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

Full Year Results for the year ended 31 December 2011

Costain, one of the UK's leading engineering solution providers, announces a 38% increase in Group operating profit[2], an increased order book, maintained strong cash balances and an increased final dividend.

Year ended 31 December	2011	2010
Revenue[1]	**£986.3m**	£1,022.5m
Group Operating Profit		
- Adjusted[2]	**£24.1m**	£17.4m
- Reported	**£22.5m**	£17.4m
Profit from Operations		
- Adjusted[2]	**£23.6m**	£29.4m[3]
- Reported	**£22.0m**	£29.4m[3]
Profit before tax		
- Adjusted[2]	**£25.5m**	£27.9m[3]
- Reported	**£23.9m**	£27.9m[3]
Basic earnings per share		
- Adjusted[2]	**31.1p**	36.4p[3]
- Reported	**29.2p**	36.4p[3]
Net cash		
Year-end cash balance	**£140.1m**	£144.3m
Average month-end cash balance	**£130.4m**	£116.0m
Dividend per share	**10.0p**	9.25p

1. Including share of joint ventures & associates
2. 2011 Results stated before amortisation of acquired intangible assets & employment related acquisition consideration
3. 2010 Results include profit arising from transfer of PFI assets into Group pension scheme of £11.2m

Highlights

- Increase of 38% in adjusted Group operating profit[2] to £24.1 million
- Year end order book increased to £2.5 billion, in excess of 90% from repeat orders (2010: £2.4 billion)
- £140 million year-end net cash balance, no significant debt
- Banking and bonding facilities increased to £465 million and extended to September 2015
- Two successful acquisitions completed in 2011, broadening the range of services provided by the Group
- Support services activities now represent 25% of work secured for 2012
- Recommended 8% increase in dividend for the year: 5th successive year of increase
- On course to achieve ambition to double profits in the medium-term

David Allvey, Chairman, commented:

"Costain delivered another strong performance in 2011, with operating profit up substantially and an increased order book.

"The Group has been successful in targeting those blue chip customers who are spending billions of pounds per annum on essential capital projects and ongoing maintenance of essential, nationally strategic assets. This provides a major opportunity to grow the business further.

"We are transforming Costain into a broad-based Tier-One engineering solutions provider, aligned with structural market changes. Winning projects such as the complex £400 million London Bridge redevelopment is testimony to that. Meanwhile, our strong cash position, robust balance sheet and increased banking and bonding facilities provide us with the resources to grow the business by acquisition as well as organically.

"Our confidence in Costain's future, and in achieving our ambition of doubling profit over the medium-term, is reflected in the Board's recommendation to increase the final dividend for the fifth successive year."

7 March 2012

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A brief 2011 results presentation video featuring Costain's Chairman David Allvey, Chief Executive Andrew Wyllie and Finance Director Tony Bickerstaff is available at www.costain.com

Notes to Editors

Costain is one of the UK's leading UK engineering solutions providers, with a portfolio spanning more than 140 years of innovation and technical excellence. The Group's core business segments are in Infrastructure (Highways, Rail and Airports), Environment (Water and Waste) and Energy & Process (Hydrocarbons & Chemicals, Nuclear process and Power).

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

Costain has worked on a number of high profile infrastructure projects in the UK, including the St Pancras railway station and the Channel Tunnel Rail Link. The Group's current major projects include the municipal waste treatment infrastructure for the Greater Manchester Waste Disposal Authority, EVAP D at Sellafield, one of the largest nuclear projects in the UK, and the Network Rail contract for the redevelopment of London Bridge Station.

For further information please visit the company website: www.costain.com

CHAIRMAN'S STATEMENT

Overview & Results

Costain delivered another strong performance in 2011, in line with the Board's expectations.

It is particularly pleasing to report a substantial increase in operating profit and an increase in our order book, the result of a deliberate and ongoing focus on those UK market sectors where there is and will continue to be significant private and public investment to meet critical national needs.

The year also saw Costain pursuing its twin strategic objectives of growing by acquisition, as well as organically, and broadening its range of services to include a greater proportion of support service activities as we continued to build on our position as a leading Tier-One engineering solutions provider.

Revenue, including the Group's share of joint ventures and associates, for the year was £986.3 million (2010: £1,022.5 million). Our focus is on higher margin work and consequently, Group operating profit, before other items, was £24.1 million (2010: £17.4 million), an increase of 38%. Profit before tax and other items was £25.5 million (2010: £27.9 million), with the prior year having benefitted from a profit of £11.2 million realised on the transfer of the Group's interest in a portfolio of six PFI investments into The Costain Pension Scheme.

Strategic Delivery

Costain secured a number of major, nationally strategic contracts during the year. A highlight was the award of the 5-year £400 million contract by Network Rail for the redevelopment of London Bridge Station, notable not just for the scale and scope of the contract, but also that it was awarded in recognition of Costain's proven ability to manage such complex projects on its own.

As a result, the Group's year-end order book increased to £2.5 billion, including over £650 million of work already secured for 2012. In excess of 90% of our order book is from repeat orders and support services activities now represent 25% of the work secured for 2012. Further contract awards and extensions since the year-end has increased the level of revenue secured for 2012 to over £750m.

Whilst the continuing uncertain macro-economic environment is impacting the UK market as a whole with total volumes reduced, extended procurement periods and a variation of activity levels across regions, our strategy of targeting customers with committed long-term capital and operational spending plans has enabled us to pursue and win work less affected by the downturn. Moreover, we believe that our target customers will continue to commit substantial expenditure over the medium to long term, providing Costain with significant opportunity to grow.

To achieve that growth we must also continue to diversify and broaden the range of services we offer. Our 'Choosing Costain' strategy was developed and is being implemented in line with major structural market changes as our customers increasingly seek suppliers who can offer both an innovative cost-effective approach and provide a broad, end-to-end service across the life cycle of an asset. The ongoing drive, both organically and by acquisition, to broaden our services across engineering consultancy, construction, and operations and maintenance will remain a key priority in 2012.

Potential acquisitions must meet a range of strict criteria, including strategic rationale and shareholder value enhancement. During the year, we were pleased to announce the acquisitions of ClerkMaxwell, a front-end engineering and operations support services provider operating in the upstream oil & gas sector, and Promanex, an industrial support services business providing facilities management, installation, repair and maintenance and general asset management. Both companies have been successfully integrated, are operating in line with our expectations, and provide Costain with a broader range of services to offer its customers.

With a £140 million net cash balance and no significant debt and with banking and bonding facilities increased to £465 million, and extended to September 2015, the Group is in a very strong position to deliver on its strategy.

Dividend

Reflecting another successful year and our continuing confidence in the long-term prospects for the Group, the Board is recommending an 8% increase in the final dividend, the fifth successive year of increase. If the 6.75 pence per share (2010: 6.25 pence) final dividend is approved at the forthcoming Annual General Meeting, then it will be paid on 25 May 2012 to shareholders on the register as at the close of business on 20 April 2012. This would bring the total for the full year to 10.0 pence per share (2010: 9.25 pence), an increase of 8% over the prior year.

Staff

The year would not have been a success, nor would we be as confident for the future, without the people we have at Costain. On behalf of the whole Board, I would like to express our gratitude to all our colleagues and place on record our recognition and appreciation of their commitment to the business.

Group Pension Scheme

At the year end, the Group's pension scheme deficit in accordance with IAS 19, net of deferred tax, was £39.7 million (2010: £28.9 million), the increase is primarily as a result of a reduction in the discount rate, based on corporate bond yields, used to calculate the liabilities. We have in place a deficit recovery plan based on the latest actuarial position as at 31 March 2010, agreed with the Pension Scheme Trustee, expected to eliminate the deficit over a period of less than ten years.

Since the year-end, the Group has made a further transfer of two PFI investments into the scheme at an agreed value of £20.3 million. Furthermore, the Group has instigated a liability risk management exercise and is in the process of issuing Enhanced Transfer Value and Pension Increase Exchange offers to the members of The Costain Pension Scheme. Together, the above actions are estimated to reduce the pension deficit by approximately £16 million, with an associated potential reduction in annual deficit contributions, following the next triennial actuarial valuation of The Costain Pension Scheme which is due as at 31 March 2013. Full details of these measures are contained in the Finance Director's Review.

Summary & Outlook

Costain delivered another strong performance in 2011, with operating profit up substantially and an increased order book.

The Group has been successful in targeting those blue chip customers who are spending billions of pounds per annum on essential capital projects and ongoing maintenance of essential, nationally strategic assets. This provides a major opportunity to grow the business further.

We are transforming Costain into a broad-based Tier-One engineering solutions provider, aligned with structural market changes. Winning projects such as the complex £400 million London Bridge redevelopment is testimony to that. Meanwhile, our strong cash position, robust balance sheet and increased banking and bonding facilities provide us with the resources to grow the business by acquisition as well as organically.

Our confidence in Costain's future, and in achieving our ambition of doubling profit over the medium-term, is reflected in the Board's recommendation to increase the final dividend for the fifth successive year.

David Allvey,
Chairman

CHIEF EXECUTIVE'S REVIEW

Strategy delivering results

Costain has delivered another strong performance. An increase of 38% in operating profit, an increase in the size of the order book and an increase in the recommended final dividend are testimony to the success of our strategy and its implementation.

The UK faces unprecedented challenges, including the impact of a rapidly growing population, climate change, and the need to ensure a secure, sustainable and balanced portfolio of energy sources. An ageing and increasingly obsolete infrastructure means that there is a clear and recognised national need for strategic investment.

Alongside this imperative is the reality of the global macro-economic environment and the impact it is having on the prioritisation of spending plans.

We have therefore maintained a focus on targeting and working with blue chip customers in sectors whose spending activity is underpinned by strategic national needs, regulatory commitments or essential maintenance requirements. Our target customers are spending billions of pounds per annum on capital, operations and maintenance contracts. In its 2011 Autumn Statement, the UK Government identified an increase in infrastructure investment, and has recently announced the go-ahead for the second high-speed rail link. Notwithstanding this welcome increase in commitment from the public sector, by far the majority of future spending is expected to continue to come from the private sector.

The Board continues to believe that, over the next decade, such expenditure will be primarily in the critical areas of transport, energy, water and waste, where national needs are being addressed. These areas provide a strong and sustainable pipeline of future investment to ensure energy security, the provision of a sustainable water supply, and creating key transport infrastructure capable of supporting vital economic growth.

We are continuing to transform the Group through the implementation of our 'Choosing Costain' strategy and are reinforcing our position as one of the UK's top Tier One engineering solutions providers, with well-established positions in sectors such as highways, water and rail.

We are developing the skills, capabilities and service offering necessary to meet the changing needs of our major customers. They are increasingly expecting Tier One suppliers to provide broad and bespoke solutions to their specific requirements by delivering an innovative service across engineering consultancy, construction, and operations and maintenance, through larger and longer-term bundled contracts.

These skills enable us to engineer solutions to meet some of the country's most complex and pressing national needs. For example, Costain is 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.

In addition to the organic development of those skills within Costain, for the first time in over 20 years Costain augmented the implementation of its strategy through the acquisition of two businesses, ClerkMaxwell, an upstream oil and gas consultancy, and Promanex, an industrial support services business. Both businesses have been integrated successfully and are performing well and in line with our expectations.

ClerkMaxwell provides Costain with a full hydrocarbons value chain capability from upstream oil & gas, gas processing, LNG, gas storage through to downstream, and provides the Group with access to a larger and broader customer base in the oil and gas sector.

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.

Consequently, the services we can offer to our customers, and the composition of our earnings, are being transformed as we broaden the business through the implementation of our strategy. Currently 25% of our 2012 order book now comes from support services activities and we expect this to continue to grow.

Core to our transformation and our value proposition to customers is our 'Costain Cares' initiative which places responsible, effective and collaborative stakeholder relationships at the core of everything that we do. This ranges from taking a unique and innovative approach to finding solutions for each individual client requirement, to wider initiatives such as our school leavers' apprentice scheme or our participation in an ex-offenders' programme. As well as having a beneficial effect on our corporate culture, these factors differentiate us from our peer group, are an increasingly important factor in our stakeholders' selection processes, and have directly contributed to the award of our largest contracts this year.

Increased order book providing long term earnings visibility

Costain's strategy is to focus on securing longer term and higher margin contracts from major blue chip customers; and whilst this approach has led to a decrease in revenue in 2011, our operating profit and quality of earnings have improved significantly.

During the year we secured new contracts and extensions to existing contracts of some £1.1 billion and as a consequence, the Group finished the year with an increased forward order book of £2.5 billion (2010 £2.4 billion), providing good earnings visibility. The order book included in excess of £650m of work secured for 2012 (December 2010: c. £800m secured for 2011), and over £1.8 billion of revenue secured for 2013 and beyond. In addition, we again ended the year with preferred bidder positions on contracts with an aggregate value in excess of £400 million. Further contract awards and extensions since the year-end has increased the level of revenue secured for 2012 to over £750m. These include a £60m three-year maintenance contract for a new customer in the energy sector, a contract we were able to secure as a consequence of the skills acquired following the purchase of Promanex.

We are delighted that major customers continue to re-appoint Costain for their investment plans with the result that repeat orders now account for in excess of 90% of the order book. We were also pleased to secure a number of new customers during the year with the potential for increasing the scope and scale of work we do for them.

The focus on key customers, and the provision of value-adding solutions to complex challenges, has ensured that Costain has maintained a strong pipeline of business development opportunities. During the year we increased our business development and bidding activity to capitalise on these opportunities, resulting in an increase in the order book.

Progress in Operations

The Group has three core divisions: **Environment, Infrastructure** and **Energy & Process**.

The **Environment** division focuses on the water and waste markets as well as the specific requirements of a number of long term customers. Customer spend in this market is underpinned by regulatory and legislative requirements and is expected to grow over the medium and long term.

Revenue (including share of joint ventures and associates) in the division for the year was £375.4 million (2010: £489.8 million), with profit from operations of £17.5 million (2010: £17.2 million including profit of £11.2 million from the transfer of six PFI investments into The Costain Pension Scheme). Underlying operating profits increased very significantly, reflecting strong project delivery performance and the successful close out of a number of legacy issues well within our allowances. The reduction in revenue in this division was fully anticipated and is a consequence of the strategic decision to withdraw from lower margin activities, as well as a slower than anticipated start to the AMP 5 programme of work.

The division finished the year with a forward order book of £0.8 billion (2010 £1.2 billion), the reduction reflecting the completion of a number of historic contracts in the year. With our established positions in water and waste, and the continued broadening of our services portfolio, we look forward with confidence to continued progress in this division.

The **Infrastructure** division, which incorporates activities in the highways, rail, and airports sectors, saw a year of significantly increased investment in business development in order to take advantage of a strong pipeline of opportunities.

Revenue (including share of joint ventures and associates) in the division for the year increased to £466.0 million (2010: £395.3 million) although adjusted profit from operations decreased to £10.2 million (2010: £12.2 million). This short term decrease reflects the costs associated with the higher level of bidding activity, which has resulted in a 36% increase in the order book to £1.5 billion (2010: £1.1 billion), as well as the costs of the Promanex acquisition and additional costs for the completion of a project.

The **Energy & Process** division undertakes work in the hydrocarbons and chemicals, nuclear process and power sectors.

Revenue (including share of joint ventures and associates) in the division for the year increased to £143.4 million (2010: £136.6 million) with adjusted profit from operations of £4.7 million (2010: £8.2 million). Profits were impacted by increased investment in business development, the costs to complete the ClerkMaxwell acquisition and the additional costs required to complete a project in Abu Dhabi. The division's year-end order book has increased to £215 million (2010: £127 million) and we see a number of exciting opportunities for further growth in this division.

Our non-core **Land Development** activity in Spain, which is a joint venture with a subsidiary of Santander Bank, continued to be subject to very difficult market conditions. Revenue was £1.5 million (2010: £0.8 million) and the loss after tax was £2.0 million (2010 £1.8 million). As anticipated, no land sales were completed in the year and land development activity has been scaled back until the market improves and maximum shareholder value can be secured for the assets. Our activities during the year have been focussed on our leisure businesses of golf courses and our 600 berth yacht marina adjacent to Gibraltar.

Further detail on each operating division is contained within the Business & Operational Review.

Enhancing our Safety, Health and Environmental performance

Costain places the highest priority on the effective management of Safety, Health and Environment.

Further progress was made in the year and we again recorded an improved Group Accident Frequency Rate (AFR) reducing from 0.15 to a new record low of 0.11, which continues to compare favourably with our major Tier One peer group.

We received a total of 22 RoSPA Gold safety awards including the prestigious Order of Distinction for our Energy and Process operations recognising 15 consecutive annual Gold awards.

A significant achievement was an external accreditation by the Cambridge Centre for Behavioural Studies for our in-house Costain Behavioural Safety initiative. We are the first company in the UK to achieve this accreditation and it is a unique differentiator for our industry.

However, despite our continuous vigilance and focus on our safety performance, there was a fatal accident involving an employee of a sub-contractor on the Newbury Parkway project. Also, four Costain employees were killed in a fire in an accommodation facility in Abu Dhabi. The cause of the fire, which was in a facility not owned or operated by Costain, is still being investigated by the authorities. Everyone in Costain extends their deepest sympathies to the families of those involved.

We received our first Platinum award following an external assessment by Business in the Community, recognising our proactive commitment to mitigating the environmental and social impacts of our operations.

Developing our team

A strong business is one that employs and retains good and motivated people.

During the year we increased our training and development programmes across the organisation to ensure that we continue to have the requisite skills and resources. There was a 30% increase in the number of training days which, through improved efficiency, were delivered at a lower total cost than in 2010.

There was also an increase in the number of apprentices across the Group and the introduction of a new graduate development programme.

Tracey Wood became Group Company Secretary on 1 June 2011, following the retirement of Clive Franks after 30 years of service with Costain. Tracey continues to be responsible for HR and legal matters on the Executive Board, whilst Fiona Ware has been appointed as the new Group HR Director reporting to Tracey.

Summary

Costain has delivered another strong performance.

The implementation of our ‘Choosing Costain’ strategy continues to transform the Group, as we 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, whilst mindful of economic conditions, we see significant opportunity for the continued successful implementation of our strategy which, in turn, will lead to the delivery of the Board’s ambition of doubling profit over the medium term.

I look forward to reporting on further progress during the year.

ANDREW WYLLIE
Chief Executive

FINANCE DIRECTOR'S REVIEW

Results

Costain further strengthened its financial position during the year. Our stakeholders require us to be able to demonstrate a strong financial covenant, given our strategic focus on major customers and their increasingly large and longer-term contracts.

Operating profit, before other items, for the year increased by 38% to £24.1 million (2010: £17.4 million).

Profit from operations, before other items, for the year was £23.6 million (2010: £29.4 million).

The other items referred to above relate to the two acquisitions completed during the year and are the amortisation of acquired intangible assets of £0.9 million (2010: Nil) and employment related acquisition consideration of £0.7 million (2010: Nil).

Profit before tax for the year ended 31 December 2011 was £23.9 million (2010: £27.9 million) on revenue (including the Group's share of joint ventures and associates) of £986.3 million (2010: £1,022.5 million).

Basic earnings per share amounted to 29.2 pence (2010: 36.4 pence per share).

In 2010, a profit of £11.2 million was realised on the transfer of the Group's interest in a portfolio of six PFI investments into The Costain Pension Scheme at an agreed valuation of £22.0 million.

The order book increased during the year to £2.5 billion (2010: £2.4 billion), as the Group secured a number of new contracts and extensions including the London Bridge station redevelopment for Network Rail, AMP5 contracts for Northumbrian Water and Severn Trent, Evap D at Sellafield, Centrica Easington gas plant upgrade, A465 road upgrade for the Welsh Government and the Paddington and Bond Street Crossrail redevelopment projects.

Acquisitions

In line with our strategy to expand the services offered to customers, the Group made two acquisitions during 2011.

In April, the Group purchased ClerkMaxwell, an Aberdeen based upstream oil and gas engineering company. Initial cash consideration was £3.2 million. Deferred cash consideration payments, based on a percentage of the notional future value of ClerkMaxwell 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% and an element is linked to continued employment.

In August, 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, was £16.2 million. In addition, the business was acquired with normalised net debt of £2.4 million.

Interest

Net finance income amounted to £1.9 million (2010: £1.5 million expense).

Net interest income from bank deposits and other loans and receivables amounted to £0.1 million (2010: £0.1 million). In addition, the net finance income included the difference between the expected return on the pension scheme's assets of £32.3 million (2010: £29.7 million) and the interest cost on the present value of the pension scheme's liabilities of £30.5 million (2010: £31.3 million) being a net income of £1.8 million (2010: £1.6 million expense).

In accordance with IAS19 the pension scheme deficit position is reassessed as at 31st December 2011. As a consequence of the accounting reassessment the net pension interest is expected to be an interest expense in 2012 due to the change in the market conditions.

Tax

The Group's effective rate of tax was 21.8% of profit before tax (2010: 17.2% which included an element of tax relief on the PFI asset transfer into The Costain Pension Scheme). There were benefits during the year arising from Research & Development tax relief claims, pension contributions incurred in 2010 but tax deductible in 2011 and a decrease in brought forward temporary timing differences, being the utilisation of capital allowances, taxed provisions and tax losses.

Dividend

The Board has recommended a final dividend for the year of 6.75 pence per share (2010: 6.25 pence per share) to bring the total for the year to 10.0 pence per share (2010: 9.25 pence per share), an increase of 8%.

As in previous years, the Group will make an additional cash contribution to the pension scheme equal to the amount of dividend paid to shareholders.

Shareholders' Equity

Shareholders' equity reduced in the year to £30.8 million (2010: £37.6 million). The profit for the year amounted to £18.7 million and other comprehensive expense to £22.6 million. The movements are detailed in the consolidated statements of comprehensive income and expense and changes in equity in the financial statements. The most significant element was the increase in the Group's pension scheme deficit.

Pensions

As at 31 December 2011, the Group's pension scheme deficit in accordance with IAS 19, net of deferred tax, was £39.7 million (2010: £28.9 million). The scheme deficit position has increased primarily as a result of a reduction in the discount rate, based on corporate bond yields, used to calculate the liabilities.

A full actuarial valuation of The Costain Pension Scheme ('CPS') was performed by the Scheme Actuary as at 31 March 2010 and a recovery plan that is expected to eliminate the deficit over a period of less than ten years was agreed with the Trustee of the Scheme. This agreement, which incorporates the £22.0 million transfer of the PFI investments, resulted in a corresponding reduction in the Group's future annual cash contributions into the scheme over a thirty-nine month period which started with effect from 1 January 2011. The agreement also incorporates the ongoing commitment to match dividend payments with an equivalent cash contribution to the Scheme.

The Group's defined benefit pension scheme was closed to future accrual from 30 September 2009. Costain now operates only a defined contribution scheme for all employees from that date.

Since the year-end, the Board has agreed with the Trustee of the CPS to transfer the Group's interest in a portfolio of two PFI investments into the CPS, at an agreed valuation of £20.3 million, which represents an effective discount rate of circa 7%. As a result of the transaction, the accounting profit realised on the transfer of the assets is £10.2 million in 2012.

Furthermore, the Group has instigated a liability risk management exercise. The Group is in the process of issuing Enhanced Transfer Value and Pension Increase Exchange offers to the members of the CPS. These initiatives, which potentially include every member of the CPS, will offer each individual greater choice and flexibility regarding their pension entitlement, and will also reduce the overall pension liabilities and risk remaining within the scheme. The level of liability reduction will depend on the take-up of the offer by members and financial conditions at the point the entire exercise completes (expected to be May 2012). At this stage, it is estimated that the initiatives could reduce the scheme liabilities by approximately £50 million, and could incur a one-off accounting cost, estimated at £6 million, to be expensed in 2012.

Together, the above actions are estimated to reduce the pension deficit by approximately £16 million, with an associated potential reduction in annual deficit contributions, following the next triennial actuarial valuation of the CPS which is due as at 31 March 2013.

Cash Flow and Borrowings

The Group has a strong positive net cash balance, which was £140.1 million as at 31 December 2011 (2010: £144.3 million) and included £1.6 million of borrowings (2010: £1.7 million) and cash held by jointly controlled operations of £33.6 million (2010: £33.8 million).

As set out in the consolidated cash flow statement during the year the Group had strong operating cash flow offset by investment in acquisitions and payment of dividends and matching pension deficit contributions. The average month-end cash balance during 2011 was £130.4 million (2010: £116.0 million).

The cash position is affected by monthly and contract specific cycles and in order to accommodate these cyclical flows, the Group seeks to maintain a base cash balance.

Key Risks and Uncertainties

The principal risks and uncertainties of the business, and the factors which mitigate these risks, are set out in the Group's annual report and include the economic outlook, change of government policy on spending, competition, pension liabilities, operational delivery, loss of IT systems, supply chain and customer failure and people retention. The Board continuously assesses and monitors these risks and the Chairman's statement, Chief Executive's review and business and operations review in these financial statements include consideration of uncertainties affecting the Group.

Accounting policies and significant areas of judgment and estimation

A summary of the significant accounting policies of the Group is set out in the notes to the financial statements. There has been no significant change to the accounting policies in the year and there is no material effect on the financial statements of new accounting standards adopted in the period.

The notes to the financial statements also include the significant areas of judgment and estimation used in preparation of the financial statements.

The most critical accounting policies and significant areas of judgment and estimation arise from the accounting for defined benefit pension schemes under IAS 19 Employee benefits, the accounting for long-term contracts under IAS 11 and assessments of the carrying value of land, property, goodwill and intangible assets.

Contract Bonding and Banking Facilities

The Group's long-term contracting business is dependent on it being able to supply performance and other bonds as necessary. This means maintaining adequate facilities from banks and surety bond providers to meet the current and projected usage requirements. During 2011, the Group renegotiated its contract bonding and banking facilities with its relationship banks and surety companies. The facilities were increased by £30 million to £465.0 million and extended to a maturity date of 30 September 2015.

Going Concern

The Directors have acknowledged the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' published by the Financial Reporting Council in October 2009. The Directors have considered the Group's financial requirements, its current order book and future opportunities and its available bonding facilities. Having reviewed the latest projections, including the application of reasonable downside sensitivities, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, the Group continues to adopt the going concern basis in preparing these financial statements.

Treasury

The Group's treasury and funding activities are undertaken by a centralised treasury function. Its primary activities are to manage the Group's liquidity, funding and financial risk, principally arising from movements in interest rates and foreign currency exchange rates. The Group's policy is to ensure that adequate liquidity and financial resources are available to support the Group's growth development, while managing these risks. The Group's policy is not to engage in speculative transactions. Group Treasury operates as a service centre within clearly defined objectives and controls and is subject to periodic review by internal audit.

Liquidity Risk

The Group finances its operations primarily by a mixture of working capital, funds from shareholders and retained profits. The Directors regularly monitor cash usage and forecast usage to ensure that projected financing needs are supported by adequate cash reserves or bank facilities.

Foreign Currency Exposure

Translation exposure: the results of the Group's overseas activities are translated into sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. The balance sheets of overseas subsidiaries and investments are translated at foreign exchange rates ruling at the balance sheet date.

Transaction exposure: the Group has transactional currency exposure arising from subsidiaries' commercial activities overseas and, where appropriate, the Group requires its subsidiaries to use forward currency contracts to minimise any currency exposure unless a natural hedge exists elsewhere within the Group.

Interest Rate Risks and Exposure

The Group holds financial instruments for two main purposes: to finance its operations and, currently only within its PFI investments, to manage the interest rate risks arising from its operations and its sources of finance. Various financial instruments (for example, trade receivables and trade payables) arise directly from the Group's operations. With the Group's cash balances and low level of borrowings, the main exposure to interest rate fluctuations within the Group's operations arises from surplus cash, which is generally deposited with the Group's relationship banks. Within the investments in joint ventures and associates, interest rate movements will affect the value of swaps classified as cash flow hedges and this will impact the Group's equity.

TONY BICKERSTAFF
Finance Director

BUSINESS & OPERATIONS REVIEW

Environment

Costain has a well-established position in the UK water market. The company has secured AMP5 frameworks with Southern Water, United Utilities, Welsh Water, Severn Trent and Northumbrian Water. In addition to these long-term asset management contracts, Costain has continued successfully to design, secure and deliver major complex capital works infrastructure for the water industry. During the year construction progressed well on the large Brighton and Hove waste water treatment works for Southern Water and the project will shortly move into the commissioning phase. On this and other projects we see the potential to extend the scope of our work into long-term care and maintenance of the asset – reflecting the strategic broadening of our service offering.

The UK waste market continues to offer significant long-term growth opportunities for Costain. In 2011 we continued to make progress on our delivery of the Manchester Waste Scheme, Europe's largest waste PFI project, for the Greater Manchester Waste Disposal Authority (GMWDA), where we are now in the commissioning phase of this complex scheme.

Costain has a strong capability in the waste sector and this year further strengthened its sector management team in order to broaden the service offering across the full life-cycle of consultancy, construction and maintenance of assets.

During the course of the year the Group restructured its geotechnical services activity into a broader Environmental Services consultancy which secured a place on the Environment Agency's National Site Investigation Framework ('NSIF'). The consultancy has also added a number of innovative services, such as aerial photography and 3D laser scanning, which enable us to offer a more attractive portfolio of services to our customers.

In 2011, we substantially closed out our portfolio of schools in the final phase of the Bradford Building Schools for the Future (BSF) programme. In our Local Education Partnership with Lewisham, also under the BSF programme, we continue to deliver a programme of new schools which will continue through 2012. During the year we successfully handed over the first phase of the Newbury Parkway shopping centre development with the remainder scheduled for completion in 2012.

Infrastructure

Our Rail sector enjoyed an outstanding performance with the award of several significant, long term contracts. Investment in the UK's railway infrastructure is expected to grow and Costain is now a significant player in this market. Proof of this was the award by Network Rail of the prestigious £400m Thameslink London Bridge Station redevelopment contract. Costain will carry out this project from design to delivery, and results directly from the broadening of our service offering across the full life cycle of consulting, construction and care.

We are making excellent progress on our contract to redevelop Reading Station for Network Rail and the Bond Street Station upgrade for London Underground. We successfully completed the Royal Oak Portal and Pudding Mill Lane Portal contracts for Crossrail (part of Europe's largest infrastructure programme) and have subsequently been awarded significant further Crossrail contracts for Bond Street and Paddington Station.

With significant Government investment expected over the medium and long term in order to improve the UK's travel infrastructure, we continue to see exciting opportunities for growth in this market.

Our Highways sector saw a consistently strong performance throughout the year in which Costain reinforced its market leading position in Highways Maintenance. The Managing Agent Contracts (MAC) service we are providing to the Highways Agency includes the operation and maintenance of a network in excess of one million lane miles, the largest of its kind in the sector. We also completed the strengthening of the M53 Bidsdon Moss Viaduct three months early and ahead of budget and we are making excellent progress on the construction of the first of the Highways Agency Managed Motorway Programme Schemes: the M1 Junction 10 to 13.

We have an industry leading portfolio of Early Contractor Involvement Schemes with contracts for the Highways Agency, Welsh Government, Northern Ireland Road Service and Lancashire County Council.

We were awarded the prestigious A465 Heads of the Valley contract for the Welsh Government, and completed the A40 Penblewyn to Slebech Park Scheme ahead of time and budget. We also made good progress on Walton Bridge, the first bridge to be built over the Thames in over 20 years, for Surrey County Council, and on the Harbour Way for Neath and Port Talbot County Borough Council.

In Power Infrastructure, our London Power Tunnel Project for National Grid, a 33km long tunnel that will help secure the power supply to the capital, has made good progress during the year.

The Riverside Resource Recovery Facility (RRRF) Energy from Waste facility at Belvedere is now operational. There is some outstanding work to complete and negotiations regarding the final account are ongoing.

In our Airports sector, during the year we were awarded and delivered the rehabilitation of Runway 1 as part of our framework agreement with the Manchester Airport Group. For Gatwick Airport we successfully completed the Security Improvement on its Central Search facility. For BAA at Heathrow we have continued to deliver services through our existing framework and were awarded capital contracts on the airfield and within Terminal 3.

Energy and Process

In Hydrocarbons & Chemicals, we were awarded by Centrica the engineering, procurement and construction management of a major development at one of its key gas terminals. The E.ON Holford underground gas storage project was successfully completed and handed over. Our capabilities in the upstream oil and gas sector were greatly boosted by the acquisition of ClerkMaxwell, an engineering consultancy based in Aberdeen, which is performing well and providing significantly enhanced opportunities to win new work in this high-growth area.

In Nuclear Process, we made further good progress in our various projects across the UK. Work continues on the Evaporator D contract at Sellafield, the UK's largest nuclear decommissioning project, with the delivery of the first two modules to site. 'Evap D' will play a vital role in the future of Sellafield's operations. This highly complex project is being designed, fabricated and constructed to exacting specifications. In addition, the design of the Bradwell Fuel Element Debris Dissolution facilities (part of a multi-faceted ten-year framework contract) is well advanced.

In Power, we were selected by the Energy Technologies Institute to lead the development of a technology to significantly reduce 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 is a further demonstration of our ability to design and develop innovative solutions which add value to our customers.

Land Development

Economic conditions in Spain remain very challenging, with a depressed real estate market and weak demand for development land and, consequently, we have ceased land development activity until conditions improve. Our activities during the year have been focussed on our leisure businesses of golf courses and our 600 berth yacht marina adjacent to Gibraltar. The marina continues to report increasing revenue and we expect that this will be further enhanced this year following the opening in January 2012 of a substantial dry dock and repair yard facility with 75 tonne travel lift capability.

Consolidated income statement

Year ended 31 December	Notes	2011 Before other items	2011 Other items	2011 Total	2010 Total
		£m	**£m**	**£m**	£m
Continuing operations					
Revenue	2	**986.3**	**-**	**986.3**	1,022.5
Less: Share of revenue of joint ventures and associates	9	**(117.8)**	**-**	**(117.8)**	(98.0)
Group revenue		**868.5**	**-**	**868.5**	924.5
Cost of sales		**(818.8)**	**-**	**(818.8)**	(883.9)
Gross profit		**49.7**	**-**	**49.7**	40.6
Administrative expenses		**(25.6)**	**-**	**(25.6)**	(23.2)
Amortisation of acquired intangible assets		**-**	**(0.9)**	**(0.9)**	-
Employment related deferred consideration		**-**	**(0.7)**	**(0.7)**	-
Group operating profit		**24.1**	**(1.6)**	**22.5**	17.4
Profit on sale of non-consolidated subsidiary		**0.5**	**-**	**0.5**	-
Profit on sale of interests in joint ventures and associates	3	**0.3**	**-**	**0.3**	11.2
Profit on sale of land and property		**-**	**-**	**-**	1.3
Share of results of joint ventures and associates	9	**(1.3)**	**-**	**(1.3)**	(0.5)
Profit from operations	2	**23.6**	**(1.6)**	**22.0**	29.4
Finance income	4	**34.1**	**-**	**34.1**	30.7
Finance expense	4	**(32.2)**	**-**	**(32.2)**	(32.2)
Net finance income/(expense)		**1.9**	**-**	**1.9**	(1.5)
Profit before tax		**25.5**	**(1.6)**	**23.9**	27.9
Income tax	5	**(5.6)**	**0.4**	**(5.2)**	(4.8)
Profit for the year attributable to equity holders of the parent		**19.9**	**(1.2)**	**18.7**	23.1
Earnings per share					
Basic	6	**31.1p**	**(1.9)p**	**29.2p**	36.4p
Diluted	6	**30.0p**	**(1.8)p**	**28.2p**	35.4p

The impact of business disposals in either year was not material and, therefore, all results are classified as arising from continuing operations.

Consolidated statement of comprehensive income and expense
Year ended 31 December

	2011	2010
	£m	£m
Profit for the year	**18.7**	23.1
Exchange differences on translation of foreign operations	**(0.8)**	(1.1)
Cash flow hedges		
Group:		
* Effective portion of changes in fair value during year	**(0.1)**	0.3
* Net changes in fair value transferred to retained earnings	**0.2**	(0.3)
Joint ventures and associates:		
* Effective portion of changes in fair value (net of tax) during year	**(2.8)**	(1.3)
* Net changes in fair value (net of tax) transferred to retained earnings	**-**	8.1
Actuarial (losses)/gains on defined benefit pension scheme	**(22.1)**	24.6
Tax recognised on actuarial losses/(gains) recognised directly in equity	**3.0**	(8.1)
Other comprehensive (expense)/income for the year	**(22.6)**	22.2
Total comprehensive (expense)/income for the year attributable to equity holders of the parent	**(3.9)**	45.3

Consolidated statement of changes in equity

	Share capital	**Share premium**	**Translation reserve**	**Hedging reserve**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2010	31.7	1.9	7.0	(9.0)	(35.4)	(3.8)
Profit for the year	-	-	-	-	23.1	23.1
Other comprehensive income/(expense)	-	-	(1.1)	6.8	16.5	22.2
Transfer between reserves	-	-	0.9	-	(0.9)	-
Equity-settled share based payments	-	-	-	-	1.5	1.5
Dividends paid	-	0.1	-	-	(5.5)	(5.4)
At 31 December 2010	31.7	2.0	6.8	(2.2)	(0.7)	37.6
At 1 January 2011	**31.7**	**2.0**	**6.8**	**(2.2)**	**(0.7)**	**37.6**
Profit for the year	**-**	**-**	**-**	**-**	**18.7**	**18.7**
Other comprehensive expense	**-**	**-**	**(0.8)**	**(2.7)**	**(19.1)**	**(22.6)**
Transfer between reserves	**-**	**-**	**0.1**	**-**	**(0.1)**	**-**
Issue of ordinary shares under employee share option plans	**0.6**	**1.1**	**-**	**-**	**(0.2)**	**1.5**
Equity-settled share based payments	**-**	**-**	**-**	**-**	**1.4**	**1.4**
Dividends paid	**0.1**	**0.2**	**-**	**-**	**(6.1)**	**(5.8)**
At 31 December 2011	**32.4**	**3.3**	**6.1**	**(4.9)**	**(6.1)**	**30.8**

Consolidated statement of financial position
As at 31 December

	Notes	**2011**	2010
		£m	£m
Assets			
Non-current assets			
Intangible assets		**20.3**	0.1
Property, plant and equipment		**11.4**	9.7
Investments in equity accounted joint ventures	9	**21.4**	24.5
Investments in equity accounted associates	9	**1.4**	1.5
Loans to equity accounted joint ventures		**13.7**	10.8
Loans to equity accounted associates		**6.4**	0.6
Other		**16.4**	18.9
Deferred tax		**17.4**	20.9
Total non-current assets		**108.4**	87.0
Current assets			
Inventories		**2.3**	1.3
Trade and other receivables		**188.0**	162.0
Cash and cash equivalents	10	**141.7**	146.0
Total current assets		**332.0**	309.3
Total assets		**440.4**	396.3
Equity			
Share capital		**32.4**	31.7
Share premium		**3.3**	2.0
Foreign currency translation reserve		**6.1**	6.8
Hedging reserve		**(4.9)**	(2.2)
Retained earnings		**(6.1)**	(0.7)
Total equity attributable to equity holders of the parent		**30.8**	37.6
Liabilities			
Non-current liabilities			
Retirement benefit obligations	11	**52.9**	39.6
Other payables		**6.1**	5.2
Provisions for other liabilities and charges		**2.3**	2.5
Total non-current liabilities		**61.3**	47.3
Current liabilities			
Trade and other payables		**342.9**	304.8
Income tax liabilities		**1.7**	1.7
Bank overdrafts	10	**1.6**	1.7
Provisions for other liabilities and charges		**2.1**	3.2
Total current liabilities		**348.3**	311.4
Total liabilities		**409.6**	358.7
Total equity and liabilities		**440.4**	396.3

Consolidated cash flow statement
Year ended 31 December

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Profit for the year		**18.7**	23.1
Adjustments for:			
Share of results of joint ventures and associates	9	**1.3**	0.5
Finance income	4	**(34.1)**	(30.7)
Finance expense	4	**32.2**	32.2
Income tax	5	**5.2**	4.8
Profit on sales of interests in joint ventures and associates	3	**(0.3)**	(11.2)
Profit on sale of subsidiary		**(0.5)**	-
Profit on sale of plant and equipment		**-**	(1.2)
Profit on sale of land and property		**-**	(1.3)
Depreciation of property, plant and equipment		**1.9**	1.7
Amortisation of intangible assets		**0.9**	0.9
Employment related consideration		**0.7**	-
Share-based payments expense		**1.9**	4.5
Cash from operations before changes in working capital and provisions		**27.9**	23.3
(Increase)/decrease in inventories		**(1.0)**	1.1
(Increase)/decrease in receivables		**(10.1)**	37.2
Increase/(decrease) in payables		**25.0**	(10.2)
Movement in provisions and employee benefits		**(7.1)**	(20.0)
Cash from operations		**34.7**	31.4
Interest received		**1.8**	1.0
Interest paid		**(1.7)**	(0.9)
Income tax received		**-**	0.2
Net cash from operating activities		**34.8**	31.7
Cash flows from / (used by) investing activities			
Dividends received from joint ventures and associates		**1.4**	0.1
Additions to property, plant and equipment		**(2.9)**	(1.1)
Additions to intangible assets		**(0.1)**	-
Proceeds of disposal of property, plant and equipment		**0.2**	3.8
Additions to loans to joint ventures and associates		**(13.5)**	(5.9)
Loan repayments by joint ventures and associates		**0.4**	0.5
Proceeds from sale of interest in joint venture		**0.3**	-
Proceeds from sale of subsidiary		**0.5**	-
Acquisitions of subsidiaries (net of cash and cash equivalents and overdrafts)		**(21.1)**	-
Net cash used by investing activities		**(34.8)**	(2.6)
Cash flows from / (used by) financing activities			
Issue of ordinary share capital		**1.5**	-
Ordinary dividends paid		**(5.8)**	(5.4)
Net cash used by financing activities		**(4.3)**	(5.4)
Net (decrease) / increase in cash, cash equivalents and overdrafts		**(4.3)**	23.7
Cash, cash equivalents and overdrafts at beginning of the year	10	**144.3**	120.5
Effect of foreign exchange rate changes		**0.1**	0.1
Cash, cash equivalents and overdrafts at end of the year	10	**140.1**	144.3

Notes to the financial statements

1 Basis of preparation

Costain Group PLC ("the Company") is a public limited company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Group and the Group's interests in associates and jointly controlled entities and have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted for use in the EU in accordance with EU law (IAS Regulation EC 1606/2002).

The financial information set out herein (which was authorised for issue by the directors on 7 March 2012 does not constitute the Company's statutory accounts for the years ended 31 December 2011 or 2010 but is derived from those accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies, and those for 2011 will be delivered in advance of the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to fully comply with IFRS.

The directors have acknowledged the guidance "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009. The directors have considered these requirements, the Group's current order book and future opportunities and its available bonding facilities. Having reviewed the latest projections, including the application of reasonable downside sensitivities, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

The only significant change to the accounting policies since the financial statements for the year ended 31 December 2010, is that following the acquisitions of ClerkMaxwell Limited and Promanex Group Holdings Limited, IFRS 3 'Business combinations' is applicable for the first time.

Significant areas of judgment and estimation

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of judgment and estimation arise from the accounting for defined benefit pension schemes under IAS 19 Employee benefits, the accounting for long-term contracts under IAS 11 Construction contracts, assessments of the carrying value of land and, from this year, the carrying value of goodwill and acquired intangible assets.

Defined benefit pension schemes require significant judgments in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary. The assumptions and resultant sensitivities are set out in Note 11.

The majority of the Group's activities are undertaken via long-term contracts and these contracts are accounted for in accordance with IAS 11, which requires estimates to be made for contract costs and revenues. In many cases, these contractual obligations span more than one financial period. Also, the costs and revenues may be affected by a number of uncertainties that depend on the outcome of future events and may require to be revised as events unfold and uncertainties are resolved.

Management bases its judgments of costs and revenues and its assessment of the expected outcome of each long-term contractual obligation on the latest available information, this includes detailed contract valuations and forecasts of the costs to complete. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates is then reflected in the financial statements.

Alcaidesa Holding SA, one of the Group's joint ventures, operates in the Spanish real estate market and holds land and property within its current and non-current assets. At 31 December 2011, a review of the net realisable value of each of its land holdings was undertaken, including the use of external valuations, and provisions, if considered necessary, have been reflected in these financial statements.

Reviewing the carrying value of goodwill and intangible assets recognised on acquisition requires judgments, principally, in respect of growth rates and future cash flows of cash generating units, the useful lives of intangible assets and the selection of discount rates used to calculate present values.

2 Operating segments

Segment information is based on 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 different services. This information is provided to the Chief Executive who is the chief operating decision maker.

Year ended 31 December 2011	**Environment**	**Infrastructure**	**Energy & Process**	**Land Development**	**Central**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Segment revenue						
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**
Segment profit						
Group operating profit/(loss)	**16.1**	**10.2**	**4.6**	**-**	**(6.8)**	**24.1**
Profit on sale of non-consolidated subsidiary	**0.5**	**-**	**-**	**-**	**-**	**0.5**
Profit on sales of joint ventures and associates	**0.3**	**-**	**-**	**-**	**-**	**0.3**
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 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**

Year ended 31 December 2010	Environment	Infrastructure	Energy & Process	Land Development	Central	Total
	£m	£m	£m	£m	£m	£m
Segment 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
Segment profit						
Group 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 sales 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

3. Profit on sale of interest in joint ventures and associates

The £11.2m profit on sale of interests on joint ventures and associates in 2010 relates to the transfer of a portfolio of six PFI investments to The Costain Pension Scheme for £22.0 million.

4 Net finance income / (expense)

	2011 £m	2010 £m
Interest income from bank deposits	**0.4**	0.4
Interest income on loans to related parties	**1.4**	0.6
Expected return on defined benefit pension scheme assets	**32.3**	29.7
Finance income	**34.1**	30.7
Interest payable on bank overdrafts and other similar charges	**(1.7)**	(0.9)
Interest cost on the present value of the defined benefit obligations	**(30.5)**	(31.3)
Finance expense	**(32.2)**	(32.2)
Net finance income/(expense)	**1.9**	(1.5)

Interest income on loans to related parties relates to shareholder loan interest receivable from investments in equity accounted joint ventures and associates.

5 Income tax

	2011 £m	2010 £m
On profit for the year:		
United Kingdom corporation tax at 26.5% (2010: 28.0%) - adjustments in respect of prior years	**0.1**	0.2
Current tax credit for the year	**0.1**	0.2
Deferred tax charge for the current year	**(5.9)**	(5.0)
Adjustments in respect of prior years	**0.6**	-
Deferred tax charge for the year	**(5.3)**	(5.0)
Income tax expense in the consolidated income statement	**(5.2)**	(4.8)
Effective rate of tax	**21.8%**	17.2%

	2011 £m	2010 £m
Tax reconciliation:		
Profit before tax	**23.9**	27.9
Income tax at 26.5% (2010: 28.0%)	**(6.3)**	(7.8)
Share of results of joint ventures and associates at 26.5% (2010: 28.0%)	**(0.3)**	(0.1)
Disallowed provisions and expenses	**(0.3)**	(0.9)
Non-taxable gains and profits relieved by capital losses	**0.3**	3.5
Utilisation of previously unrecognised temporary differences	**0.3**	0.8
Rate adjustments relating to deferred tax and overseas profits and losses	**0.4**	(0.5)
Adjustments in respect of prior years	**0.7**	0.2
Income tax expense in the consolidated income statement	**(5.2)**	(4.8)

The income tax above does not include any amounts for equity accounted joint ventures and associates, whose results are disclosed in the consolidated income statement net of tax.

6 Earnings per share

The calculation of earnings per share is based on profit of £18.7 million (2010: £23.1 million) and the number of shares set out below:

	2011 (millions)	2010 (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**64.1**	63.5
Dilutive potential ordinary shares arising from employee share schemes	**2.2**	1.7
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**66.3**	65.2

7 Dividends per share

	Dividend per share pence	**2011 £m**	2010 £m
Final dividend for the year ended 31 December 2009	5.5	**-**	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**	-
Interim dividend for the year ended 31 December 2011	3.25	**2.2**	-
Amounts recognised as distributions to equity holders in the year		**6.1**	5.5
Dividends settled in shares		**0.3**	0.1
Dividends settled in cash		**5.8**	5.4

A final dividend in respect of the year ended 31 December 2011 of 6.75p per share, amounting to a dividend of £4.4 million, is to be proposed at the Annual General Meeting. If approved, the dividend is expected to be paid on 25 May 2012 to shareholders registered at the close of business on 20 April 2012; a scrip dividend alternative will be offered. These financial statements do not reflect the final dividend payable.

8 Intangible assets

	Goodwill £m	**Customer relationships £m**	**Other acquired intangibles £m**	**Software & development £m**	**Total £m**
Cost					
At 1 January 2010	**-**	**-**	**-**	**5.0**	**5.0**
Additions	**-**	**-**	**-**	**-**	**-**
At 31 December 2010	**-**	**-**	**-**	**5.0**	**5.0**
At 1 January 2011	**-**	**-**	**-**	**5.0**	**5.0**
Additions through business combinations	**15.2**	**4.1**	**1.7**	**-**	**21.0**
Other additions	**-**	**-**	**-**	**0.1**	**0.1**
At 31 December 2011	**15.2**	**4.1**	**1. 7**	**5.1**	**26.1**

Amortisation

At 1 January 2010	-	-	-	4.0	4.0
Provided in year	-	-	-	0.9	0.9
At 31 December 2010	-	-	-	4.9	4.9
At 1 January 2011	-	-	-	4.9	4.9
Provided in year	-	0.7	0.2	-	0.9
At 31 December 2011	-	0.7	0.2	4.9	5.8
Net book value					
At 31 December 2011	**15.2**	**3.4**	**1.5**	**0.2**	**20.3**
At 31 December 2010	-	-	-	0.1	0.1
At 31 December 2009	-	-	-	1.0	1.0

9 Investments

The analysis of the Group's share of joint ventures and associates is set out below:

	2011				2010			
	Alcaidesa Holding SA £m	**Other joint ventures £m**	**Associates £m**	**Total £m**	Alcaidesa Holding SA £m	Other joint ventures £m	Associates £m	Total £m
Revenue	**1.5**	**80.4**	**35.9**	**117.8**	0.8	81.1	16.1	98.0
(Loss)/profit before tax	**(2.0)**	**0.2**	**0.8**	**(1.0)**	(2.5)	0.5	1.4	(0.6)
Income tax	**-**	**-**	**(0.3)**	**(0.3)**	0.7	(0.1)	(0.5)	0.1
(Loss)/profit for the year	**(2.0)**	**0.2**	**0.5**	**(1.3)**	(1.8)	0.4	0.9	(0.5)
Non-current assets	**20.9**	**-**	**1.0**	**21.9**	23.6	-	54.5	78.1
Current assets	**31.2**	**30.3**	**113.6**	**175.1**	32.7	21.4	18.9	73.0
Current liabilities	**(5.3)**	**(30.2)**	**(11.3)**	**(46.8)**	(15.5)	(20.7)	(6.9)	(43.1)
Non-current liabilities	**(25.5)**	**-**	**(101.9)**	**(127.4)**	(17.0)	-	(65.0)	(82.0)
Investments in joint ventures and associates	**21.3**	**0.1**	**1.4**	**22.8**	23.8	0.7	1.5	26.0

10 Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by jointly controlled operations of £33.6 million (2010: £33.8 million).

	2011 £m	2010 £m
Cash and cash equivalents	**141.7**	146.0
Bank overdrafts	**(1.6)**	(1.7)
Cash, cash equivalents and overdrafts in the cash flow statement	**140.1**	144.3

11 Pensions

The Group operates a defined benefit pension scheme in the United Kingdom and a number of defined contribution type pension plans in the United Kingdom and overseas. Contributions are paid by subsidiary undertakings and employees. The total pension charge for the Group in the Consolidated income statement was £3.5 million (2010: £8.1 million).

Defined benefit scheme

The defined benefit scheme was closed to new members on 1 June 2005 and from 1 April 2006, future benefits were calculated on a Career Average Revalued Earnings basis. The scheme was closed to future accrual of benefits to members on 30 September 2009. A full actuarial valuation of the scheme was carried out at 31 March 2010 and was updated to 31 December 2011 by a qualified independent actuary.

	2011	2010	2009
	£m	£m	£m
Present value of defined benefit obligations	**(600.8)**	(576.7)	(560.5)
Fair value of scheme assets	**547.9**	537.1	455.8
Recognised liability for defined benefit obligations	**(52.9)**	(39.6)	(104.7)

Movements in present value of defined benefit obligations:

	2011	2010
	£m	£m
At 1 January	**576.7**	560.5
Past service cost	**-**	1.2
Interest cost	**30.5**	31.3
Actuarial losses	**18.2**	8.5
Benefits paid	**(24.6)**	(24.8)
At 31 December	**600.8**	576.7

Movements in fair value of scheme assets:

	2011	2010
	£m	£m
At 1 January	**537.1**	455.8
Expected return on scheme assets	**32.3**	29.7
Actuarial (losses)/gains	**(3.9)**	33.1
Contributions by employer	**7.0**	43.3
Benefits paid	**(24.6)**	(24.8)
At 31 December	**547.9**	537.1

(Income)/Expense recognised in the income statement:

	2011	2010
	£m	£m
Past service cost	**-**	1.2
Interest cost on defined benefit obligations	**30.5**	31.3
Expected return on scheme assets	**(32.3)**	(29.7)
Total	**(1.8)**	2.8

Fair value of scheme assets

	2011	2010
	£m	£m
Equities	**173.9**	207.9
High yield bonds	**52.8**	54.0
Government bonds	**223.4**	131.2
Corporate bonds	**-**	53.0
Infrastructure and property	**43.7**	36.0
Absolute return funds and cash	**54.1**	55.0
Total	**547.9**	537.1

Principal actuarial assumptions (expressed as weighted averages):

	2011	2010
	%	%
Discount rate	**4.80**	5.40
Expected rate of return on scheme assets	**4.95**	6.11
Future pension increases	**2.90**	3.40
Inflation assumption	**3.00**	3.40

The expected rate of return on scheme assets is determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the scheme's investment portfolio.

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2011 and 31 December 2010 is:

	2011		2010	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Currently aged 65	**21.5**	**23.7**	21.4	23.6
Non-retirees	**24.4**	**25.6**	24.2	25.5

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	Pension Cost £m
Increase discount rate by 0.25%, decreases pension liability and increases pension cost by:	28.0	0.1
Decrease inflation (and pension increases) by 0.25%, decreases pension liability and reduces pension cost by:	25.1	1.2
Increase life expectancy by one year, increases pension liability and increases pension cost by:	15.5	0.7

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £5.3 million (2010: £5.3 million).

12 Acquisitions

On 6 April 2011, the Group purchased 75% of the share capital of ClerkMaxwell Limited (‘ClerkMaxwell') and entered in to a call option to acquire the remaining 25% between 26 April and 31 May 2011, which the Group exercised. The business, which is based in the UK provides front-end engineering and support services to the upstream oil and gas sector.

The initial consideration, including the cost of exercising the call option was £3.2 million. Further paymentsbased on an 8 times multiple of EBITDA, may also be payable after the completion of the results for the years to December 2012, 2013 and 2014. The specified percentage payable in respect of the results for the year increases each year.

The total estimated value of these future payments is £6.1 million. Part of the payment estimated at £1.3 million is based only on the financial performance in years 2011, 2012 and 2013. This has been included in the cost of acquisition (see below) and accounted as a financial liability based on a Level 3 valuation method. The balance of the payments, estimated at £4.8 million, are dependent on continued future service and, in accordance with IFRS 3, will be expensed to the income statement (2011 expense £0.4 million). The payments are dependent on the future performance and financial results and the £1.3 million provided as part of the cost of acquisition could range between £0.5 million and £2.1 million.

On 20 August 2011, the Group purchased the entire share capital of Promanex Group Holdings Limited ('Promanex') for a consideration of £14.6 million, including the repayment of loans provided by the principal shareholder. A management retention payment of £1.6 million was agreed, this will be normally payable on the second anniversary following completion and the cost is being charged to the income statement (2011 expense £0.3 million). Promanex provides a range of services across the UK and Ireland in management, operation, maintenance and repair of customers' sites and plant assets; water services; civils and industrial services and mechanical and electrical services.

The Group believes the acquisitions will broaden the Group's capabilities in ongoing care and maintenance and strengthens the Group's presence in key growth target markets, particularly power, nuclear process, hydrocarbons and chemicals and water, where significant investment is needed to meet national needs.

The contributions to revenue and operating profit before amortisation of acquired intangibles and employment related consideration within the Group's results of these acquisitions were ClerkMaxwell: revenue £5.2 million, operating profit £0.4 million and Promanex: revenue £23.5 million, operating profit £0.9 million.

The acquisitions had the following effect on the Group's assets and liabilities:

	ClerkMaxwell	**Promanex**	**Total**
	£m	**£m**	**£m**
Cash	3.2	14.6	17.8
Contingent consideration	1.3	-	1.3
Consideration	**4.5**	**14.6**	**19.1**
Acquired intangible assets - Customer relationships	0.2	3.9	4.1
Acquired intangible assets - Other	0.4	1.3	1.7
Property, plant and equipment	0.1	0.8	0.9
Cash	0.2	-	0.2
Other current assets	0.8	12.6	13.4
Bank overdraft	-	(3.5)	(3.5)
Other current liabilities	(0.7)	(10.9)	(11.6)
Deferred tax	(0.2)	(0.6)	(0.8)
Non-current liabilities	(0.1)	(0.4)	(0.5)
Fair value of assets acquired and liabilities recognised	**0.7**	**3.2**	**3.9**
Goodwill arising on acquisitions	**3.8**	**11.4**	**15.2**

Based on the provisional assessment of the recognised values of assets and liabilities, the goodwill arising on the acquisitions is expected to be £15.2 million.

Costs of £1.3 million were incurred by the Group in relation to the acquisitions and have been expensed in administrative expenses within the income statement.

13 Post balance sheet events

On 22 February 2012, the Group transferred two PFI investments into The Costain Pension Scheme at an agreed value of £20.3 million, generating a net book profit from the transaction of £10.2 million.

14 Related party transactions

The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and jointly controlled operations, in relation to the sales of construction services and materials and the provision of staff and with The Costain Pension Scheme. The total value of these services in 2011 was £133.1 million (2010: £131.2 million); transactions with The Costain Pension scheme are included in Note 11.

15 Forward-looking statements

The announcement contains certain forward-looking statements. The forward-looking statements are not intended to be guarantees of future performance but are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements.

16 Responsibility statements

The Company's statutory accounts for the year ended 31 December 2011 comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority in respect of the requirement to produce an annual financial report.

We confirm on behalf of the Board that to the best of our knowledge:

- the Company's financial statements for the year ended 31 December 2011 have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Business Review which is incorporated into the Directors' Report in those financial statements, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

On behalf of the Board:

D P ALLVEY
Chairman

ANDREW WYLLIE
Chief Executive