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

Interim results for the half-year ended 30 June 2009

Costain, the engineering and construction group, announces a strong overall performance with profit from operations up 11% and a record forward order book up 25% since the beginning of the year.

	H1 2009	H1 2008	FY 2008
Revenue*	£508.2m	£467.5m	£996.0m
Profit from operations	£8.3m	£7.5m	£18.3m
Profit before tax	£6.9m	£10.1m	£23.1m
Net cash	£119.2m	£133.2m	£146.6m
Earnings per share	0.9p	1.3p	2.9p
Dividend per share	0.275p	0.25p	0.75p

* Including share of joint ventures & associates

- Strategy delivering growth in profit from operations by focusing on customers with long-term investment programmes

- Profit from operations up 11% to £8.3 million (June 2008: £7.5 million)

- Profit before tax of £6.9 million (June 2008: £10.1 million) following previously anticipated reduction in net financing income

- Over £1 billion of new work secured during the six month period ended 30 June 2009 including:
  - Greater Manchester Waste Disposal Authority £397 million contract
  - Severn Trent AMP5 £400 million contract
  - Five-year £200 million joint venture maintenance Managing Agent Contract ("MAC") for Highways Agency
  - East and South East framework for Highways Agency
  - Advance works civil framework agreement for Crossrail

- High quality record order book giving longer-term revenue visibility
  - Increased by 25% to £2.5 billion (June 2008: £2.0 billion)
  - In addition, in excess of £700 million of preferred bidder positions (June 2008: £1.0 billion)
  - £690 million of 2010 revenue secured by 30 June 2009 (June 2008: £495 million for 2009)

- Further major contract awards since 30 June 2009 including:
  - United Utilities AMP5 £170 million contract extension
  - £297 million Evaporator D nuclear contract at Sellafield

- No significant debt and a strong net cash position of £119.2 million (June 2008: £133.2 million)

- Interim dividend increased by 10% to 0.275p (2008: 0.25p)

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

"Building on our strong performance in 2008, we have had a good first half of the year overall. Through our ongoing focus on customers with long-term investment programmes we have secured a number of major new contract wins totalling over £1 billion.

"As well as in established sectors such as water and highways, our strategy is also providing significant opportunities in new business areas, such as nuclear and waste, where tendering activity is increasing.

"We therefore entered the second half of the year with a record order book, robust finances and a net cash balance in excess of £100 million. We look forward to reporting continued progress at the year-end in line with the Board's expectations."

26 August 2009

ENQUIRIES:

Costain Group PLC **Tel: 01628 842 444**
Andrew Wyllie, Chief Executive
Tony Bickerstaff, Finance Director
Graham Read, Group Communications

College Hill **Tel: 020 7457 2020**
Mark Garraway
Adam Aljewicz

Chairman's and Chief Executive's Statement

Overview

We are pleased to report a strong start to the year. The Group continues to make excellent progress through the successful implementation of its 'Being Number One' strategy by focusing on securing and retaining blue-chip clients in sectors with long-term investment programmes.

This has delivered a record order book, an increase in revenue, growth in profit from operations and a strong net cash position.

Our targeted blue-chip customers have continued with their investment plans, despite the weak economic environment. We have had a number of significant contract successes across the business, including in the water, waste and nuclear sectors, where tendering activity is high and is projected to remain so. For example:

- In the water sector, the interim AMP5 determination by Ofwat has projected a capital spend in excess of £20 billion over the 2010-2015 period

- In waste, EU and UK legislation covering recycling targets and landfill taxes continue to drive an estimated £30 billion market through to 2030

- In nuclear, the decommissioning programme continues with an estimated £3 billion per annum spend over the next 3 years whilst, concurrently, the new build programme is gathering momentum offering significant opportunities over the medium term

Therefore, along with our continued success in other sectors, including highways and rail, we believe we are strongly positioned in those areas where there will be significant capital expenditure over the near to medium term.

We are especially pleased to report that Costain secured a number of industry awards in the period including the 2009 Supreme Award from Construction News. Since the period end, and for the second year in succession, we have won the Major Contractor of the Year award from New Civil Engineer. These are outstanding achievements and are testimony to the dedication and hard work of everyone at Costain.

Results

Revenue, including the Group's share of associates and joint ventures, for the half year ended 30 June 2009 was up 9% at £508.2 million (2008: £467.5 million). Profit from operations was £8.3 million (2008: £7.5 million), an increase of 11%, although profit before tax reduced to £6.9 million (2008: £10.1 million), due to an increased IAS 19 pension charge and a sharp drop in interest rates to historically low levels which reduced interest income generated from our strong cash balance. As a consequence of this reduced net financing income, earnings per share were 0.9 pence (2008: 1.3 pence).

Net cash at 30 June 2009 stood at £119.2 million (2008: £133.2 million). The difference from the prior period end reflects the timing of payments and receipts. Meanwhile, the average month end cash balance during the first six months of the year increased to £125.9 million (2008: £116.6 million).

Our order book at 30 June 2009 was £2.5 billion, a new record (2008: £2.0 billion). We also had in excess of a further £700 million in preferred bidder positions (2008: £1.0 billion) and the Group has already secured £690 million of revenue for 2010 (2008: £495 million for 2009).

Dividend

The Board has declared a 10% increase in the interim dividend to 0.275 pence per share (2008: 0.25 pence). The dividend will be paid on 30 October 2009 to those shareholders on the register as at 25 September 2009.

Pension

The deficit in the Group's legacy defined benefit pension scheme as at 30 June 2009 was £75.7 million net of deferred tax, an increase of £39.6 million from the position as at 31 December 2008. The change reflects an increase in future inflation expectations and a reduction in bond yields used to calculate the liabilities at the period end. The assumptions and sensitivities used in the valuation of the pension scheme are set out in Note 8 to the interim financial statements.

As part of our plan to manage the pension obligations and reduce volatility, we are approaching the end of a consultation process with staff regarding a proposal to close the defined benefit pension scheme to future accrual. The proposal to close the scheme follows the increasingly disproportionate risks and costs arising from a combination of factors including rising life expectancy, interest rate volatility and lower investment returns. It has been agreed with the trustee of the scheme to increase, with effect from April 2009, the monthly company contribution towards funding the scheme's deficit by £0.4 million to £0.9 million until the next formal actuarial valuation of the scheme, as at 31 March 2010, is finalised. This is in addition to our ongoing commitment to match dividend payments with an equivalent contribution to the pension fund.

Operational Review

In order to further align our organisation with our target customers, we have implemented a new reporting segmentation to reflect the Group's strategy, customer focus and organisational structure and which is set out in this operational review.

The Group's Civil Engineering operations, which account for over 85% of the Group's order book, have been reorganised into Environment (water, waste and marine) and Infrastructure (highways, airports, rail and nuclear) divisions reflecting the Group's focus on these strategically important growth activities. The Group's other activities being Community, Energy & Process and Land Development remain unchanged.

Environment

Revenue, including share of joint ventures and associates, during the period was £223.4 million (2008: £175.9 million), with a profit from operations of £7.8 million (2008: £3.7 million).

Revenue and operating profits improved significantly on last year reflecting an excellent performance in markets where Costain has strong positions. In 2008, significant investment was made in tendering for new work, particularly in the waste and water sectors, resulting in an increased order book, up 73% since 1 January 2009 to £1.3 billion.

Costain reinforced its position as the UK's leading asset management contractor in the water sector when it won, as part of the 4D consortium, a £225 million new capital delivery contract with Southern Water to manage the design and build of a new wastewater treatment works in the Brighton and Hove area.

The Group also won a major 10-year Asset Management Programme ("AMP") contract, worth an estimated £400 million, with Severn Trent, a new AMP customer, commencing with the AMP5 programme which begins in April 2010. Since the period end the Group has secured, from United Utilities, a £170 million extension to its contract for the AMP5 period.

In waste, Costain was awarded a £397 million contract to design and build municipal waste treatment infrastructure as part of the Greater Manchester Waste Disposal Authority's (GMWDA's) PFI Waste and Recycling Contract. The project, which is the largest municipal waste contract in Western Europe, includes the design, construction and commissioning of a total of 44 different facilities spread across 26 locations.

Progress on the major marine project for Hutchison to extend the port facilities at Felixstowe continues to programme.

Infrastructure

Revenue, including share of joint ventures and associates, during the period was £164.0 million (2008: £106.9 million), with a profit from operations of £6.8 million (2008: £8.1 million).

The significant increase in revenue reflects our focus on this area of activity and the operation delivered upper quartile industry margins. The profit in 2008 was exceptional, reflecting the receipt of a number of one off project bonuses for projects completed ahead of schedule.

The order book has been maintained since the beginning of the year at £0.9 billion and the level of tendering activity remains high.

Costain was awarded an Early Contractor Involvement (ECI) contract by Neath Port Talbot County Borough Council for the Port Talbot Peripheral Distributor Road ("PDR") Stage 2 project. The total construction budget for the scheme is £84 million. Design work started in March and the approximately three years of construction works are due to begin in Spring 2010.

The Group was awarded a number of contracts by the Highways Agency in the first half including the initial phase of the £85 million refurbishment of the M53 Bidston Moss viaduct. In addition, and reflecting the Group's increasing emphasis on maintenance activities, we secured in joint venture a position on a new managed works framework contract covering the East and South East of England. The contract will include maintenance and improvement works, including resurfacing roads and maintaining bridges. We also secured in joint venture the five-year £200 million Managing Agent Contract ("MAC") 12, our third such maintenance contract.

In rail, Costain, in joint venture, was selected as one of several contractors for Crossrail's advance works civils framework agreement, which has a potential value in excess of £250 million over a four-year period.

Work continued on the long-term contract for Manchester Airport Group and initial contracts were received from BAA for early works for upgrading facilities at Gatwick.

Progress has been maintained on a number of nuclear decommissioning projects at five facilities around the country and business development activities have commenced in anticipation of the nuclear new build programme.

Community

This division, which consists of our building operations for customers in the health, education and retail sectors, is being scaled down as we continue to re-allocate resources to more attractive opportunities.

As a consequence, revenue during the period, including share of joint ventures and associates, was down 47% at £77.7 million (2008: £146.9 million), with a loss from operations of £5.2 million (2008: loss £2.6 million).

The order book has reduced to £0.15 billion since the beginning of the year and now represents just 6% of the Group's total.

The loss reflects provisions taken for additional costs to complete a number of contracts together with restructuring costs and reduced overhead recovery as the operations are scaled down.

In line with our stated strategy of actively trading our PFI portfolio in order to invest in future opportunities, we disposed of our equity stake in the Shropshire PFI concession during the year resulting in a profit of £1.1 million. We continued to progress second phase projects on the two existing long-term Building Schools for the Future frameworks at Lewisham and Bradford.

Energy and Process

This division includes our engineering, procurement and project management activities in the nuclear, oil, gas and process markets.

Revenue, including share of joint ventures and associates, during the period was £42.5 million (2008: £37.2 million), with a profit from operations of £2.7 million (2008: £1.8 million).

The division has delivered an excellent first half performance with growth in revenue and profit at an increased margin and the order book has increased by 11% since 1 January 2009 to £0.13 billion. The division continues to offer significant opportunities for future growth.

Our nuclear engineering and design activity has delivered good results and we continue to develop this area of expertise as part of Costain's overall approach to this important market.

Since the period end, Costain was awarded a £297 million contract by Sellafield Ltd for the engineering, procurement and construction of the Evaporator D project, one of the largest nuclear projects in the UK, which will be used to expand Sellafield's ability to process nuclear waste material and ultimately reduce inventories at the site. The contract is an extension of an original Purchase Order awarded in September 2006 for Front End Engineering Design and is scheduled for completion in 2014. This project combines the in-house expertise from the Energy and Process, and Infrastructure divisions as an integrated solution for the customer.

Work progressed on two underground gas storage projects for GDF Suez and EON., This is strategically important to the UK given the relative lack of gas storage capacity.

The operation in Abu Dhabi continued to undertake a number of contracts on the Das Island facility.

Land Development

Revenue for the period was £0.6 million (2008: £0.6 million) with a loss after tax of £0.7 million (2008: loss of £0.6 million). The loss in the period reflects running costs similar to those in the prior period.

Alcaidesa Holding does not undertake direct residential development in Spain but has acquired over time a land bank for which it seeks to secure Master Plan approval and build infrastructure prior to selling on developable land to third parties.

As previously announced, activity has been scaled back until the Spanish development market improves.

Work on the construction of the 800-berth yacht marina and associated commercial development at La Linea de la Concepcion is progressing well. The first phase of the project, which is immediately adjacent to the Spanish border with Gibraltar, is on track to be completed in 2010. Since 30 June 2009, the first berth sales contracts have been exchanged and deposit monies received.

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 43 to 45 of the Group's Annual Report for 2008, 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.

Board

As previously announced, following the retirement of Mr Saad Shehata his position on the Board as representative of the MA Kharafi Group has been taken by Mr Samer Younis with effect from 23 June 2009.

Outlook

Building on our strong performance in 2008, we have had a good first half of the year overall. Through our ongoing focus on customers with long-term investment programmes we have secured a number of major new contract wins totalling over £1 billion.

As well as in established sectors such as water and highways, our strategy is also providing significant opportunities in new business areas, such as nuclear and waste, where tendering activity is increasing.

We therefore entered the second half of the year with a record order book, robust finances and a net cash balance in excess of £100 million. We look forward to reporting continued progress at the year-end in line with the Board's expectations.

DAVID ALLVEY
Chairman

ANDREW WYLLIE
Chief Executive

26 August 2009

Condensed consolidated income statement
Half-year ended 30 June, year ended 31 December

	Notes	**2009 Half-year £m**	2008 Half-year £m	2008 Year £m
Revenue (Group and share of joint ventures and associates)	3	**508.2**	467.5	996.0
Share of joint ventures and associates		**(31.8)**	(45.3)	(93.4)
Group revenue		**476.4**	422.2	902.6
Cost of sales		**(457.3)**	(403.2)	(861.3)
Gross profit		**19.1**	19.0	41.3
Administrative expenses		**(11.6)**	(12.2)	(21.8)
Group operating profit		**7.5**	6.8	19.5
Profit on sales of interests in joint ventures and associates		**1.1**	1.6	2.7
Share of results of joint ventures and associates	3	**(0.3)**	(0.9)	(3.9)
Profit from operations	3	**8.3**	7.5	18.3
Financial income	4	**13.1**	17.5	34.8
Finance costs	4	**(14.5)**	(14.9)	(30.0)
Net (finance costs)/financing income		**(1.4)**	2.6	4.8
Profit before tax		**6.9**	10.1	23.1
Income tax expense		**(1.4)**	(2.2)	(4.9)
Profit for the period attributable to equity holders of the parent	3	**5.5**	7.9	18.2
Earnings per share – basic	5	**0.9p**	1.3p	2.9p
Earnings per share – diluted	5	**0.9p**	1.2p	2.9p

During the period and the previous period and year, no businesses were acquired or disposed of 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

	2009 Half-year £m	2008 Half-year £m	2008 Year £m
Exchange differences on translation of foreign operations	**(5.1)**	2.0	9.7
Cash flow hedges:			
Group:			
Effective portion of changes in fair value during period	**(4.9)**	-	0.9
Net change in fair value of cash flow hedges transferred to profit or loss	**(0.9)**	-	-
Tax recognised on cash flow hedge components of other comprehensive income	**1.6**	-	(0.2)
Joint ventures and associates:			
Effective portion of changes in fair value (net of tax) during period	**5.1**	(2.3)	(10.9)
Joint ventures and associates disposed of during period	**(0.7)**	(0.4)	(0.7)
Actuarial losses on defined benefit pension scheme	**(60.3)**	(20.8)	(10.5)
Tax recognised on actuarial losses recognised in other comprehensive income	**16.9**	5.8	3.0
Other comprehensive income for the period	**(48.3)**	(15.7)	(8.7)
Profit for the period	**5.5**	7.9	18.2
Total comprehensive income for the period attributable to equity holders of the parent	**(42.8)**	(7.8)	9.5

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 2008	31.4	1.1	0.9	(1.8)	(4.2)	27.4
Total comprehensive income	-	-	2.0	(2.7)	(7.1)	(7.8)
Equity-settled share-based payments	-	-	-	-	0.5	0.5
Shares issued	0.2	0.4	-	-	-	0.6
Dividend paid	-	0.1	-	-	(3.2)	(3.1)
At 30 June 2008	31.6	1.6	2.9	(4.5)	(14.0)	17.6
Total comprehensive income	-	-	7.7	(8.2)	17.8	17.3
Shares issued	0.1	-	-	-	-	0.1
Dividend paid	-	0.1	-	-	(1.5)	(1.4)
At 31 December 2008	31.7	1.7	10.6	(12.7)	2.3	33.6
Total comprehensive income	**-**	**-**	**(5.1)**	**0.2**	**(37.9)**	**(42.8)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**0.7**	**0.7**
Dividend paid	**-**	**0.1**	**-**	**-**	**(3.2)**	**(3.1)**
At 30 June 2009	**31.7**	**1.8**	**5.5**	**(12.5)**	**(38.1)**	**(11.6)**

Condensed consolidated statement of financial position
Half-year ended 30 June, year ended 31 December

	Notes	**2009 Half-year £m**	2008 Half-year £m	2008 Year £m
Assets				
Non-current assets				
Property, plant & equipment	7	**11.5**	7.4	7.7
Intangible assets		**1.7**	2.3	1.8
Investments in joint ventures		**27.8**	30.7	32.2
Investments in associates		**1.9**	1.7	0.1
Loans to joint ventures		**8.7**	10.8	9.5
Loans to associates		**2.7**	1.0	0.9
Other receivables		**8.3**	6.5	6.0
Deferred tax assets		**36.0**	24.8	18.9
Total non-current assets		**98.6**	85.2	77.1
Current assets				
Inventories		**1.8**	4.1	1.6
Trade and other receivables		**174.6**	158.4	180.3
Cash and cash equivalents		**119.8**	133.5	147.3
Total current assets		**296.2**	296.0	329.2
Total assets		**394.8**	381.2	406.3
Equity				
Share capital	9	**31.7**	31.6	31.7
Share premium		**1.8**	1.6	1.7
Foreign currency translation reserve		**5.5**	2.9	10.6
Hedging reserve		**(12.5)**	(4.5)	(12.7)
Retained earnings		**(38.1)**	(14.0)	2.3
Total equity attributable to equity holders of the parent		**(11.6)**	17.6	33.6
Liabilities				
Non-current liabilities				
Retirement benefit obligations	8	**105.2**	67.2	50.2
Other payables		**4.8**	3.3	2.4
Provisions		**5.8**	8.1	8.0
Total non-current liabilities		**115.8**	78.6	60.6
Current liabilities				
Trade and other payables		**285.8**	279.6	305.0
Tax liabilities		**1.7**	1.7	1.7
Overdrafts		**0.4**	-	0.4
Interest bearing loans and borrowings		**0.2**	0.3	0.3
Provisions		**2.5**	3.4	4.7
Total current liabilities		**290.6**	285.0	312.1
Total liabilities		**406.4**	363.6	372.7
Total equity and liabilities		**394.8**	381.2	406.3

Condensed consolidated cash flow statement
Half-year ended 30 June, year ended 31 December

	2009 Half-year £m	2008 Half-year £m	2008 Year £m
Cash flows from operating activities			
Profit for the period	**5.5**	7.9	18.2
Adjustments for:			
Depreciation and amortisation	**1.3**	1.3	3.1
Financial income	**(13.1)**	(17.5)	(34.8)
Finance costs	**14.5**	14.9	30.0
Share-based payments expense	**0.7**	0.7	0.6
Income tax	**1.4**	2.2	4.9
Profit on sales of interests in joint ventures and associates	**(1.1)**	(1.6)	(2.7)
Share of results of joint ventures and associates	**0.3**	0.9	3.9
Amounts written off equity and loan to associate	-	-	0.4
Cash generated by operations before changes in working capital and provisions	**9.5**	8.8	23.6
(Increase)/decrease in inventories	**(0.2)**	(2.1)	0.4
Decrease/(increase) in receivables	**2.4**	(7.0)	(24.7)
(Decrease)/increase in payables	**(22.0)**	10.7	35.5
Movement in provisions and employee benefits	**(8.1)**	(3.8)	(11.5)
Cash (used)/generated by operations	**(18.4)**	6.6	23.3
Interest received	**1.0**	2.5	6.5
Interest paid	**(0.2)**	(0.2)	(0.7)
Net cash (used)/generated by operating activities	**(17.6)**	8.9	29.1
Cash flows from investing activities			
Dividends received from joint ventures	**-**	-	0.7
Additions to property, plant & equipment	**(5.5)**	(4.8)	(5.8)
Additions to intangible assets	**-**	-	(0.1)
Proceeds from sales of investment and interests in joint ventures and associates	**4.2**	5.0	5.0
Loans to joint ventures and associates	**(5.4)**	(6.2)	(11.7)
Net cash used in investing activities	**(6.7)**	(6.0)	(11.9)
Cash flows from financing activities			
Issue of ordinary share capital	**-**	0.6	0.7
Dividends paid	**(3.1)**	(3.1)	(4.5)
Proceeds from/(payment of) borrowings	**0.1**	(0.3)	(0.3)
Net cash used in financing activities	**(3.0)**	(2.8)	(4.1)
Net (decrease)/increase in cash and cash equivalents	**(27.3)**	0.1	13.1
Cash and cash equivalents at beginning of period	**146.9**	133.4	133.4
Effect of foreign exchange rate changes	**(0.2)**	-	0.4
Cash and cash equivalents at end of period	**119.4**	133.5	146.9

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 2008 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 237(2) or (3) of the Companies Act 1985.

After making enquiries, 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 2009 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 2008.

Except as described below, 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 2008.

The Board approved the unaudited interim financial statements on 25 August 2009.

The Group's principal risks and uncertainties are consistent with those noted in the Annual Report for the year ended 31 December 2008. Judgements made by management in the application of Adopted IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 11.

(i) Change in accounting policy

- IFRS 8 'Operating Segments' - as of 1 January 2009 the Group determines and presents segments based on the information that internally is provided to the Chief Executive who is the Group's chief operating decision maker. The segment information is presented in note 3. Previously, operating segments were determined and presented in accordance with IAS 14 'Segment Reporting'. Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

  Segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

- IAS 1 'Presentation of Financial Statements (revised 2007)' has been applied in the preparation of these condensed Group financial statements. The revised standard requires the presentation of a statement of changes in equity in the primary statements with information previously disclosed in a Capital and reserves note in the financial statements. In addition, the Group has elected to present a separate statement of financial performance and statement of comprehensive income. The revised standard also suggests certain changes in terminology which have been adopted in these condensed Group financial statements. The balance sheet has been renamed statement of financial position and the statement of recognised income and expense has been renamed statement of comprehensive income.

- IAS 23 'Borrowing Costs (revised 2007)' came into effect and was adopted in the current period but had no impact on the condensed Group financial statements.

(ii) Accounting policies for new transactions and events

- Accounting for non-vesting conditions in a share-based payment transaction.

All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Under IFRS 2, a cancellation of equity instruments is accounted for as an acceleration of the vesting period. Therefore, any amount unrecognised that would otherwise have been charged is recognised immediately, in the income statement. The effect of this guidance is to increase the charge to June 2009 by £0.2 million.

3. Business segment information

In the opinion of the directors, the operating segments are Environment, Infrastructure, Community, Energy & Process, and Land Development operations in Spain.

Half-year ended 30 June 2009	Environment £m	Infrastr-ucture £m	Community £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
Group revenue	**199.1**	**164.0**	**73.0**	**40.3**	**-**	**-**	**476.4**
Share of revenue of JVs and associates	**24.3**	**-**	**4.7**	**2.2**	**0.6**	**-**	**31.8**
Total revenue	**223.4**	**164.0**	**77.7**	**42.5**	**0.6**	**-**	**508.2**
Group operating profit/(loss)	**7.6**	**6.8**	**(6.3)**	**2.5**	**-**	**(3.1)**	**7.5**
Profit on sale of joint venture	**-**	**-**	**1.1**	**-**	**-**	**-**	**1.1**
Share of results of JVs and associates	**0.2**	**-**	**-**	**0.2**	**(0.7)**	**-**	**(0.3)**
Profit/(loss) from operations	**7.8**	**6.8**	**(5.2)**	**2.7**	**(0.7)**	**(3.1)**	**8.3**
Net finance costs							**(1.4)**
Income tax expense							**(1.4)**
Profit for the period							**5.5**

Half-year ended 30 June 2008	Environment £m	Infra-structure £m	Community £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
Group revenue	136.3	106.9	143.8	35.2	-	-	422.2
Share of revenue of JVs and associates	39.6	-	3.1	2.0	0.6	-	45.3
Total revenue	175.9	106.9	146.9	37.2	0.6	-	467.5
Group operating profit/(loss)	4.2	8.1	(4.4)	1.8	-	(2.9)	6.8
Profit on sale of associate	-	-	1.6	-	-	-	1.6
Share of results of JVs and associates	(0.5)	-	0.2	-	(0.6)	-	(0.9)
Profit/(loss) from operations	3.7	8.1	(2.6)	1.8	(0.6)	(2.9)	7.5
Net financing income							2.6
Income tax expense							(2.2)
Profit for the period							7.9

Year ended 31 December 2008	Environment £m	Infra-structure £m	Community £m	Energy & Process £m	Land Development £m	Central costs £m	Total £m
Group revenue	346.5	208.7	267.7	79.7	-	-	902.6
Share of revenue of JVs and associates	70.5	-	17.9	3.9	1.1	-	93.4
Total revenue	417.0	208.7	285.6	83.6	1.1	-	996.0
Group operating profit/(loss)	13.8	14.4	(8.5)	5.5	-	(5.7)	19.5
Profit on sale of associate/joint venture	-	-	2.7	-	-	-	2.7
Share of results of JVs and associates	(2.2)	-	0.6	-	(2.3)	-	(3.9)
Profit/(loss) from operations	11.6	14.4	(5.2)	5.5	(2.3)	(5.7)	18.3
Net financing income							4.8
Income tax expense							(4.9)
Profit for the period							18.2

During the half-year to 30 June 2009, the Group sold its interest in its joint venture, Integrated Care Solutions (Shropshire) Holdings Ltd, for a net cash consideration of £2.6 million received on 2 July 2009, generating a profit on disposal of £1.1 million.

In 2008, the Group sold its interest in its associate, Kent Education Partnership Ltd, for a net cash consideration of £5.0 million, generating a profit on disposal of £1.6 million in the first half of the year and sold its interest in its joint venture, Seafort Holdings Ltd, for a net cash consideration of £4.4 million generating a profit on disposal of £1.1 million in the second half of the year.

4. Net (finance costs) / financing income

Financial income includes the expected return on the assets of the pension scheme of £11.7 million (2008 half-year £14.2 million, 2008 year £28.3 million) and finance costs include the expected increase in the present value of the pension scheme liabilities of £14.2 million (2008 half-year £14.7 million, 2008 year £29.3 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. Earnings per share

The calculation of earnings per share is based on profit for the period of £5.5 million (2008 half-year £7.9 million, 2008 year £18.2 million) and the number of shares set out below:

	2009 Half-year Number (m)	2008 Half-year Number (m)	2008 Year Number (m)
Weighted average number of shares for basic earnings per share calculation	**633.5**	630.7	631.9
Dilutive potential ordinary shares:			
SAYE Scheme	**3.1**	1.9	2.1
Weighted average number of shares for fully diluted earnings per share calculation	**636.6**	632.6	634.0

6. Dividends

During the interim period, the 2008 final dividend of 0.5 pence (2008 half-year 0.5 pence, 2008 year 0.75 pence) per share was paid to shareholders (2009 half-year £3.1 million in cash and £0.1 million via scrip alternative (2008 half-year £3.1 million in cash and £0.1 million via scrip alternative, 2008 year £4.5 million and £0.2 million via scrip alternative)).

The proposed interim dividend of 0.275 pence (2008 0.25 pence) has not been included as a liability in these interim financial statements because it had not been approved at the period end date. The dividend totalling £1.7 million will be paid on 30 October 2009 to shareholders on the register at the close of business on 25 September 2009. A scrip dividend alternative will be offered.

7. Property, plant & equipment

During the interim period, the Group spent £5.5 million on plant and equipment (2008 half-year £4.8 million, 2008 year £5.7 million on plant and equipment and £0.1 million on leasehold property).

8. Retirement benefit obligations

	2009 Half-year £m	2008 Half-year £m	2008 Year £m
Present value of defined benefit obligations	**(492.3)**	(496.7)	(435.8)
Fair value of scheme assets	**387.1**	429.5	385.6
Recognised liability for defined benefit obligations	**(105.2)**	(67.2)	(50.2)

Movements in present value of defined benefit obligations:

	2009 Half-year £m	2008 Half-year £m	2008 Year £m
Opening balance	**435.8**	511.1	511.1
Current service cost	**1.2**	2.4	4.7
Past service cost	**0.6**	1.3	1.2
Interest cost	**14.2**	14.7	29.3
Actuarial gains	**49.2**	(24.9)	(94.6)
Benefits paid	**(10.5)**	(9.8)	(19.8)
Contributions by members	**1.8**	1.9	3.9
Closing balance	**492.3**	496.7	435.8

Movements in fair value of scheme assets:

	2009 Half-year £m	2008 Half-year £m	2008 Year £m
Opening balance	**385.6**	460.5	460.5
Expected return on scheme assets	**11.7**	14.2	28.3
Actuarial losses	**(11.2)**	(45.7)	(105.1)
Contributions by employer	**9.7**	8.4	17.8
Contributions by members	**1.8**	1.9	3.9
Benefits paid	**(10.5)**	(9.8)	(19.8)
Closing balance	**387.1**	429.5	385.6

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

	2009 Half-year %	2008 Half-year %	2008 Year %
Discount rate	**6.20**	6.70	6.60
Expected rate of return on scheme assets	**6.07**	6.14	6.07
Future salary increases	**3.20**	4.10	2.85
Future pension increases	**3.20**	4.10	2.85
Inflation assumption	**3.20**	4.10	2.85

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
Decrease discount rate by 0.2%, increases pension liability by	**19.0**
Decrease inflation (and pension increases) by 0.2%, decreases pension liability by	**15.4**
Increase life expectancy by one year, increases pension liability by	**12.3**

9. Share capital

Issued capital as at 30 June 2009 amounted to £31.7 million (2008 half-year £31.6 million, 2008 year £31.7 million).

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 Deferred 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 2009:

Arrangement	**LTIP 2009**	**DSBP 2009**
Date of grant	7 April 2009	7 April 2009
Number of instruments granted	6,794,439	7,583,743
Share price at date of grant	23.0p	23.0p
Contractual life	3 Years	3 Years
Vesting conditions	3 year service period & EPS targets of between 2.10p and 2.75p in 2011	3 year service period & profit from operations targets in 2009
Settlement	Shares	Shares
Fair value per granted instrument determined at the grant date	21.8p	21.8p

10. 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 2008.

11. Significant areas of judgement

The Directors consider that the significant areas of judgement, which may have a material effect on the Group's performance in the second half of the year, is unchanged from those identified on page 113 of Annual Report for the year ended 31 December 2008.

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

26 August 2009

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 2009 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 the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

S McCallion

for and on behalf of KPMG Audit Plc
Chartered Accountants
London
26 August 2009

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.

Scrip dividend scheme

A scrip dividend scheme will be offered in respect of the interim dividend. Those shareholders who have already elected to join the scheme will automatically have their interim dividend sent to them in this form. Shareholders wishing to join the scheme for the interim dividend (and all future dividends) should return their completed mandate form to the Registrar, Equiniti by 9 October 2009. Copies of the mandate form and the scrip dividend brochure can be downloaded from the Company's website www.costain.com or obtained from Equiniti by telephoning 0871 384 2268.

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

ShareGIFT

The Orr Mackintosh Foundation (ShareGIFT) operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available on the ShareGIFT Internet Site 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.