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

Interim results for the half-year ended 30 June 2011

Costain, one of the UK's leading engineering solutions providers, announces another strong performance with profit before tax up 23%, reflecting the ongoing transformation of the business through the implementation of its 'Choosing Costain' strategy.

	H1 2011	H1 2010	FY 2010
Revenue*	£468.5m	£533.4m	£1,022.5m
Profit from operations	£9.3m	£8.8m	£29.4m**
Profit before tax	£10.1m	£8.2m	£27.9m**
Net cash	£149.2m	£133.9m	£144.3m
Basic earnings per share	11.9p	10.0p	36.4p
Dividend per share	3.25p	3.00p	9.25p

* Including share of joint ventures & associates
** Including profit arising from PFI transfer / sales

- Revenue of £468.5m (June 2010: £533.4m) following strategic decision to withdraw from lower margin activities
- Profit from operations increased by 6% to £9.3 million (June 2010: £8.8 million)
- Profit before tax up 23% to £10.1 million (June 2010: £8.2 million)
- Basic earnings per share up 19% to 11.9p (June 2010: 10.0p)
- Interim dividend increased by 8% to 3.25p (June 2010: 3.00p)
- Enhanced net cash position of £149.2 million (June 2010: £133.9 million)
  - average month-end cash balance of £132.8 million during first six months of the year (June 2010: £114.1 million)
- Further major new contracts secured in the period, resulting in strong order book of £2.3 billion (June 2010: £2.5 billion)
  - providing good long-term earnings visibility
  - repeat order customers account for in excess of 80% of order book
  - over £900 million of revenue secured for 2011 at half-year
  - in addition, preferred bidder positions of over £400 million
- Successfully implementing the 'Choosing Costain' strategy to broaden further Costain's Tier One capability across engineering consultancy, construction, and operations & maintenance in order to meet the changing service and procurement requirements of our major customers
- Acquisition of ClerkMaxwell, an upstream oil and gas consultancy, in April 2011, with the integration proceeding smoothly
- Completed this week the acquisition of Promanex, a business specialising in operations & maintenance in the energy, water and industrial sectors
- Following the acquisitions and organic growth, c. 25% of Group revenues from now arise from consultancy and operations and maintenance activities
- To support the future delivery of strategic objectives, total banking and bonding facilities recently increased by £90 million to £435 million

Commenting on the results, the Chairman, David Allvey, said:

"We are delighted with another strong set of results, with a significant increase in profit before tax, an enhanced cash balance, and a robust order book including further new contract awards from our major customers.

"The implementation of our 'Choosing Costain' strategy is transforming the Group, as we continue to develop or acquire the skills and capabilities to reinforce our position as one of the UK's leading Tier One engineering solutions providers.

"Looking ahead, despite continuing challenging market conditions, we see significant opportunity for the continued successful implementation of our strategy and the delivery of the Board's ambition of doubling profit over the medium term. The Board expects to report continued progress at the year-end in line with its expectations."

25 August 2011

ENQUIRIES:

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Chairman’s and Chief Executive’s Statement

Strategy transforming Costain

Costain delivered another strong performance during the period, with a 23% increase in profit before tax, an enhanced cash balance of £149.2 million and an order book of £2.3 billion, providing good long-term earnings visibility.

The implementation of our ‘Choosing Costain’ strategy is transforming the Costain business, and reinforcing our position as one of the UK’s leading Tier One engineering solutions providers.

Our focus remains on working with blue chip customers in chosen sectors whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements.

Costain is now delivering the largest waste PFI project in Europe, the largest nuclear decommissioning project in the UK, and is the leading service provider to the Highways Agency.

We are continuing to develop the skills and capabilities necessary to meet the changing service demands of our major customers. They are increasingly expecting Tier One providers to meet their specific requirements by delivering an innovative service across engineering consultancy, construction, and operations and maintenance, through larger and longer-term bundled contracts. In addition to the organic development of those skills within Costain, our capability has been further enhanced through the acquisition during the period of ClerkMaxwell, an upstream oil and gas consultancy, and after the period end, of Promanex, an industrial support services business, as outlined below.

The service being offered to our customers, and the make-up of our earnings streams, are being transformed as we continue to broaden the business through the implementation of our strategy both organically and by acquisition. As a consequence, the quality and visibility of earnings is expected to continue to be enhanced.

Our culture and values are defined by our ‘Costain Cares’ initiative, which places responsible, effective and collaborative stakeholder relationships at the core of everything we do. This ensures that the Costain service is distinctive, and is an increasingly important factor in our stakeholders’ selection processes.

The combination of our strategy, strong finances and an ambitious Board provides the opportunity to accelerate further the development of the Group and deliver the Board’s ambition of doubling profit over the medium term.

Acquisitions

In April we announced the acquisition of ClerkMaxwell, an Aberdeen-based front-end engineering and operations support services provider operating in the upstream oil & gas sector.

Initial cash consideration was £3.2 million for 100% of ClerkMaxwell's share capital. Deferred cash consideration payments, based on a percentage of the notional future value of ClerkMaxwell calculated on the basis of an 8.0x multiple of EBITDA ("Notional Future Value"), may also be payable shortly after completion of the financial years ending 31 December 2012, 2013 and 2014. The total percentage of Notional Future Value payable over the three years ending 31 December 2014 is 49%.

The integration of ClerkMaxwell into the Group’s Energy & Process division is proceeding smoothly, and provides Costain with a full hydrocarbons value chain capability from upstream oil & gas, gas processing, LNG, gas storage through to downstream. The transaction also provides the Group with access to a larger and broader customer base.

Subsequent to the period end, Costain acquired Promanex, an industrial support services business providing facilities management, installation, repair and maintenance and general asset management in a number of high growth markets such as power, petrochemicals and nuclear. The consideration for the acquisition, together with management retention payments, is £16.4m. In addition, the business is being acquired with normalised net debt of £2.4 million.

Promanex's customer base includes such blue chip companies as Conoco Phillips, EDF, E.ON, Magnox, RWE, Scottish and Southern Energy, Siemens and Total, a number of which are existing Costain customers.

The acquisition significantly enhances Costain's capabilities in care and maintenance in key growth areas where there is significant national need, particularly in power, nuclear process, hydrocarbons and chemicals and water. Once the acquisition is fully integrated into our Infrastructure division, Costain will be able to offer a full lifecycle proposition to customers in these target markets.

Results

Revenue, including the Group's share of associates and joint ventures, for the half year ended 30 June 2011 was £468.5 million (2010: £533.4 million), reflecting the strategic decision to withdraw from lower margin activities. Profit from operations rose 6% to £9.3 million (2010: £8.8 million), and profit before tax increased 23% to £10.1 million (2010: £8.2 million). Basic earnings per share were up 19% to 11.9 pence (2010: 10.0 pence).

Net finance income amounted to £0.8m in the period compared to a cost of £0.6m last year, the change mainly being due to an improvement in the pension scheme related net finance element.

The Group continued to enjoy a strong cash position and net cash at 30 June 2011 stood at £149.2 million (2010: £133.9 million), with an average month end cash balance during the first six months of the year of £132.8 million (H1 2010: £114.1 million). The cash position has increased in the first half of the year as a result of favourable timing of receipts including contract advancements, and good operational cash flow.

Having recently increased its total banking and bonding facilities by £90 million to £435 million, the Group has supportive and flexible financing in place to facilitate its strategy of organic and acquisitive growth.

Order Book

Following further major new contract awards since the beginning of the year, the order book at 30 June 2011 was £2.3 billion (June 2010: £2.5 billion). Over £900 million of revenue has been secured for 2011 at the half year.

As well as including c. £500 million revenue for 2012 (June 2010: £570 million for 2011), the order book also provides good long-term visibility with over £1.3 billion of revenue secured for 2013 and beyond.

We are also encouraged by our continuing strong preferred bidder position of over £400 million at the period end (June 2010: over £500 million).

Pension

In recent years the Board has taken various decisive actions to address the Group's legacy defined benefit pension scheme, with the result that the deficit has been substantially reduced. The deficit was reduced by £29.8 million from the position as at 30 June 2010, to £26.5 million net of deferred tax at 30 June 2011. The assumptions and sensitivities used in the valuation of the pension scheme are set out in the notes to the interim financial statements.

An agreement was finalised with The Trustee of the Costain Pension Scheme (CPS) in November last year regarding the actuarial valuation as at 31 March 2010. The agreement, which incorporated the £22.0 million transfer of certain PFI investments completed last year, resulted in a corresponding reduction in the Group's annual cash contributions into the CPS over a thirty-nine month period starting with effect from 1 January 2011.

Dividend

The Board has declared an increased interim dividend of 3.25 pence per share (2010: 3.0 pence per share). The dividend will be paid on 28 October 2011 to those shareholders on the register as at the close of business on 23 September 2011.

Operational Review

The Group's three core divisions - Environment, Infrastructure and Energy & Process - provide engineering solutions and end-to-end service delivery to blue chip customers in targeted markets. These divisions represent the focus for the strategic development of the Group's operations.

Environment

Revenue, including share of joint ventures and associates, during the period was £159.8 million (2010: £246.7 million), with profit from operations of £6.7 million (2010: £1.2 million). The expected reduction in revenue results from the strategic decision to withdraw from lower margin activities, and a slower than anticipated start to the AMP5 programme of work. The profitability of the division has increased significantly in the period compared to the first-half of 2010, as a number of previously underperforming projects have been completed and the close-out of the Community division has been achieved well within budget.

The divisional order book at the period end stands at £1.1bn, a similar level to the start of the year, and our key target markets in the Environment division are water and waste.

In water, Costain is a market leader in the delivery of the AMP-5 asset management programmes, part of a £22 billion investment to be made by the water utilities between 2010 and 2015, and underpinned by the necessity to meet regulatory and legislative requirements.

Costain has AMP5 framework contracts with Severn Trent, Southern Water, United Utilities and Welsh Water. During the period, Costain was also appointed to the Northumbrian Water AMP5 framework and was awarded further work with Severn Trent and United Utilities. Good progress has been made on the Brighton and Hove project for Southern Water.

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

Driven by recent changes to European and UK legislation, it is estimated that the waste sector will see between £10 billion and £20 billion of capital expenditure over the next 10 years to fund new materials recycling and renewable energy generation infrastructure.

Costain has developed an established position in the sector and is currently successfully delivering Europe's largest waste PFI contract for the Greater Manchester Waste Disposal Authority. Several of the facilities on the scheme, which utilises a range of waste management technologies, have been handed over, and many others are in the commissioning phase. We expect to continue to build on this strong position over the medium term as opportunities come to market.

The Group is growing its Geotechnical Services consulting business which offers surveying, monitoring, testing and analytical services to the highways, rail, water and waste sectors.

Infrastructure

Revenue, including share of joint ventures and associates, during the period was £219.4 million (2010: £223.8 million), with profit from operations of £5.7 million (2010: £8.0 million). The first half of 2010 included a greater number of project completion bonuses and gain share when compared with the first half of this year. The operating margin was additionally impacted in the first half by a higher level of bidding activity, and a provision for additional cost to complete on a project. These costs will not impact the operating margin in the second half.

The order book for the division has been maintained at £1.1 billion and the level of tendering activity remains high.

The Group's focus is on sectors where substantial investment is expected in order to meet national needs over the next five years. The provision of an efficient and reliable infrastructure in the UK is considered a prerequisite for generating sustainable economic growth, the facilitation of a broader based economy and the development of the regions.

The highways sector is expected to see over £10 billion expenditure through to 2015, which will be prioritised on key strategic schemes and the provision of enhanced operational maintenance service contracts.

Costain is a major player in the sector and is the leading supplier to the Highways Agency. Good progress has been made in the period across the large portfolio of construction and maintenance contracts, and new contract awards include the A556 for the Highways Agency and the A465 Head of the Valleys for the Welsh Government. The Group is well-placed to secure further contracts in this sector where emphasis is being placed on providing innovative solutions that meet the customer's demands.

The Group is now expanding its operations by targeting a number of Local Authority highways outsourcing opportunities, utilising the skills successfully developed through its market leading position on the Highways Agency 'MAC' contracts.

In rail, over £37 billion of Government expenditure will be provided for Network Rail, London Underground and Crossrail to achieve enhanced capacity, improved reliability and reduced journey times.

With the award to our joint venture of the Paddington Station project since the period end, Costain has now secured four Crossrail contracts, and believes that its combination of specialist skills and ability to deliver complex solutions make it an attractive Tier One delivery partner for that customer. In the period the Group, in joint venture, was awarded the contract to redevelop Reading station by Network Rail, which is in addition to an existing Thameslink contract at Farringdon. The Group has recently formed a joint venture with Alstom and Babcock to target future Network Rail electrification opportunities.

The major project to provide National Grid with an enhanced cable tunnel infrastructure across London is now fully mobilised. The Group is looking to develop further opportunities with that customer.

The Riverside Resource Recovery Facility (RRRF) Energy from Waste facility at Belvedere has entered the commissioning phase and negotiations regarding completion of the project are ongoing.

Costain is also building on its recent success in the airport market, including its participation in frameworks at Manchester and Gatwick, and its first appointment at Heathrow for BAA.

Energy and Process

Revenue, including share of joint ventures and associates, during the period was £88.6 million (2010: £62.4 million), with a profit from operations of £1.7 million (2010: £3.1 million). The profitability in the period has been impacted by increased investment in business development, the costs to complete the ClerkMaxwell acquisition and additional costs required to complete a contract in Abu Dhabi. These costs will not impact the operating margins in the second half. The order book has increased slightly and stands at more than £0.1 billion.

In order to bridge the UK's 'energy gap' of c. 50 gigawatts, the Government is anticipating an investment of an estimated £110 billion over the next decade to provide a new generation of secure low carbon electricity powered by a mix of renewable energy, new nuclear and fossil fuel power stations with carbon capture and storage technology. Costain has recently been appointed by the Energy Technologies Institute (ETI) to lead the development of the next generation in carbon capture technology with a potential to significantly reduce the amount of carbon dioxide produced by coal-fired power stations.

The Group is targeting a number of major contract awards over the medium term that would see its involvement in this sector increase significantly.

Costain is a major player in the nuclear process sector with proven design, project delivery and operations and maintenance capability. The Group is currently delivering the largest nuclear process project in the UK, the Evaporator D project at Sellafield, utilising its extensive in-house nuclear design and engineering capability, and, as part of the construction phase the use of innovative modularisation techniques.

The Nuclear Decommissioning Authority has identified a requirement for an investment of £44.5 billion to address the lifetime and clean-up costs associated with the current decommissioning programme. Costain has a variety of decommissioning projects and frameworks across several Magnox sites such as the Fuel Element Debris Dissolution Project at Bradwell where Costain's scope includes engineering, procurement, construction and operation of the facility.

In hydrocarbons and chemicals, the E.ON Holford underground gas storage project is in the final stages of commissioning and Costain is progressing with its offshore support services contract for Centrica in Morecambe Bay being delivered in joint venture with Petrofac. In the period, the Group has been awarded an engineering, procurement and construction management contract by Centrica for a new gas processing train at its Easington Gas Terminal. The Group has continued to undertake a range of projects in Abu Dhabi for ADMA and ADGAS on the Das Island facility.

Land Development

Revenue for the period was £0.7 million (2010: £0.5 million) with a loss after tax of £0.7 million (2010: loss after tax of £0.5 million). The loss in the period reflects running costs similar to those in the prior period.

Risks and uncertainties

The Board continuously assesses and monitors the key risks of the business. Despite the current uncertainty in the global economy, 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 40 to 41 of the Group's Annual Report for 2010, 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 has delivered another strong set of results, with a significant increase in profit before tax, an enhanced cash balance, and a robust order book including further new contract awards from our major customers.

The implementation of our 'Choosing Costain' strategy is transforming the Group, as we continue to develop or acquire the skills and capabilities to reinforce our position as one of the UK's leading tier-one engineering solutions providers.

Despite continuing challenging market conditions, we see great opportunities for the Group to implement its strategy and to achieve our ambition of doubling profit over the medium term. The Board expects to report continued progress at the year-end in line with its expectations.

DAVID ALLVEY
Chairman

ANDREW WYLLIE
Chief Executive

25 August 2011

Condensed consolidated income statement

Half-year ended 30 June, year ended 31 December	Notes	**2011 Half-year £m**	**2010 Half-year £m**	2010 Year £m
Revenue	3	**468.5**	533.4	1,022.5
Less: Share of revenue of joint ventures and associates		**(59.6)**	(43.5)	(98.0)
Group revenue		**408.9**	489.9	924.5
Cost of sales		**(387.5)**	(470.6)	(883.9)
Gross profit		**21.4**	19.3	40.6
Administrative expenses		**(12.3)**	(11.6)	(23.2)
Group operating profit		**9.1**	7.7	17.4
Profit on sale of non-consolidated subsidiary		**0.5**	-	-
Profit on sale of interests in joint ventures and associates		**-**	-	11.2
Profit on sale of land and property	8	**-**	1.3	1.3
Share of results of equity accounted joint ventures and associates		**(0.3)**	(0.2)	(0.5)
Profit from operations	3	**9.3**	8.8	29.4
Finance income	4	**17.0**	15.6	30.7
Finance expense	4	**(16.2)**	(16.2)	(32.2)
Net finance income/(expense)		**0.8**	(0.6)	(1.5)
Profit before tax		**10.1**	8.2	27.9
Income tax expense	5	**(2.5)**	(1.8)	(4.8)
Profit for the period attributable to equity holders of the parent		**7.6**	6.4	23.1
Earnings per share				
Basic	6	**11.9p**	10.0p	36.4p
Diluted	6	**11.7p**	9.9p	35.4p

During the period, previous period and previous year there were no material acquisitions of businesses. The impact of business disposals in these periods was also not material and, therefore, all results are classified as arising from continuing operations.

Condensed consolidated statement of comprehensive income

Half-year ended 30 June, year ended 31 December	**2011 Half-year £m**	2010 Half-year £m	2010 Year £m
Profit for the period	**7.6**	6.4	23.1
Exchange differences on translation of foreign operations	**0.6**	(2.1)	(1.1)
Cash flow hedges			
Group:			
Effective portion of changes in fair value during period	**0.5**	(3.5)	0.3
Net change in fair value transferred to retained earnings	**0.2**	0.4	(0.3)
Tax recognised on changes in fair value	**(0.2)**	0.9	-
Joint ventures and associates:			
Effective portion of changes in fair value (net of tax) during period	**(0.3)**	(3.1)	(1.3)
Net changes in fair value (net of tax) transferred to retained earnings	**-**	-	8.1
Actuarial (losses)/gains on defined benefit pension scheme	**(1.2)**	18.3	24.6
Tax recognised on actuarial (losses)/gains recognised directly in equity	**(0.9)**	(5.1)	(8.1)
Other comprehensive (expense)/income for the period	**(1.3)**	5.8	22.2
Total comprehensive income for the period attributable to equity holders of the parent	**6.3**	12.2	45.3

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 2010	31.7	1.9	7.0	(9.0)	(35.4)	(3.8)
Profit for the period	-	-	-	-	6.4	6.4
Comprehensive (expense)/income	-	-	(2.1)	(5.3)	13.2	5.8
Equity-settled share-based payments	-	-	-	-	0.6	0.6
Dividend paid	-	0.1	-	-	(3.5)	(3.4)
At 30 June 2010	31.7	2.0	4.9	(14.3)	(18.7)	5.6
Profit for the period	-	-	-	-	16.7	16.7
Comprehensive income	-	-	1.0	12.1	3.3	16.4
Transfer between reserves	-	-	0.9	-	(0.9)	-
Equity-settled share-based payments	-	-	-	-	0.9	0.9
Dividend paid	-	-	-	-	(2.0)	(2.0)
At 31 December 2010	31.7	2.0	6.8	(2.2)	(0.7)	37.6
Profit for the period	**-**	**-**	**-**	**-**	**7.6**	**7.6**
Comprehensive income/(expense)	**-**	**-**	**0.6**	**0.2**	**(2.1)**	**(1.3)**
Equity-settled share-based payments	**0.2**	**-**	**-**	**-**	**1.0**	**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**

Condensed consolidated statement of financial position

Half-year as at 30 June, year as at 31 December	Notes	**2011 Half-year £m**	2010 Half-year £m	2010 Year £m
Assets				
Non-current assets				
Property, plant and equipment	8	**9.2**	9.9	9.7
Goodwill	8	**3.2**	-	-
Intangible assets		**0.6**	0.5	0.1
Investments in equity accounted joint ventures		**23.6**	24.7	24.5
Investments in equity accounted associates		**1.7**	1.7	1.5
Loans to equity accounted joint ventures		**13.6**	14.3	10.8
Loans to equity accounted associates		**8.7**	1.2	0.6
Other receivables		**13.6**	14.5	18.9
Deferred tax	5	**17.1**	28.3	20.9
Total non-current assets		**91.3**	95.1	87.0
Current assets				
Inventories		**1.5**	2.8	1.3
Trade and other receivables		**174.2**	193.8	162.0
Cash and cash equivalents		**151.2**	134.7	146.0
Total current assets		**326.9**	331.3	309.3
Total assets		**418.2**	426.4	396.3
Equity				
Share capital	10	**31.9**	31.7	31.7
Share premium		**2.1**	2.0	2.0
Foreign currency translation reserve		**7.4**	4.9	6.8
Hedging reserve		**(2.0)**	(14.3)	(2.2)
Retained earnings		**1.9**	(18.7)	(0.7)
Total equity attributable to equity holders of the parent		**41.3**	5.6	37.6
Liabilities				
Non-current liabilities				
Retirement benefit obligations	9	**35.8**	78.2	39.6
Other payables		**6.2**	5.1	5.2
Provisions for other liabilities and charges		**2.5**	2.8	2.5
Total non-current liabilities		**44.5**	86.1	47.3
Current liabilities				
Trade and other payables		**326.5**	328.4	304.8
Income tax liabilities		**1.6**	1.5	1.7
Bank overdrafts		**2.0**	0.8	1.7
Provisions for other liabilities and charges		**2.3**	4.0	3.2
Total current liabilities		**332.4**	334.7	311.4
Total liabilities		**376.9**	420.8	358.7
Total equity and liabilities		**418.2**	426.4	396.3

Condensed consolidated cash flow statement

Half-year ended 30 June, year ended 31 December	**2011 Half-year £m**	2010 Half-year £m	2010 Year £m
Cash flows from operating activities			
Profit for the period	**7.6**	6.4	23.1
Adjustments for:			
Share of results of joint ventures and associates	**0.3**	0.2	0.5
Finance income	**(17.0)**	(15.6)	(30.7)
Finance expense	**16.2**	16.2	32.2
Income tax	**2.5**	1.8	4.8
Profit on sales of interests in joint ventures and associates	**-**	-	(11.2)
Depreciation of property, plant and equipment	**0.7**	1.0	1.7
Amortisation of intangible assets	**0.1**	0.4	0.9
Share-based payments expense	**1.2**	1.3	4.5
Profit on sale of plant and equipment	**-**	(1.2)	(1.2)
Profit on sale of non-consolidated subsidiary	**(0.5)**	-	-
Profit on sale of land and property	**-**	(1.3)	(1.3)
Cash from operations before changes in working capital and provisions	**11.1**	9.2	23.3
(Increase)/decrease in inventories	**(0.2)**	(0.4)	1.1
(Increase)/decrease in receivables	**(6.3)**	6.2	37.2
Increase/(decrease) in payables	**22.3**	12.8	(10.2)
Movement in provisions and employee benefits	**(3.9)**	(8.7)	(20.0)
Cash from operations	**23.0**	19.1	31.4
Interest paid	**(0.4)**	(0.4)	(0.9)
Income tax received	**-**	-	0.2
Net cash from operating activities	**22.6**	18.7	30.7
Cash flows from investing activities			
Interest received	**0.4**	0.6	1.0
Dividends received from joint ventures and associates	**-**	-	0.1
Additions to property, plant and equipment	**(0.3)**	(0.5)	(1.1)
Acquisition of subsidiary	**(3.2)**	-	-
Proceeds of disposals of property, plant and equipment	**-**	3.6	3.8
Proceeds of disposal of non-consolidated subsidiary	**0.5**	-	-
Loan repayments by joint ventures and associates	**-**	0.2	0.5
Additions to loans to joint ventures and associates	**(11.4)**	(5.8)	(5.9)
Net cash used by investing activities	**(14.0)**	(1.9)	(1.6)
Cash flows from financing activities			
Ordinary dividends paid	**(3.8)**	(3.4)	(5.4)
Cash used by financing activities	**(3.8)**	(3.4)	(5.4)
Net increase in cash, cash equivalents and overdrafts	**4.8**	13.4	23.7
Cash, cash equivalents and overdrafts at beginning of the period	**144.3**	120.5	120.5
Effect of foreign exchange rate changes	**0.1**	-	0.1
Cash, cash equivalents and overdrafts at end of the period	**149.2**	133.9	144.3

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 2010 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 2011 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 2010.

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 2010. Following the acquisition of ClerkMaxwell Limited IFRS 3 'Business combinations' is applicable for the first time and the Group has adopted the following goodwill policy.

Goodwill arising on the acquisition of subsidiaries represents the excess of the fair value of consideration over the fair value of the identifiable assets and liabilities and is included in non-current assets.

Goodwill is reviewed annually for impairment and is carried at cost less accumulated impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates.

The Board approved the unaudited interim financial statements on 25 August 2011.

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2010. 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 page 114 of the Annual Report for the year ended 31 December 2010.

3. Business segment information

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

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**	**1.6**	**-**	**(4.1)**	**9.1**
Profit on sale of subsidiary	**0.5**	**-**	**-**	**-**	**-**	**0.5**
Share of results of JVs and associates	**0.3**	**-**	**0.1**	**(0.7)**	**-**	**(0.3)**
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**

Half-year ended 30 June 2010	Environment £m	Infrastructure £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
External revenue	206.1	223.8	60.0	-	-	489.9
Share of revenue of JVs and associates	40.6	-	2.4	0.5	-	43.5
Total segment revenue	246.7	223.8	62.4	0.5	-	533.4
Group operating (loss)/profit	(0.3)	8.0	3.0	-	(3.0)	7.7
Profit on sales of JVs and associates	1.3	-	-	-	-	1.3
Share of results of JVs and associates	0.2	-	0.1	(0.5)	-	(0.2)
Profit/(loss) from operations	1.2	8.0	3.1	(0.5)	(3.0)	8.8
Net finance expense						(0.6)
Profit before tax						8.2

Year ended 31 December 2010	Environment £m	Infrastructure £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
External revenue	422.3	371.0	131.2	-	-	924.5
Share of revenue of JVs and associates	67.5	24.3	5.4	0.8	-	98.0
Total segment revenue	489.8	395.3	136.6	0.8	-	1,022.5
Operating profit/(loss)	3.6	12.2	8.0	-	(6.4)	17.4
Profit on sales of JVs and associates	11.2	-	-	-	-	11.2
Profit on sale of land and property	1.3	-	-	-	-	1.3
Share of results of JVs and associates	1.1	-	0.2	(1.8)	-	(0.5)
Profit/(loss) from operations	17.2	12.2	8.2	(1.8)	(6.4)	29.4
Net finance expense						(1.5)
Profit before tax						27.9

4. Net finance income/(expense)

Finance income includes the expected return on the assets of the pension scheme of £16.3 million (2010 half-year £14.8 million, 2010 year £29.7 million) and finance expense includes the expected increase in the present value of the pension scheme liabilities of £15.4 million (2010 half-year £15.8 million, 2010 year £31.3 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

	2011 Half-year £m	2010 Half-year £m	2010 Year £m
UK taxation	**(0.1)**	(0.3)	(0.2)
Deferred taxation	**2.6**	2.1	5.0
Income tax expense in the consolidated income statement	**2.5**	1.8	4.8
Effective tax rate	**24.8%**	22.0%	17.2%

The effective corporation tax charged represents the estimate of the tax rate for the full year. No account has been taken in these interim financial statements of the reduction in corporation tax from 26% to 25% with effect from 1 April 2012. If that 1% change had been applied to the deferred tax asset at 30 June 2011, a reduction of £0.7 million would have arisen (£1.3 million charged to other comprehensive income and £0.6 million credited to the income tax expense).

A further reduction to reflect the proposed corporation tax rate of 23% from 1 April 2014 would reduce the deferred tax asset by another £1.3 million.

6. Earnings per share

The calculation of earnings per share is based on profit for the period of £7.6 million (2010 half-year £6.4 million, 2010 year £23.1 million) and the number of shares set out below:

	2011 Half-year Number (m)	2010 Half-year Number (m)	2010 Year Number (m)
Weighted average number of shares for basic earnings per share calculation	**63.7**	63.4	63.5
Dilutive potential ordinary shares arising from employee share schemes	**0.8**	0.8	1.7
Weighted average number of shares for fully diluted earnings per share calculation	**64.5**	64.2	65.2

7. Dividends

	Dividend per share pence	**Six months ended 30 June 2011 £m**	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Final dividend for the year ended 31 December 2009	5.5	-	3.6	3.6
Interim dividend for the year ended 31 December 2010	3.0	-	-	1.9
Final dividend for the year ended 31 December 2010	6.25	3.9	-	-
Amount recognised as distributions to equity holders in the period		**3.9**	3.6	5.5
Dividends settled in shares		**(0.1)**	(0.1)	(0.1)
Dividends settled in cash		**3.8**	3.5	5.4

The proposed interim dividend of 3.25 pence (2010: 3.0 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 £2.1 million will be paid on 28 October 2011 to shareholders on the register at the close of business on 23 September 2011. A scrip dividend alternative will be offered.

8. Non-current assets

During the interim period, the Group spent £0.3 million on plant and equipment (2010 half-year £0.6 million, 2010 year £1.1 million). During the prior interim period, the Group closed and subsequently sold one of its offices for net proceeds of £2.5 million (2010 year £2.5 million) and sold plant and equipment for net proceeds of £1.1 million (2010 year £1.1 million).

During the interim period, the Group acquired ClerkMaxwell Limited for a consideration of £4.2 million (including deferred consideration), comprising net tangible assets of £0.4 million, intangible assets of £0.6 million and goodwill of £3.2 million.

9. Retirement benefit obligations

	2011 Half-year £m	2010 Half-year £m	2010 Year £m
Present value of defined benefit obligations	**(579.2)**	(540.4)	(576.7)
Fair value of scheme assets	**543.4**	462.2	537.1
Recognised liability for defined benefit obligations	**(35.8)**	(78.2)	(39.6)

Movements in present value of defined benefit obligations:	**2011 Half-year £m**	2010 Half-year £m	2010 Year £m
Opening balance	**576.7**	560.5	560.5
Past service cost	**-**	1.1	1.2
Interest cost	**15.4**	15.8	31.3
Actuarial (gains)/losses	**(1.6)**	(24.2)	8.5
Benefits paid	**(11.3)**	(12.8)	(24.8)
Closing balance	**579.2**	540.4	576.7

Movements in fair value of scheme assets:	**2011 Half-year £m**	2010 Half-year £m	2010 Year £m
Opening balance	**537.1**	455.8	455.8
Expected return on scheme assets	**16.3**	14.8	29.7
Actuarial (losses)/gains	**(2.8)**	(5.9)	33.1
Contributions by employer	**4.1**	10.3	43.3
Benefits paid	**(11.3)**	(12.8)	(24.8)
Closing balance	**543.4**	462.2	537.1

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

	2011 Half-year %	2010 Half-year %	2010 Year %
Discount rate	**5.50**	5.40	5.40
Future pension increases	**3.50**	3.20	3.40
Inflation assumption	**3.50**	3.20	3.40
Expected rate of return on scheme assets	**6.11**	6.51	6.11

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	22.2
Decrease inflation (and pension increases) by 0.25%, decreases pension liability by	19.5
Increase life expectancy by one year, increases pension liability by	14.8

10. Share capital

Issued capital as at 30 June 2011 amounted to £31.9 million (2010 half-year £31.7 million, 2010 year £31.7 million).

The Company announced on 19 May 2011 that shareholders had, pursuant to the Scrip Dividend Scheme, elected to receive 59,673 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 2010.

The 2007 and 2008 Long-Term Incentive Plans (LTIPs) ended on 31 December 2010 and resulted in the award of 351,847 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 LTIP awards, the Company's issued share capital at the end of the period comprised 63,898,452 ordinary shares of 50 pence each.

The Group has established a Long-Term Incentive Plan (LTIP) 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 (DSBP) 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.

The following grants were made during the period to 30 June 2011:

Arrangement	**LTIP 2011 Basic Award**	**LTIP 2011 Enhanced Award**	**DSBP 2011 ***
Date of grant / notification	12 April 2011	12 April 2011	14 April 2011
Number of instruments granted	646,468	140,725	646,483
Share price at date of grant / notification	238.0p	238.0p	238.0p
Contractual life	3 Years	3 Years	3 Years
Vesting conditions	3 year service period & aggregate EPS targets of between 102.3p and 112.6p in 2011, 2012 and 2013	3 year service period & EPS targets of between 47.4p and 55.8p in 2013	3 year service period & profit from operations targets in 2011
Settlement	Shares	Shares	Shares
Fair value per granted instrument determined at the grant date	225.3p	225.3p	206.4p

* DSBP figures based on notification only. Actual grant date will be in 2012.

11. Related party transactions

There have been no significant changes in the nature of related party transactions since the last annual financial statements as at, and for the year ended, 31 December 2010.

12. Post balance sheet event

On 22 August 2011, the Company announced that it had acquired 100 per cent of the issued share capital of Promanex Group Holdings Limited, for a consideration, including management retention payments, of £16.4 million, plus normalised net debt of £2.4 million. The acquisition has been funded from the Group's cash resources.

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

25 August 2011

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 2011 which comprises the Condensed consolidated income statement, the Condensed consolidated statement of comprehensive income, the Condensed statement of changes in equity, the Condensed consolidated statement of financial position, the Condensed consolidated cash flow statement and 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 2011 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

25 August 2011

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

SHAREHOLDER INFORMATION

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. 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 a change of name or address.

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.