(1.9)
<b>Profit before tax</b>					<b>11.3</b>

Half-year ended 30 June 2015	Natural Resources	Infrastructure	Alcaidesa	Central costs	Total
	£m	£m	£m	£m	
<b>External revenue</b>	<b>137.5</b>	<b>464.0</b>	<b>-</b>	<b>-</b>	<b>601.5</b>
Share of revenue of JVs and associates	7.5	11.2	0.9	-	19.6
<b>Total segment revenue</b>	<b>145.0</b>	<b>475.2</b>	<b>0.9</b>	<b>-</b>	<b>621.1</b>
<b>Group operating profit/(loss)</b>	<b>(7.5)</b>	<b>23.6</b>	<b>-</b>	<b>(3.0)</b>	<b>13.1</b>
Share of results of JVs and associates	0.1	-	(0.5)	-	(0.4)
<b>Profit/(loss) from operations before other items</b>	<b>(7.4)</b>	<b>23.6</b>	<b>(0.5)</b>	<b>(3.0)</b>	<b>12.7</b>
Other items:					
Amortisation of acquired intangible	(0.4)	(0.8)	-	-	(1.2)
<b>Profit/(loss) from operations</b>	<b>(7.8)</b>	<b>22.8</b>	<b>(0.5)</b>	<b>(3.0)</b>	<b>11.5</b>

Net finance expense	(1.5)
<b>Profit before tax</b>	<b>10.0</b>

<b>Year ended 31 December 2015</b>	Natural Resources £m	Infrastructure £m	Alcaidesa £m	Central costs £m	Total £m
<b>External revenue</b>	298.8	962.9	1.9	-	1,263.6
Share of revenue of JVs and associates	18.8	33.2	0.9	-	52.9
Total segment revenue	317.6	996.1	2.8	-	1,316.5
<b>Group operating profit/(loss)</b>	(11.1)	50.9	(0.5)	(6.1)	33.2
Share of results of JVs and associates	0.3	-	(0.4)	-	(0.1)
<b>Profit/(loss) from operations before other items</b>	(10.8)	50.9	(0.9)	(6.1)	33.1
Other items:					
Amortisation of acquired intangible	(2.2)	(1.0)	-	-	(3.2)
Employment related and other deferred consideration	(0.4)	-	-	-	(0.4)
<b>Profit/(loss) from operations</b>	(13.4)	49.9	(0.9)	(6.1)	29.5
Net finance expense					(3.5)
<b>Profit before tax</b>					<b>26.0</b>

#### 4. Net finance expense

Finance expense includes the interest cost on the net liabilities of the pension scheme of £0.6 million (2015 half-year £0.6 million, 2015 year £1.3 million).

#### 5. Taxation

Half-year ended 30 June, year ended 31 December	<b>2016 Half-year £m</b>	2015 Half-year £m	2015 Year £m
UK taxation	(0.7)	-	(2.4)
Deferred tax	(0.9)	(1.5)	(1.4)
<b>Income tax expensed in the condensed consolidated income statement</b>	<b>(1.6)</b>	<b>(1.5)</b>	<b>(3.8)</b>
Effective tax rate	<b>14.2%</b>	15.0%	14.6%

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 profit for the period of £9.7 million (2015 half-year £8.5 million, 2015 year £22.2 million) and the number of shares set out below:

	<b>2016 Half-year m</b>	2015 Half-year m	2015 Year m
Weighted average number of shares for basic earnings per share calculation	<b>102.3</b>	101.4	101.7
Dilutive potential ordinary shares arising from employee share schemes	<b>3.2</b>	3.3	2.8
<b>Weighted average number of shares for fully diluted earnings per share calculation</b>	<b>105.5</b>	104.7	104.5

#### 7. Dividends

	Dividend per share pence	<b>Half-year ended 30 June 2016 £m</b>	Half-year ended 30 June 2015 £m	Year ended 31 December 2015 £m
Final dividend for the year ended 31 December 2014	6.25	-	6.3	6.3
Interim dividend for the year ended 31 December 2015	3.75	-	-	3.9

Final dividend for the year ended 31 December 2015	7.25	7.4	-	-
Amount recognised as distributions to equity holders in the period		7.4	6.3	10.2
Dividends settled in shares		(0.3)	(0.4)	(0.8)
Dividends settled in cash		7.1	5.9	9.4

The proposed interim dividend of 4.3 pence (2015: 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 £4.4 million will be paid on 21 October 2016 to shareholders on the register at the close of business on 16 September 2016. 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 £0.1 million on software and development (2015 half-year £0.4 million on plant and equipment and £0.4 million on software and development, 2015 year £1.7 million on plant and equipment, £0.3m on land and buildings and £0.2 million on software and development).

## 9. Retirement benefit obligations

	2016 Half-year £m	2015 Half-year £m	2015 Year £m
Present value of defined benefit obligations	(762.3)	(704.5)	(687.4)
Fair value of scheme assets	704.9	667.5	650.7
Recognised liability for defined benefit obligations	(57.4)	(37.0)	(36.7)

Movement in present value of defined benefit obligations:	2016 Half-year £m	2015 Half-year £m	2015 Year £m
Opening balance	687.4	701.0	701.0
Interest cost	12.8	12.3	24.6
Remeasurements	77.3	6.9	(6.0)
Benefits paid	(15.2)	(15.7)	(32.2)
Closing balance	762.3	704.5	687.4

Movement in fair value of scheme assets:	2016 Half-year £m	2015 Half-year £m	2015 Year £m
Opening balance	650.7	659.3	659.3
Interest income	12.2	11.7	23.3
Remeasurements	49.6	6.3	(9.3)
Contributions by employer	7.6	5.9	9.6
Benefits paid	(15.2)	(15.7)	(32.2)
Closing balance	704.9	667.5	650.7

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):

	2016 Half-year %	2015 Half-year %	2015 Year %
Discount rate	2.90	3.70	3.80
Future pension increases	2.70	3.05	2.95
Inflation assumption	2.70	3.10	3.00

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	30.4
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	26.7
Increase life expectancy by one year, increases pension liability by	24.6

## 10. Share capital

Issued capital as at 30 June 2016 amounted to £51.4 million (2015 half-year £51.0 million, 2015 year-end £51.1 million) and comprised 102,813,520 ordinary shares of 50 pence each.

The Company announced on 20 May 2016 that shareholders had, pursuant to the Scrip Dividend Scheme, elected to receive 114,972 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 2015.

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 2013 LTIP award vested in May 2016 resulting in the issue of 598,131 ordinary shares. 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 2015.

## 12. Contingent liabilities

Group banking facilities and surety bond facilities are supported by cross guarantees given by the Company and participating companies in the Group. There are contingent liabilities in respect of performance bonds and other undertakings, including joint arrangements, entered into and legal claims arising all in the ordinary course of business. None are anticipated to result in material liabilities except as already provided.

## 13. Post balance sheet events

On 5 July 2016, the Group purchased the share capital of Simulations Systems Limited (SSL). The business provides innovative technology-based solutions, primarily for the highways sector but with the potential for wider application across the Group. SSL was acquired for a consideration of £17.0 million on a debt free / cash free and normalised working capital basis. The consideration includes £1.5 million deferred over three years, which is dependent on continued further service and, in accordance with IFRS 3, will be expensed in the income statement.

## 14. Cautionary forward-looking statements

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

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

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

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

On behalf of the Board

**Paul Golby CBE – Chairman**

**Andrew Wyllie CBE – Chief Executive**

23 August 2016

## **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 2016 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 2016 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

23 August 2016

### **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 29 (LON20771)

London W1E 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 0371 384 2250. If you are calling from outside the UK please telephone +44(0) 121 415 7047. Lines are open 08.30am to 05.30pm, Monday to Friday. You can also view up to date information about your shareholdings by visiting the shareholder website at [www.shareview.co.uk](http://www.shareview.co.uk). Please ensure that you advise Equiniti promptly of any change of name or address.

**Scrip dividend scheme**

A scrip dividend alternative will be offered in respect of the interim dividend, enabling shareholders to receive new ordinary shares instead of cash if they so wish. Those shareholders who have already elected to join the 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 30 September 2016. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website [www.costain.com](http://www.costain.com) or obtained from Equiniti by telephoning 0371 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 0371 384 2250 who will be pleased to assist. By receiving your dividends in this way you can avoid the risk of cheques getting lost in the post.

**ShareGIFT**

The Orr Mackintosh Foundation (ShareGift) 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](http://www.sharegift.org) and Equiniti can provide stock transfer forms on request. Donating shares to charity in this way gives rise neither to a gain nor a loss for Capital Gains Tax purposes. This service is completely free of charge.