COSTAIN

Solutions

Another strong performance

“This is another strong performance with an increase in profit, robust cash balance and a high quality order book comprising both new contract awards and contract extensions.

“We now meet the integrated service requirements of major customers, whose repeat orders account for over 90% of the order book and who are continuing to invest in essential infrastructure projects. Despite the ongoing challenging economic conditions, we remain on course to deliver a result for the year in line with the Board’s expectations.”

David Allvey, Chairman

Performance

Interim results for the half-year ended 30 June 2012

Costain, a leading engineering solutions provider, delivering integrated consulting, project delivery and operations and maintenance services, announces another strong performance with a 16% increase in underlying operating profit[2] and an 8% increase in the dividend for the first six months of 2012.

	H1 2012	H1 2011	FY 2011
Revenue[1]	**£477.9m**	£468.5m	£986.3m
Operating profit			
– Underlying[2]	**£10.7m**	£9.2m	£24.1m
Profit from operations			
– Adjusted[3]	**£17.9m**	£9.4m	£23.6m
– Reported	**£16.3m**	£9.3m	£22.0m
Profit before tax			
– Adjusted[3]	**£17.0m**	£10.2m	£25.5m
– Reported	**£15.4m**	£10.1m	£23.9m
Basic earnings per share			
– Adjusted[3]	**23.1p**	12.1p	31.1p
– Reported	**21.2p**	11.9p	29.2p
Net cash			
Cash balance	**£131.5m**	£149.2m	£140.1m
Average month-end cash balance	**£120.0m**	£132.8m	£130.4m
Dividend per share	**3.5p**	3.25p	10.0p

- Revenue up 2% to £477.9 million (June 2011: £468.5 million)
- Underlying operating profit[2] increased by 16% to £10.7 million (June 2011: £9.2 million)
- Adjusted profit before tax[3] up 67% to £17.0 million (June 2011: £10.2 million)
- Basic earnings per share up 78% to 21.2 pence (June 2011: 11.9 pence)
- Strong net cash position of £131.5 million (June 2011: £149.2 million), after £17.9 million of acquisition spend in August 2011, and average month-end cash balance of £120.0 million during first six months of the year (June 2011: £132.8 million)
- Forward order book of £2.4 billion (30 June 2011: £2.3 billion) with over 90% repeat orders including new awards and extensions to existing contracts. In addition, preferred bidder position maintained at over £400 million
- Over £850 million of revenue secured for 2012 as at the end of the first half, including an increasing proportion of support services activities, now standing at 28%
- Interim dividend increased for fifth successive year, by 8% to 3.50 pence (June 2011: 3.25 pence)

1. Including share of joint ventures and associates.
2. Underlying operating profit (before amortisation of acquired intangible assets and employment related acquisition consideration) of £10.7 million in 2012 excludes the £2.7 million one-off costs resulting from pension scheme liability actions.
3. Results stated before amortisation of acquired intangible assets and employment related acquisition consideration and after £10.5 million profit arising from transfer of PFI assets into Group pension scheme and £2.7 million one-off costs resulting from pension scheme liability actions.

Chairman's and Chief Executive's Statement

Costain delivered another strong performance in the first half of the year.

As a result of the successful implementation of our 'Choosing Costain' strategy, we are now a leading engineering solutions provider, delivering integrated consulting, project delivery and operations and maintenance services to major customers.

Our success is the direct result of our focus on major customers who are continuing to invest in capital, operations and maintenance contracts to address essential national infrastructure requirements across the transport, energy, water and waste sectors.

Our focus on providing innovative and cost effective solutions to increasingly complex and large-scale national needs, along with our partnership approach, is enabling Costain to secure long-term relationships with major customers. This is reflected in the fact that over 90% of our order book comprises repeat order work, a significant proportion of which is extensions to existing contracts.

We will continue to grow the business both organically and by targeted acquisition. Our acquisition strategy will be the key driver of the addition of further high-quality support service related activities to the Group's portfolio. The two businesses which we acquired last year have been fully integrated and are performing well.

Results

Revenue, including the Group's share of joint ventures and associates, for the half-year ended 30 June 2012 increased by 2% to £477.9 million (2011: £468.5 million). Group operating profit, before other items and a one-off pension cost, rose 16% to £10.7 million (2011: £9.2 million), and profit before tax, before other items, increased by 67% to £17.0 million (2011: £10.2 million) including profit on the transfer of PFI equity investments into The Costain Pension Scheme of £10.5 million and a one-off pension cost of £2.7 million. Basic earnings per share, including the profit on PFI transfer and one-off pension cost, were up 78% to 21.2 pence (2011: 11.9 pence).

Net finance expense amounted to £0.9 million in the period compared to an income of £0.8 million last year, the change mainly being due to the pension scheme related net finance element.

The Group continued to enjoy a strong cash position and following £21.1 million of acquisition expenditure on ClerkMaxwell and Promanex in 2011, net cash at 30 June 2012, was £131.5 million (2011: £149.2 million), with an average month end cash balance during the first six months of the year of £120.0 million (2011: £132.8 million).

The Group continues to have supportive and flexible financing in place to facilitate its strategy of organic and acquisitive growth with total banking and bonding facilities of £465 million.

Order Book

The first half saw a number of major new contract awards and extensions to existing contracts and the order book, as at 30 June 2012, was £2.4 billion (June 2011: £2.3 billion). The order book includes £850 million of revenue secured for 2012, of which 28% is support services related activities.

It is pleasing to note that the order book continues to provide good long-term visibility with circa £600 million of revenue secured for 2013 and in excess of a further £1.4 billion of revenue secured for 2014 and beyond.

The Group has also maintained a strong preferred bidder position of over £400 million.

Dividend

The Board has declared an increased interim dividend of 3.50 pence per share (2011: 3.25 pence per share). The dividend will be paid on 26 October 2012 to those shareholders on the register as at the close of business on 21 September 2012.

Pension

Over a number of years the Board has taken various decisive actions to address the Group's legacy Costain Pension Scheme ('CPS'), with the result that the deficit has been substantially reduced.

In February 2012, the Group announced two further actions being taken to manage the obligations in the CPS. The first of these was the transfer of the Group's interest in two PFI investments into the CPS at an agreed value of £20.3 million which was completed on 22 February 2012 and resulted in an accounting profit on the transfer of £10.5 million. The second action was the implementation of Enhanced Transfer Value ('ETV') and Pension Increase Exchange ('PIE') offers to the members of the CPS. The ETV and PIE exercises have now been completed and resulted in a reduction in the scheme liabilities and assets of approximately £35 million and has resulted in a one-off accounting cost of £2.7 million expensed in the first half. Together, the actions reduce the accounting pension deficit (before deferred tax) by approximately £18 million.

The deficit at 30 June 2012 was £29.6 million net of deferred tax (June 2011: £26.5 million) a reduction from the position at 31 December 2011 of £39.7 million. The assumptions and sensitivities used in the valuation of the pension scheme are set out in the notes to the interim financial statements.

Board and Management

Following the period end, Costain announced the appointment of Jane Lodge as a Non-Executive Director with effect from 1 August 2012. Jane will Chair the Audit Committee from 31 October 2012, replacing James Morley who will become the Senior Independent Director. James will succeed John Bryant, who will retire at the end of 2012 after nearly 11 years as a Board member. Jane spent 35 years at Deloitte LLP (UK), 25 of which as an audit partner advising global companies in the manufacturing and infrastructure sectors.

In June 2012, Costain further strengthened its Executive Board with a number of appointments.

Mark Rogerson joined the Group from Serco in the new role of Chief Development Officer and will be responsible for developing and negotiating large long-term contracts with customers. These will combine the broadening range of design, construction and maintenance services provided by the Group and Mark's focus will be on growth through the further development of effective partnering strategies, optimising business development capability and playing a major part in the achievement of future targets through long-term customer relationships, new contracts and acquisitions.

Tim Bowen was appointed Regional Development Director, based in the Middle East and he was succeeded as Highways Director by Simon Ellison.

Operational Review

One of the key strengths of Costain is the ability to focus group-wide resources to meet specific customer requirements, address opportunities and optimise returns for the Company as a whole irrespective of divisional structure.

As a consequence, revenue (including share of joint ventures and associates) in the Infrastructure division during the period was up 27% to £279.5 million (2011: £219.4 million), with adjusted profit from operations of £10.9 million (2011: £5.7 million). The improved profit margin performance reflects strong operating returns and additional gains on successfully completed projects.

The order book for the division has grown to £1.5 billion (June 2011: £1.1 billion) and the level of tendering activity remains high. The increase in the order book and revenue in the Infrastructure division results from the successful increased focus on opportunities in this area.

Costain is a major player in the Highways sector and is the leading supplier to the Highways Agency. Good progress has been made in the period across our large portfolio of construction and maintenance contracts. New contract awards include the £102 million joint venture upgrade of the A8 Belfast to Larne carriageway in Northern Ireland, announced on 3 August 2012. The Group is well-placed to secure further contracts in this sector where strong emphasis is placed on providing innovative solutions that meet the customer's demands.

In Rail, with the award to our joint venture of the Eleanor Street project, Costain has now secured five Crossrail contracts, and believes that its combination of specialist skills and ability to deliver solutions to complex requirements make it an attractive Tier One delivery partner for this customer. These skills are being successfully employed on the major London Bridge Station redevelopment project for Network Rail, in which Costain is providing integrated services including design, construction, logistical and environmental operations whilst ensuring that the Station remains open throughout.

The Riverside Resource Recovery Energy from Waste facility at Belvedere is now operational and progress is being made closing out the final account.

The acquisition of Promanex in August 2011 is fully integrated and has progressed very well. The resulting additional support services capabilities in the Group have significantly enhanced the broad service offering we can offer customers and have greatly increased tendering opportunities in this area. Our enhanced support services offering helped Costain secure the three-year £60 million asset support contract for the operation and maintenance of the Government Pipeline and Storage System, announced in March 2012.

In the Environment division, revenue, including share of joint ventures and associates, during the period was £127.1 million (2011: £159.8 million), with profit from operations, excluding the profit on PFI transfers, of £1.6 million (2011: £6.7 million). The reduction in revenue has been influenced by our strategic focus on other activities in the Group. Margins in this division declined in the period following the one-off margin benefits from successful close-out of a number of legacy issues well within our allowances in the comparative period and as a result of a provision for additional costs to complete a project.

The divisional order book at the period end stands at £0.7 billion (June 2011: £1.1 billion). Our key target markets in the Environment division are water and waste, where significant opportunities exist for the Group as the market in the UK undergoes major change. In recognition of this, during the period Costain announced a Joint Venture agreement with Severn Trent Plc to provide complete business water and wastewater management services to high volume commercial and industrial water users, commencing in the second half of the year.

Chairman's and Chief Executive's Statement

continued

Costain is engaged in a number of ongoing AMP5 framework contracts with Northumbrian Water, Severn Trent, Southern Water, United Utilities and Welsh Water. In addition, after the period end, the Group was awarded a contract by Severn Trent Water to replace its largest covered service reservoir sited near Ambergate in Derbyshire.

The Group's leading position provides an exceptionally strong platform to secure future opportunities in the water sector as it begins to look ahead to the next regulatory review period, which is expected to recommend a more integrated service offering, and to the extension or award of new contracts.

In the Waste sector, the Group is currently completing Europe's largest waste PFI contract for the Greater Manchester Waste Disposal Authority. Several of the key facilities on the scheme, which utilises a range of sophisticated waste management technologies, have been handed over, with the remainder still in the commissioning phase and commercial discussions regarding completion continuing.

In Energy & Process, revenue, including share of joint ventures and associates, during the period was £70.5 million (2011: £88.6 million), with an adjusted profit from operations of £2.4 million (2011: £1.8 million). Whilst the profit has increased in the period the anticipated operating margin has been impacted by a reduced divisional turnover compared with the same period in 2011 and high business development costs. The order book has increased and stands at more than £0.2 billion (June 2011: £0.1 billion).

In Hydrocarbons & Chemicals, operations continue for a number of customers both in the UK and overseas. ClerkMaxwell, an engineering consultancy based in Aberdeen acquired in 2011 to boost our position in upstream oil & gas, is performing well and providing significantly enhanced opportunities to win new work in this high-growth area.

In Nuclear Process, work continues on the Evaporator D contract at Sellafield, the UK's largest nuclear process project, with the delivery of further modules to site. In addition, the design of the Magnox Bradwell Fuel Element Debris Dissolution plant (part of a multi-faceted ten-year framework contract) is well advanced.

In Power, we are providing consultancy services to a number of the major UK utilities. Work continues with the Energy Technologies Institute in the development of a technology to reduce significantly the amount of carbon dioxide produced by coal fired power stations. This will be a critical factor in the UK's ability to meet its climate change targets, and demonstrates that Costain is at the forefront of the design and development of innovative solutions to meet national needs and add value to our customers.

Land Development revenue for the period was £0.8 million (2011: £0.7 million) with a loss after tax of £1.0 million (2011: loss after tax of £0.7 million). The loss in the period reflects the continuing running costs of the operations in Spain. Economic conditions in Spain remain very challenging, with a depressed real estate market and weak demand for development land and we continue our moratorium on development activity on our land-bank. Our activities during the year have been focused on our leisure businesses of golf courses and our 600 berth yacht marina adjacent to Gibraltar which is reporting increasing levels of activity.

Risks and uncertainties

The Board continuously 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, have not significantly changed from those set out on pages 38 to 39 of the Group's Annual Report for 2011, a copy of which is available from our website **www.costain.com**.

The Business Review and the notes to these interim financial statements include consideration of uncertainties affecting the Group in the remaining six months of the year.

Outlook

Costain achieved a strong performance with an increase in profit, robust cash balance and a high quality order book comprising both new contract awards and contract extensions.

Costain now meets the integrated service requirements of major customers, whose repeat orders account for over 90% of the order book and who are continuing to invest in essential infrastructure projects. Despite the ongoing challenging economic conditions, 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

23 August 2012

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December

		2012 Half-year			2011 Half-year			2011 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	**477.9**	**–**	**477.9**	468.5	–	468.5	986.3	–	986.3
Less: Share of revenue of joint ventures and associates		**(43.2)**	**–**	**(43.2)**	(59.6)	–	(59.6)	(117.8)	–	(117.8)
Group revenue		**434.7**	**–**	**434.7**	408.9	–	408.9	868.5	–	868.5
Cost of sales		**(409.9)**	**–**	**(409.9)**	(387.5)	–	(387.5)	(818.8)	–	(818.8)
Gross profit		**24.8**	**–**	**24.8**	21.4	–	21.4	49.7	–	49.7
Administrative expenses		**(14.1)**	**–**	**(14.1)**	(12.2)	–	(12.2)	(25.6)	–	(25.6)
Pension liability management	9	**(2.7)**	**–**	**(2.7)**	–	–	–	–	–	–
Amortisation of acquired intangible assets		**–**	**(0.7)**	**(0.7)**	–	(0.1)	(0.1)	–	(0.9)	(0.9)
Employment related deferred consideration		**–**	**(0.9)**	**(0.9)**	–	–	–	–	(0.7)	(0.7)
Group operating profit		**8.0**	**(1.6)**	**6.4**	9.2	(0.1)	9.1	24.1	(1.6)	22.5
Profit on sales of interests in joint ventures and associates		**10.5**	**–**	**10.5**	–	–	–	0.3	–	0.3
Profit on sale of non-consolidated subsidiary		**–**	**–**	**–**	0.5	–	0.5	0.5	–	0.5
Share of results of joint ventures and associates		**(0.6)**	**–**	**(0.6)**	(0.3)	–	(0.3)	(1.3)	–	(1.3)
Profit from operations	3	**17.9**	**(1.6)**	**16.3**	9.4	(0.1)	9.3	23.6	(1.6)	22.0
Finance income		**14.2**	**–**	**14.2**	17.0	–	17.0	34.1	–	34.1
Finance expense		**(15.1)**	**–**	**(15.1)**	(16.2)	–	(16.2)	(32.2)	–	(32.2)
Net finance (expense)/income	4	**(0.9)**	**–**	**(0.9)**	0.8	–	0.8	1.9	–	1.9
Profit before tax		**17.0**	**(1.6)**	**15.4**	10.2	(0.1)	10.1	25.5	(1.6)	23.9
Income tax	5	**(2.0)**	**0.4**	**(1.6)**	(2.5)	–	(2.5)	(5.6)	0.4	(5.2)
Profit for the period attributable to equity holders of the parent		**15.0**	**(1.2)**	**13.8**	7.7	(0.1)	7.6	19.9	(1.2)	18.7
Earnings per share										
Basic	6	**23.1p**	**(1.9)p**	**21.2p**	12.1p	(0.2)p	11.9p	31.1p	(1.9)p	29.2p
Diluted	6	**22.6p**	**(1.8)p**	**20.8p**	11.9p	(0.2)p	11.7p	30.0p	(1.8)p	28.2p

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

	2012 Half-year £m	2011 Half-year £m	2011 Year £m
Profit for the period	**13.8**	7.6	18.7
Exchange differences on translation of foreign operations	**(0.6)**	0.6	(0.8)
Cash flow hedges			
Group:			
Effective portion of changes in fair value during period	**(0.1)**	0.5	(0.1)
Net changes in fair value transferred to the income statement	**0.1**	0.2	0.2
Tax recognised on changes in fair value	**–**	(0.2)	–
Joint ventures and associates:			
Effective portion of changes in fair value (net of tax) during period	**(0.1)**	(0.3)	(2.8)
Net changes in fair value (net of tax) transferred to the income statement	**4.0**	–	–
Actuarial losses on defined benefit pension scheme	**(9.1)**	(1.2)	(22.1)
Tax recognised on actuarial losses recognised directly in equity	**0.7**	(0.9)	3.0
Other comprehensive expense for the period	**(5.1)**	(1.3)	(22.6)
Total comprehensive income and expense for the period attributable to equity holders of the parent	**8.7**	6.3	(3.9)

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 2011	31.7	2.0	6.8	(2.2)	(0.7)	37.6
Profit for the period	–	–	–	–	7.6	7.6
Other comprehensive income/(expense)	–	–	0.6	0.2	(2.1)	(1.3)
Issue of ordinary shares under employee share option plans	0.2	–	–	–	(0.2)	–
Equity-settled share-based payments	–	–	–	–	1.2	1.2
Dividend paid	–	0.1	–	–	(3.9)	(3.8)
At 30 June 2011	31.9	2.1	7.4	(2.0)	1.9	41.3
Profit for the period	–	–	–	–	11.1	11.1
Other comprehensive expense	–	–	(1.4)	(2.9)	(17.0)	(21.3)
Transfer between reserves	–	–	0.1	–	(0.1)	–
Issue of ordinary shares under employee share option plans	0.4	1.1	–	–	–	1.5
Equity-settled share-based payments	–	–	–	–	0.2	0.2
Dividend paid	0.1	0.1	–	–	(2.2)	(2.0)
At 31 December 2011	32.4	3.3	6.1	(4.9)	(6.1)	30.8
Profit for the period	**–**	**–**	**–**	**–**	**13.8**	**13.8**
Other comprehensive (expense)/income	**–**	**–**	**(0.6)**	**3.9**	**(8.4)**	**(5.1)**
Issue of ordinary shares under employee share option plans	**0.3**	**–**	**–**	**–**	**(0.3)**	**–**
Equity-settled share-based payments	**–**	**–**	**–**	**–**	**1.2**	**1.2**
Dividend paid	**–**	**0.2**	**–**	**–**	**(4.4)**	**(4.2)**
At 30 June 2012	**32.7**	**3.5**	**5.5**	**(1.0)**	**(4.2)**	**36.5**

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December

	Notes	2012 Half-year £m	2011 Half-year £m	2011 Year £m
Assets				
Non-current assets				
Intangible assets	8	**19.6**	3.8	20.3
Property, plant and equipment	8	**10.4**	9.2	11.4
Investments in equity accounted joint ventures		**20.4**	23.6	21.4
Investments in equity accounted associates		**1.2**	1.7	1.4
Loans to equity accounted joint ventures		**15.3**	13.6	13.7
Loans to equity accounted associates		**1.5**	8.7	6.4
Other receivables		**26.1**	13.6	16.4
Deferred tax		**16.1**	17.1	17.4
Total non-current assets		**110.6**	91.3	108.4
Current assets				
Inventories		**1.8**	1.5	2.3
Trade and other receivables		**182.9**	174.2	188.0
Cash and cash equivalents		**133.2**	151.2	141.7
Total current assets		**317.9**	326.9	332.0
Total assets		**428.5**	418.2	440.4
Equity				
Share capital	10	**32.7**	31.9	32.4
Share premium		**3.5**	2.1	3.3
Foreign currency translation reserve		**5.5**	7.4	6.1
Hedging reserve		**(1.0)**	(2.0)	(4.9)
Retained earnings		**(4.2)**	1.9	(6.1)
Total equity attributable to equity holders of the parent		**36.5**	41.3	30.8
Liabilities				
Non-current liabilities				
Retirement benefit obligations	9	**39.0**	35.8	52.9
Other payables		**7.3**	6.2	6.1
Provisions for other liabilities and charges		**2.3**	2.5	2.3
Total non-current liabilities		**48.6**	44.5	61.3
Current liabilities				
Trade and other payables		**338.3**	326.5	342.9
Income tax liabilities		**1.7**	1.6	1.7
Bank overdrafts		**1.7**	2.0	1.6
Provisions for other liabilities and charges		**1.7**	2.3	2.1
Total current liabilities		**343.4**	332.4	348.3
Total liabilities		**392.0**	376.9	409.6
Total equity and liabilities		**428.5**	418.2	440.4

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December

	2012 Half-year £m	2011 Half-year £m	2011 Year £m
Cash flows from operating activities			
Profit for the period	**13.8**	7.6	18.7
Adjustments for:			
Share of results of joint ventures and associates	**0.6**	0.3	1.3
Finance income	**(14.2)**	(17.0)	(34.1)
Finance expense	**15.1**	16.2	32.2
Income tax	**1.6**	2.5	5.2
Profit on sales of interests in joint ventures and associates	**(10.5)**	–	(0.3)
Profit on sale of non-consolidated subsidiary	**–**	(0.5)	(0.5)
Depreciation of property, plant and equipment	**1.2**	0.7	1.9
Amortisation of intangible assets	**0.7**	0.1	0.9
Employment related deferred consideration	**0.9**	–	0.7
Pension liability management	**1.9**	–	–
Share-based payments expense	**1.6**	1.2	1.9
Cash from operations before changes in working capital and provisions	**12.7**	11.1	27.9
Decrease/(increase) in inventories	**0.4**	(0.2)	(1.0)
Increase in receivables	**(4.6)**	(6.3)	(10.1)
(Decrease)/increase in payables	**(4.7)**	22.3	25.0
Movement in provisions and employee benefits	**(5.6)**	(3.9)	(7.1)
Cash (used by)/from operations	**(1.8)**	23.0	34.7
Interest received	**0.3**	0.4	1.8
Interest paid	**(1.0)**	(0.4)	(1.7)
Net cash (used by)/from operating activities	**(2.5)**	23.0	34.8
Cash flows from investing activities			
Dividends received from joint ventures and associates	**0.5**	–	1.4
Additions to property, plant and equipment	**(0.2)**	(0.3)	(2.9)
Additions to intangible assets	**–**	–	(0.1)
Proceeds of disposals of property, plant and equipment	**–**	–	0.2
Proceeds of disposal of non-consolidated subsidiary	**–**	0.5	–
Additions to loans to joint ventures and associates	**(2.2)**	(11.4)	(13.5)
Loan repayments by joint ventures and associates	**–**	–	0.4
Proceeds from sale of interest in joint venture	**–**	–	0.3
Proceeds from sale of subsidiary	**–**	–	0.5
Acquisitions of subsidiaries (net of acquired cash and cash equivalents and overdrafts)	**–**	(3.2)	(21.1)
Net cash used by investing activities	**(1.9)**	(14.4)	(34.8)
Cash flows from/(used by) financing activities			
Issue of ordinary share capital	**–**	–	1.5
Ordinary dividends paid	**(4.2)**	(3.8)	(5.8)
Cash used by financing activities	**(4.2)**	(3.8)	(4.3)
Net (decrease)/increase in cash, cash equivalents and overdrafts	**(8.6)**	4.8	(4.3)
Cash, cash equivalents and overdrafts at beginning of the period	**140.1**	144.3	144.3
Effect of foreign exchange rate changes	**–**	0.1	0.1
Cash, cash equivalents and overdrafts at end of the period	**131.5**	149.2	140.1

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 2011 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 2012 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 Services Authority. The interim financial information should be read in conjunction with the Annual Report for the year ended 31 December 2011.

The accounting policies and presentation applied in this Condensed set of financial statements are consistent with those described in the Annual Report for the year ended 31 December 2011.

The Board approved the unaudited interim financial statements on 23 August 2012.

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2011. The Directors consider that the significant areas of judgement made by management that have significant effect on the Group's performance and estimates with a significant risk of material adjustment in the second half of the year are unchanged from those identified on page 87 of the Annual Report for the year ended 31 December 2011.

3. Business segment information

The Group has four business segments: Environment, Infrastructure, Energy & Process and Land Development operations in Spain. The segments are strategic business units with separate management reporting to a segment managing director and have different core customers or offer different services.

Half-year ended 30 June 2012	Environment £m	Infrastructure £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
External revenue	**84.7**	**279.5**	**70.5**	**–**	**–**	**434.7**
Share of revenue of JVs and associates	**42.4**	**–**	**–**	**0.8**	**–**	**43.2**
Total segment revenue	**127.1**	**279.5**	**70.5**	**0.8**	**–**	**477.9**
Group operating profit/(loss)	**1.2**	**10.9**	**2.4**	**–**	**(3.8)**	**10.7**
Pension liability management	**–**	**–**	**–**	**–**	**(2.7)**	**(2.7)**
Profit on sale of investments	**10.5**	**–**	**–**	**–**	**–**	**10.5**
Share of results of JVs and associates	**0.4**	**–**	**–**	**(1.0)**	**–**	**(0.6)**
Profit/(loss) from operations before other items	**12.1**	**10.9**	**2.4**	**(1.0)**	**(6.5)**	**17.9**
Other items						
Amortisation of acquired intangible assets	**–**	**(0.7)**	**–**	**–**	**–**	**(0.7)**
Employment related deferred consideration	**–**	**(0.5)**	**(0.4)**	**–**	**–**	**(0.9)**
Profit/(loss) from operations	**12.1**	**9.7**	**2.0**	**(1.0)**	**(6.5)**	**16.3**
Net finance expense						**(0.9)**
Profit before tax						**15.4**

Notes to the interim financial statements
continued

3. Business segment information continued

Half-year ended 30 June 2011	Environment £m	Infrastructure £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
External revenue	103.7	219.4	85.8	–	–	408.9
Share of revenue of JVs and associates	56.1	–	2.8	0.7	–	59.6
Total segment revenue	159.8	219.4	88.6	0.7	–	468.5
Group operating profit/(loss)	5.9	5.7	1.7	–	(4.1)	9.2
Profit on sale of non-consolidated subsidiary	0.5	–	–	–	–	0.5
Share of results of JVs and associates	0.3	–	0.1	(0.7)	–	(0.3)
Profit/(loss) from operations before other items	6.7	5.7	1.8	(0.7)	(4.1)	9.4
Other items						
Amortisation of acquired intangible assets	–	–	(0.1)	–	–	(0.1)
Profit/(loss) from operations	6.7	5.7	1.7	(0.7)	(4.1)	9.3
Net finance income						0.8
Profit before tax						10.1

Year ended 31 December 2011	Environment £m	Infrastructure £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
External revenue	281.8	448.5	138.2	–	–	868.5
Share of revenue of JVs and associates	93.6	17.5	5.2	1.5	–	117.8
Total segment revenue	375.4	466.0	143.4	1.5	–	986.3
Group operating profit/(loss)	16.1	10.2	4.6	–	(6.8)	24.1
Profit on sale of interest in JV	0.3	–	–	–	–	0.3
Profit on sale of non-consolidated subsidiary	0.5	–	–	–	–	0.5
Share of results of JVs and associates	0.6	–	0.1	(2.0)	–	(1.3)
Profit/(loss) from operations before other items	17.5	10.2	4.7	(2.0)	(6.8)	23.6
Other items						
Amortisation of acquired intangible assets	–	(0.7)	(0.2)	–	–	(0.9)
Employment related deferred consideration	–	(0.3)	(0.4)	–	–	(0.7)
Profit/(loss) from operations	17.5	9.2	4.1	(2.0)	(6.8)	22.0
Net finance income						1.9
Profit before tax						23.9

4. Net finance (expense)/income

Finance income includes the expected return on the assets of the pension scheme of £13.7 million (2011 half-year £16.3 million, 2011 year £32.3 million) and finance expense includes the expected increase in the present value of the pension scheme liabilities of £14.1 million (2011 half-year £15.4 million, 2011 year £30.5 million). The expected return and the increase in present value are based on the value of assets and liabilities of the pension scheme at the start of the period.

5. Income tax

	2012 Half-year £m	2011 Half-year £m	2011 Year £m
UK taxation	–	(0.1)	(0.1)
Deferred tax	1.6	2.6	5.3
Income tax expense in the consolidated income statement	1.6	2.5	5.2
Effective tax rate	10.3%	24.8%	21.8%

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

No account has been taken in these interim financial statements for the reduction in the rate of corporation tax from 24% to 23% with effect from April 2013. If that 1% had been applied to the deferred tax asset at 30 June 2012, a reduction of £0.7 million would have arisen (£0.9 million credited to the income tax expense and £1.6 million charged to comprehensive income).

A further reduction to reflect the proposed corporation tax rate of 22% from April 2014 would reduce the deferred tax asset by another £0.6 million.

6. Earnings per share

The calculation of earnings per share is based on profit for the period of £13.8 million (2011 half-year £7.6 million, 2011 year £18.7 million) and the number of shares set out below:

	2012 Half-year Number (m)	2011 Half-year Number (m)	2011 Year Number (m)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	65.1	63.7	64.1
Dilutive potential ordinary shares arising from employee share schemes	1.3	0.8	2.2
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	66.4	64.5	66.3

7. Dividends

	Dividend per share pence	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m	Year ended 31 December 2011 £m
Final dividend for the year ended 31 December 2010	6.25	–	3.9	3.9
Interim dividend for the year ended 31 December 2011	3.25	–	–	2.2
Final dividend for the year ended 31 December 2011	6.75	4.4	–	–
Amount recognised as distributions to equity holders in the period		4.4	3.9	6.1
Dividends settled in shares		(0.2)	(0.1)	(0.3)
Dividends settled in cash		4.2	3.8	5.8

The proposed interim dividend of 3.50 pence (2011: 3.25 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 £2.3 million will be paid on 26 October 2012 to shareholders on the register at the close of business on 21 September 2012. A scrip dividend alternative will be offered.

8. Non-current assets

During the interim period, the Group spent £0.2 million on plant and equipment (2011 half-year £0.3 million, 2011 year £2.9 million).

Notes to the interim financial statements

continued

9. Retirement benefit obligations

	2012 Half-year £m	2011 Half-year £m	2011 Year £m
Present value of defined benefit obligations	**(581.8)**	(579.2)	(600.8)
Fair value of scheme assets	**542.8**	543.4	547.9
Recognised liability for defined benefit obligations	**(39.0)**	(35.8)	(52.9)

Movements in present value of defined benefit obligations	2012 Half-year £m	2011 Half-year £m	2011 Year £m
Opening balance	**600.8**	576.7	576.7
Interest cost	**14.1**	15.4	30.5
Actuarial losses/(gains)	**10.4**	(1.6)	18.2
Pension increase exchange	**(1.7)**	–	–
Benefits paid (including ETV transfer)	**(41.8)**	(11.3)	(24.6)
Closing balance	**581.8**	579.2	600.8

Movements in fair value of scheme assets	2012 Half-year £m	2011 Half-year £m	2011 Year £m
Opening balance	**547.9**	537.1	537.1
Expected return on scheme assets	**13.7**	16.3	32.3
Actuarial gains/(losses)	**1.3**	(2.8)	(3.9)
Contributions by employer	**25.3**	4.1	7.0
Benefits paid (including ETV transfer)	**(45.4)**	(11.3)	(24.6)
Closing balance	**542.8**	543.4	547.9

The following actuarial assumptions have been used in the IAS 19 valuations of the Group's defined benefit pension scheme (expressed as weighted averages).

	2012 Half-year %	2011 Half-year %	2011 Year %
Discount rate	**4.60**	5.50	4.80
Expected rate of return on scheme assets	**4.95**	6.11	4.95
Future pension increases	**2.80**	3.50	2.90
Inflation assumption	**2.90**	3.50	3.00

In February 2012, the Group completed and announced the transfer of the Group's interest in two PFI investments into The Costain Pension Scheme (CPS) at an agreed value of £20.3 million. The implementation of Enhanced Transfer Value (ETV) and Pension Increase Exchange (PIE) offers to the members of the CPS. The ETV and PIE exercises have now been completed and resulted in a reduction in the scheme liabilities and assets and will result in a one-off accounting cost of £2.7 million, including expenses of £0.8 million incurred directly by the Group.

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	27.2
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	25.9
Increase life expectancy by one year, increases pension liability by	15.4

10. Share capital

Issued capital as at 30 June 2012 amounted to £32.7 million (2011 half-year £31.9 million, 2011 year £32.4 million).

The Company announced on 24 May 2012 that shareholders had, pursuant to the Scrip Dividend Scheme, elected to receive 133,133 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 2011.

The 2009 Long-Term Incentive Plan (LTIP) award vested in April 2012 resulting in the issue of 634,767 shares. Full details will be disclosed in the annual financial statements.

Following admission of the shares issued pursuant to the Scrip Dividend Scheme, together with the 2009 LTIP award and the SAYE awards, the Company's issued share capital at the end of the period comprised 65,478,625 ordinary shares of 50 pence each.

The Group has established a Long-Term Incentive Plan under which directors and senior employees can receive awards of shares subject to the Group achieving earnings per share growth targets, and a Defined Share Bonus Plan under which directors and senior employees can receive awards of shares subject to the Group achieving profit targets. Full details of these plans are 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 2011.

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

We confirm that to the best of our knowledge:

- 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 entity 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

23 August 2012

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 2012 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, 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 Services Authority ('the UK FSA'). 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 FSA.

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 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Stephen Bligh
for and on behalf of KPMG Audit Plc
Chartered Accountants
London

23 August 2012

Shareholder information

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, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. For enquiries regarding your shareholding, please telephone 0871 384 2250[1]. If you are calling from outside the UK please telephone +44 (0)121 415 7047. Lines are open 8.30am to 5.30pm, Monday to Friday. You can also view up to date information about your holdings 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 scheme will be offered in respect of the interim dividend. Those shareholders who have already elected to join the 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 5 October 2012. 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[1].

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[1] 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**. 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.

1. Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday. If you are calling from outside the UK please telephone +44(0)121 415 7047.

Our Annual Report 2011 and Interim Report 2012 are available in both printed form and on the Investors section of the Costain website at **www.costain.com/investors**. Effective communication with our shareholders is vital to our wellbeing and we would welcome your feedback – contact us at **info@costain.com**

Visit www.costain.com

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