

# Costain Group PLC

(“Costain” or “the Group” or “the Company”)

Results for the year ended 31 December 2009

**Costain announces a strong operational performance, a record year-end order book and an increased dividend for the year. Further progress has been delivered by focusing on blue-chip customers with committed long-term investment programmes**

**The Group is also implementing the next stage of its strategy, ‘Choosing Costain’**

<b>Year ended 31 December</b>	<b>2009</b>	<b>2008</b>
Revenue*	£1,061.1m	£996.0m
Profit from operations	£20.8m	£18.3m
Profit before tax	£18.1m	£23.1m
Net cash	£120.5m	£146.6m
Earnings per share	2.3p	2.9p
Full year dividend	0.825p	0.75p

\* Including share of joint ventures & associates

- Revenue of £1,061.1 million (£996.0 million) exceeds £1 billion for first time in 16 years
- Profit from operations increased by 14% to £20.8 million (2008: £18.3 million)
- Profit before tax of £18.1 million (2008: £23.1 million)
- Strong net cash position of £120.5 million (2008: £146.6 million)
  - average month-end cash balance of £125.3 million during the year (2008: £117.4 million)
- Record year-end forward order book, up 30% at £2.6 billion (2008: £2.0 billion)
  - repeat order customers account for 84%
  - includes c. £900 million of secured work for 2010
- In addition, preferred bidder positions at year-end of over £400 million
  - increased to over £600 million since year-end
- Banking and bonding facilities recently extended to 2013 and increased by 20% to £345 million
- IAS 19 pension scheme deficit of £75.4 million, net of deferred tax, a similar level to the half-year (2008: £36.1 million)
  - defined benefit pension scheme closed to future accrual during the year
- Recommended final dividend of 0.55p, increasing total payout for the year by 10% to 0.825p (2008: 0.75p)

## **‘Choosing Costain’**

- Implementing the next stage of our strategy - ‘Choosing Costain’
- A commitment to delivering a full-service offering, from front-end engineering consultancy and design, through construction to maintenance
- Focussing on the Infrastructure, Environment, and Energy & Process markets where we will place emphasis on those blue-chip customers with repeat order commitments who are looking for solutions for each phase of the ‘life cycle’ of their assets

**David Allvey**, Chairman, commented:

***"This was an excellent overall operational performance. Once again, the Group has demonstrated its resilience in a difficult economic environment. We are confident that our position in markets underpinned by strategic capital expenditure, regulatory commitment or essential maintenance requirements will continue to stand us in good stead.***

***"With a record year-end order book, a significant amount of work already secured for 2010, a net cash balance of over £120 million and customers committed to long-term capital investment programmes, Costain is looking to the future with confidence. That confidence is reflected in the Board's recommendation to increase by 10% the total dividend for the year.***

***"Building on our success, we are now implementing the next stage of our strategy, 'Choosing Costain', which will ensure that the Group enhances its position as one of the leading players in the industry."***

**10 March 2010**

A video interview with Costain's Chief Executive Andrew Wyllie and Finance Director Tony Bickerstaff in which they discuss the 2010 preliminary results announcement can be viewed at [www.costain.com](http://www.costain.com)

## **CHAIRMAN'S STATEMENT**

### **Overview & Strategy**

I am delighted to report a strong Group performance in 2009. Indeed, in view of the very difficult economic environment, this was an excellent result.

The successful implementation of our 'Being Number One' strategy has underpinned the Group's progress over the last three years. It has also provided much needed resilience in these challenging times. We again finished the year with higher revenues, increased operating profits, a strong cash position, enhanced banking and bonding facilities, a record year-end order book and a growing reputation for delivery. This is a major achievement and one that stands us in good stead for the future.

Our strategy has been about a lot more than year-on-year performance. 'Being Number One' has enabled Costain to leverage the changing dynamics of the contracting sector and build a portfolio of blue-chip client relationships with customers who have committed long-term investment programmes and who are increasingly looking to work with a select group of preferred specialist service providers. These relationships, which generate a higher volume of repeat business, provide an increased level of long-term earnings visibility.

Costain is now in a strong position to take advantage of new opportunities arising from the ongoing structural changes in the sector and we are going to expand further Costain's market position across the design and engineering, construction, and operations and maintenance spectrum.

We have therefore invested time and effort over the last few months to develop our successful current strategy and are pleased to unveil 'Choosing Costain' which, whilst very much an evolution of 'Being Number One', is designed to enhance and change the spread of business and earnings profile of Costain over the medium term.

Our refined strategy is designed to ensure that Costain is the preferred choice of major blue-chip customers looking for an increasingly integrated service. Andrew Wyllie, in his Chief Executive's Review, sets out how 'Choosing Costain' is already being implemented.

### **Results**

Revenue for the year was £1,061.1 million (2008: £996.0 million). Profit from operations was £20.8 million (2008: £18.3 million), an increase of 14%.

Net financing expense amounted to £2.7 million (2008: income £4.8 million) which incorporated net interest income of £2.1 million (2008: £5.8 million) and a pension scheme related net interest cost of £4.8 million (2008: £1.0 million).

Profit before tax was £18.1 million (2008: £23.1 million), which, as anticipated, reflects the impact of reduced interest rates and the increased IAS 19 pension interest charge.

Basic earnings per share were therefore 2.3p (2008: 2.9p).

The Group has no significant borrowings and net cash balances at the year-end totalled £120.5 million (2008: £146.6 million), including the Group's share of cash held by construction joint venture arrangements of £36.0 million (2008: £34.2 million). The average month-end net cash balance during the year was £125.3 million (2008: £117.4m).

### **Dividend**

The Board is recommending the payment of a final dividend for the year of 0.55 pence per share. If approved at the forthcoming Annual General Meeting, the dividend will be paid on 21 May 2010 to shareholders on the register as at 23 April 2010. This would bring the total for the full year to 0.825 pence per share (2008: 0.75 pence), an increase of 10% over the prior year.

## **Pension**

As at 31 December 2009, the deficit in the UK Pension Scheme recorded in the Group's balance sheet in accordance with IAS 19 was £75.4 million, net of deferred tax (31 December 2008: £36.1 million).

During the year, the pension scheme asset value has increased as a result of a recovery in the global equity markets. However, this has been more than offset by an increase in liabilities due to an increase in inflationary expectations and a reduction in the liability discount rate.

The most recently completed actuarial valuation of the scheme was performed by the Scheme Actuary as at 31 March 2007. The current monthly Company contribution of £0.9 million towards funding the scheme's deficit will continue until the next formal actuarial valuation of the Scheme, as at 31 March 2010, is finalised.

As an important step in managing the pension obligation and reducing volatility, the defined benefit pension scheme was closed to future accrual from 30 September 2009. Costain now only offers a defined contribution scheme for employees.

## **Proposed Share Consolidation**

At the forthcoming annual general meeting of the Company, shareholders will be asked to approve a proposed share consolidation on the basis of one ordinary share in the Company with a nominal value of 50 pence each for every ten ordinary shares with a nominal value of 5 pence held on 6 May 2010.

The purpose of the share consolidation is, amongst other things, to reduce the volatility in the Company's share price, thereby enabling a more consistent valuation of the Company. Further details in respect of the proposed share consolidation will be set out in the Company's notice of annual general meeting. If approved by shareholders, it is expected that the share consolidation will become effective on 7 May 2010.

## **Board Changes**

The following Board changes were announced during the year.

Mr Saad Shehata, a non executive Director and nominee of Mohammed Abdulmohsin Al-Kharafi & Sons WLL ("Kharafi") retired from the Board with effect from 23 June 2009. Mr Samer Younis, also a nominee of Kharafi, was appointed to the Board as a non-executive Director with effect from the same date.

Mr Mohd Hussein Ab Hamid resigned from the Group Board with effect from 4 December 2009, following his retirement from the UEM Group of Companies ("UEM").

We thank both Saad and Hussein for their efforts and commitment to Costain over the years.

## **Staff**

On behalf of the whole Board, I would like to express our gratitude to all our colleagues at Costain. The excellent performance during the year is the result of the efforts of everyone at the Group and we recognise their hard work and dedication across the business.

## **Summary & Outlook**

This was an excellent overall operational performance. Once again, the Group has demonstrated its resilience in a difficult economic environment. We are confident that our position in markets underpinned by strategic capital expenditure, regulatory commitment or essential maintenance requirements will continue to stand us in good stead.

With a record year-end order book, a significant amount of work already secured for 2010, a net cash balance of over £120 million and customers committed to long-term capital investment programmes, Costain is looking to the future with confidence. That confidence is reflected in the Board's recommendation to increase by 10% the total dividend for the year.

Building on our success, we are now implementing the next stage of our strategy, 'Choosing Costain', which will ensure that the Group enhances its position as one of the leading players in the industry.

**DAVID ALLVEY**  
**Chairman**

**10 March 2010**

## **CHIEF EXECUTIVE'S REVIEW**

During the year we achieved further significant progress, consolidating our position as one of the UK's premier engineering and construction businesses.

In what was a challenging economic environment, we are pleased to report a growth in profit from operations, an increase in revenues, a significant increase in the order book, a strong net cash position and a recommendation to increase the dividend for the year.

Costain is recognised as a major industry player. In 2009, the business received numerous awards including "Major Contractor of the Year" from New Civil Engineer magazine for an unprecedented second successive year and the "Supreme Award" from Construction News.

The Group's operations continued to benefit from the deliberate focus on targeted blue chip customers whose major spending plans are underpinned by strategic national priorities in chosen sectors. Costain has a proven scale and capability to deliver complex solutions to major customers and as a result has entered 2010 with a strong order book and pipeline of opportunities.

Later in my review, I will set out in detail how we are building on our strong market position, how we will take advantage of the opportunities arising from what we expect to be a period of difficult economic conditions and, finally, how we are preparing for sustained economic recovery in the medium term.

First, to the year under review.

### **2009: Delivering Another Strong Performance**

The Group has continued to make good progress during the year, particularly against the backcloth of economic recession, with a number of key achievements. Of particular note:

- Revenue (including share of joint ventures and associates) exceeded £1 billion for the first time in 16 years
- Operating profits increased by 14%
- The Order Book at the year-end stood at £2.6 billion, up 30%, and underpins our long-term visibility
- We saw increased operating profits and revenue across our core Infrastructure, Environment and Energy & Process divisions
- Our strong net cash position was maintained at over £120 million
- The Board has recommended an increased final dividend

We have also taken robust action with our Community division, which we continue to scale down, and the Spanish Land Development operation which are not providing the required level of returns. Further details are set out in the Business Review.

### **Growth in Core Operations**

We have increased profits, revenues and the order books across all three of our core divisions: Environment, Infrastructure and Energy & Process.

The Environment division incorporates our activities in the water, waste and marine sectors. The division's order book increased by 66% to £1.3 billion as a result of securing a number of major long-term contract wins. With significant legislation and regulation in these markets, we expect a high level of investment to continue in these sectors over the coming years.

In the Infrastructure division, which incorporates our activities in the highways, rail and airports sectors, we continued to increase our highways maintenance activity which accounts for the majority of the Group's growing maintenance related activities which, in turn, now represent 13% of the Group's total Order Book. The division has a substantial pipeline of future work opportunities, including the Crossrail project in London.

The Energy & Process division, which undertakes work in the hydrocarbons and chemicals, nuclear processing and power sectors, had an excellent year. We secured further work on the major EVAP D nuclear decommissioning project at Sellafield. There is a growing recognition of the need to invest in UK energy infrastructure and, as a consequence, we see potential for further growth in this sector.

Our Land Development activity in Spain, which is a joint venture with Santander Bank, continued to be subject to very difficult market conditions and, as anticipated, no land transactions were completed. Meanwhile, construction of the marina, near Gibraltar, is nearing completion and, with the first berth sales having been secured, the facility will be operational by mid-2010.

The Community division, which encompasses our activities in the health, education and retail sectors, has been intentionally scaled down as we continue to allocate resources to more attractive opportunities. In line with our policy of trading our PFI equity portfolio to reinvest in bidding for new projects, we disposed of two equity stakes in the year.

A more detailed review of each operating division is contained within the Business and Operational Review.

### **Order Book: up 30% at £2.6 billion**

A 30% increase in the quality Order Book during a difficult year, is a major achievement. In addition, we ended the year with preferred bidder positions in excess of £400 million.

The Order Book includes £1.6 billion of new orders comprising a range of major contract wins across the business. Of particular note was the contract for the Greater Manchester Waste Disposal Authority, AMP 5 contracts for Severn Trent and United Utilities, the Evaporator D nuclear contract, and a further Highways Agency five-year Management Agent Contract (MAC) contract.

Given our strategic focus on blue chip customers with long-term or multi-project investment programmes, our repeat order level has remained well over 80%. We were also delighted to secure a number of major new customers during the year including Severn Trent Water.

The Order Book includes circa £900 million of work to be carried out in 2010, which is ahead of the equivalent figure at the start of last year. The larger, longer-term contracts being awarded to us by our customers provide significantly enhanced visibility of future revenues.

Since the year-end, we have continued to secure major new contracts and preferred bidder positions, including Welsh Water AMP 5 and, in various joint ventures, the A8 highways project in Northern Ireland, the Royal Oak tunnel portal for Crossrail, appointment to the £2.0 billion Highways Agency Major Project Framework and the MAC 14 five-year highways maintenance contract. As a consequence, the order book has been maintained at £2.6 billion and our preferred bidder position has increased to over £600 million. Market conditions are expected to remain challenging but, as a result of our strategy, we have a good pipeline of opportunities and our bidding teams remain fully occupied.

### **Strong Finances**

The Group is in a healthy financial position.

We maintained a strong net cash position, which at the end of the year was £120.5 million. The average month end cash balance increased to £125.3 million, up from an average of £117.4 million in 2008. The Group has no significant borrowings.

Our banking and bonding facilities have recently been extended to 2013, and increased by 20% to £345 million. We therefore have the necessary headroom available to capitalise on market opportunities as they arise and achieve our longer-term strategic objectives.

## **Health, Safety and the Environment**

Costain places the highest priority on the effective management of Health, Safety and the Environment. The Group has a policy requiring all staff and supply chain partners to possess an appropriate safety competency card and members of the Board demonstrated leadership in this respect by obtaining their CSCS card.

Further improvement in performance was achieved in the year, with the Group Accident Frequency Rate (AFR) reducing from 0.17 to 0.16, which continues to compare favourably with our major contractor peer group. We remain fully committed to continue to achieve improvements in this performance in the future.

## **People**

Our people are core to the development and success of Costain and we have some of the best people in the industry. We are investing across the organisation to ensure that we continue to have the skills and resources necessary to deliver exceptional business performance. This investment in training and development, with a focus on providing opportunities and advancement, means that Costain is increasingly recognised as an "employer of choice".

A key initiative in 2009 was the introduction of a new on-line "Performance Review and Career Development" review process which is already providing better and more comprehensive management information for managing the business.

## **Building On Success: 'Choosing Costain'**

The Group's 'Being Number One' strategy, successfully implemented since 2006, has established Costain as one of the UK's leading engineering and construction businesses.

The Group's success has provided it with a platform that, alongside the ongoing and rapid changes taking place in the Group's marketplace, presents Costain with the opportunity to further consolidate its position and to target the delivery of an even more ambitious development strategy.

Therefore, we are now implementing our 'Choosing Costain' strategy, which provides a blueprint for the Group's next stage of development in line with the significant changes in the industry that Costain expects to take place over the next decade.

The way in which we work and our commitment to increasingly deliver a full-service offering, from front-end engineering consultancy and design, through construction to maintenance. This will reinforce Costain as the number one choice. It will help to ensure that customers, partners, staff, suppliers and investors will continue to make the informed choice to work successfully with Costain.

'Choosing Costain', whilst evolutionary in nature, is a strategy based on established success and provides an ambitious vision for the further development of the Costain Group.

### **'Choosing Costain'**

Our vision is to be one of the UK's top solutions providers, with the scale and resources to successfully meet the increasingly complex and challenging needs of major customers.

Costain will continue to focus its efforts on customers with major multi-billion pound strategic investment programmes which, irrespective of economic environments, are core to the UK's sustainable "life support systems" and are therefore deemed essential.

Over the next decade, we believe that those programmes will be primarily in three growth markets:-

- |                  |   |
|------------------|---|
| Infrastructure   | - particularly Highways, Rail and Airports                  |
| Environment      | - particularly Water and Waste                              |
| Energy & Process | - particularly Nuclear, Power, and Hydrocarbons & Chemicals |

In these markets we will place emphasis on those large blue-chip customers with repeat order commitments who are looking for solutions for each phase of the "life-cycle" of their assets.

These large customers are imposing increasingly strict criteria in selecting their preferred contractors. In particular, customers are looking for contractors capable of providing the full “life-cycle” of services. This process is in turn creating significant barriers to entry. In order to succeed, it is essential that Costain has the scale and ability to deploy the resources required by such customers.

Consequently, Costain will look to build on its current strengths – and broaden and improve the quality of earnings streams – by accelerating the development of an integrated front-end engineering consultancy and back-end care and maintenance operations to sit either side of our proven strength in construction:

Consulting – one of the fastest growing areas of the Costain business  
Construction – strong market position with world class expertise in delivering major complex projects  
Care – operations and maintenance, already 13% of our Group order book

The ‘Choosing Costain’ strategy provides significant opportunity for growth by developing our capability across the full life-cycle of products for our customers. In addition, we can deliver an over-arching solution through a concession or private finance approach.

Resources will always be targeted on those opportunities that provide the greatest potential return at an acceptable risk profile.

The primary geographic focus of the business in the medium term will be the UK although international opportunities will be pursued in line with this customer focused strategy, particularly in the Energy and Process related activities.

It is anticipated that the growth aspirations and ambition for the business will be achieved by organic growth and by suitable acquisitions in line with strategy.

### **Why Choose Costain?**

Costain’s competitive advantage has been built on its ability to understand the complex business needs of its large customers and to develop cost effective, innovative and technically robust solutions to those business requirements. We then mobilise the necessary technical, consultancy, process, human and financial resources to integrate and consistently deliver the resulting major projects and frameworks to time, budget and quality, thus providing real value for money.

Our solutions to customers will be delivered under the single unifying Costain brand. Coordination of separate business activities will be done internally to ensure that the customer is presented with an integrated service and a single senior point of contact within Costain.

We must continue to attract and retain the very best people if we are to deliver on our strategic objectives. The ‘Choosing Costain’ strategy provides a wide range of career opportunities and the scope for our people to grow. They will be suitably rewarded for delivering outstanding performance.

The way in which we work and our continuing commitment to deliver on our promises will also help ensure that customers, partners, staff, suppliers and investors will choose to work successfully with Costain in the future.

The Costain values represent the essence of the business and set the benchmark of performance for our people. They give direction and structure to everything we do and adherence to these values is paramount.

It is our unswerving commitment and compliance to these principles that allows us to achieve excellence in performance.

## **Summary**

We can be pleased with the strong business performance delivered in 2009, particularly in view of the difficult macroeconomic conditions we faced. Costain has once again demonstrated its resilience.

Looking ahead, our continued success will be built on our leading positions in markets that are underpinned by strategic capital expenditure, regulatory commitment and essential maintenance requirements.

We have come a long way in a few years. Our 'Being Number One' strategy has delivered significant value. It is now time to build on that success and, despite the current economic environment which we expect to continue, we are excited at the opportunities that lie ahead.

Our 'Choosing Costain' strategy is designed both to reinforce further the Group's resilience in difficult times and to prepare for the opportunities we expect to materialise as economic recovery starts to take hold.

The economic environment remains challenging but, with a strong operational business and a strategy for the ongoing development of the Group, we are looking to the future with confidence.

**ANDREW WYLLIE**

**Chief Executive**

**10 March 2010**

## **BUSINESS & OPERATIONAL REVIEW**

### **Environment**

The Environment division, which accounts for 50% of the Group's Order Book, includes Costain's water, waste and marine activities.

Revenue (including share of joint ventures and associates) for the year was £426.1 million (2008: £417.0 million), with an operating profit of £11.7 million (2008: £11.6 million). The division's year-end order book was £1.3 billion (2008: £0.8 billion), an increase of over 60%.

This strong performance reflects Costain's established position as a leader in the delivery of the UK's environmental projects.

In Water, the Group continued delivery of major AMP4 programmes of clean and waste water schemes for Yorkshire Water, Welsh Water, United Utilities, Thames Water, Bristol Water and Southern Water.

It was a significant year in terms of securing major contracts under the fifth five-year Asset Management Programme (AMP5) which runs from 2010 to 2015. Following outstanding delivery across all of our existing AMP4 contracts, Costain has continued to be successful in renewing and securing new AMP 5 contracts. During 2009 we renewed the relationship with United Utilities for another five years and secured a £400 million 10-year framework for new AMP customer, Severn Trent Water. Since the year-end we have also renewed the relationship with Welsh Water for a further five years.

During the year, Costain, in joint venture, was also awarded the £225 million Brighton & Hove waste water treatment works contract for Southern Water.

This combination of major projects and framework contracts provides the Group with a significant long-term earnings stream.

In Waste, continued growth and expansion was underlined in the first half of 2009 with the award of the £400 million Greater Manchester Waste Authority contract, the largest waste services contract in Europe. This was secured by leveraging Costain's complementary skills in waste and process engineering and provides a firm platform for future growth. Costain is currently actively engaged in submission of PFI proposals for major waste facilities and further opportunities in this growing sector.

In Marine, the Felixstowe South Reconfiguration project is well advanced and is due to be completed in December 2010. This project, for a 730m deepwater container quay, will also provide 32 hectares of associated container yard and port service areas. St. Germans pumping station is now entering the commissioning phase, with the main building completed, representing the second largest pumping station in Europe.

During the year, the Costa Azul breakwater project in Mexico was completed.

Costain's marine capability significantly enhances its competitive advantage in a number of key sectors, including nuclear and power.

### **Infrastructure**

The Infrastructure division accounts for 38% of the Group's Order Book and includes Costain's highways, rail and airports activities.

Revenue (including share of joint ventures and associates) was £364.8 million (2008: £208.7 million), with an operating profit of £16.9 million (2008 £14.4 million). The division's year-end order book increased by 10% to £1.0 billion (2008: £0.9 billion).

Costain continues to build on its strong market leading position in infrastructure and this performance reflects the Group's reputation for premium quality delivery of large-scale projects in this sector. The

Group's achievements in infrastructure demonstrate a good delivery record and also provide confidence that Costain is in an advantageous position to secure continued progress in these sectors on schemes such as Crossrail, the Highways Agency's Managed Motorway Programme, London Underground's station enhancement programme and new Nuclear Power Stations to support the continued and growing investment by customers in the infrastructure markets.

The Group had another good year in the Highways sector with a number of new awards. Significantly Costain's Highways Operations and Maintenance joint venture is now the leading supplier to the UK's Highways Agency and currently is responsible for maintaining approximately one third of the Agency's UK motorway and road network.

At the beginning of 2009, Costain delivered both the major M27 widening schemes at J11/12 and J3/4, ahead of schedule and budget. The Group also commenced the first of the Highways Agency's Managed Motorway Programme projects on the M1 between Junctions 10 to 13 following on from the its Early Contractor Involvement contract to develop the scheme.

In Rail, Costain successfully completed the refurbishment of the Grade 1 listed King's Cross Station Eastern Range for Network Rail and achieved all 'key output zero' deliverables at Farringdon Station on the ambitious Thameslink programme. The Group delivered a major part of London Underground's 'Cooling the Tube' programme on the Victoria line including fans to remove some 120m<sup>3</sup> of warm air per second.

In Airports, Costain is a preferred contractor at Gatwick and working on site at the airport's North Terminal. The Group has secured the renewal of its successful five-year framework with the Manchester Airport Group.

## **Community**

The Community division includes the Group's reduced health, education and retail activities.

Revenue (including share of joint ventures and associates) for the year was £167.8 million (2008: £285.6 million), with an operating loss of £8.4 million (2008: loss of £5.2 million).

The substantial reduction in revenue reflects the previously announced decision to scale down the division as we continue to re-allocate resources to more attractive opportunities. The increased loss reflects additional costs necessary to complete a number of projects 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 stakes in two PFIs during the year resulting in a combined profit of £2.0 million.

In Health, a number of healthcare projects were successfully completed including the remaining two of the three 3-Shires PFI batch of hospitals and five new ProCure21 facilities.

In Education, Costain, in joint venture partnership, achieved financial close on four further secondary schools in Bradford under the Government's 'Building Schools for the Future' ('BSF') programme. Two schools under the Lewisham BSF have been completed and delivered and the first Phase 2 school has commenced on site.

In Retail, construction of the new development in Gracechurch Street is expected to complete in the second half of 2010 and the Newbury Parkway town centre redevelopment project is expected to complete in 2011.

## **Energy & Process**

Revenue (including share of joint ventures and associates) for the year was £101.2 million (2008: £83.6 million) with an operating profit of £9.3 million (2008: £5.5 million). The division's order book increased 57% to £180 million (2008: £115 million).

The division saw further success in 2009, building on the progress made in the prior year, and continues to see major opportunities for future growth. The division comprises three core activities including Hydrocarbons & Chemicals, Nuclear and Power. During the year, final agreement was reached on the completed Pemex Project in Mexico.

During the year, Costain completed the Brine & Water Plant associated with the Storengy (GDF SUEZ) Underground Gas Storage Facility at Stublach in Cheshire. At the neighbouring Holford underground gas storage site, Costain is delivering the Gas Plant on a similar facility for E.ON.

In Nuclear, significant progress has been made on the engineering and construction of the Evaporator D project at Sellafield, one of the UK's largest nuclear decommissioning projects. The Group continues to build its capability in this sector and currently has in excess of 300 specialists based in Manchester.

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

Costain's ability to bring innovative and effective solutions to complex problems is a significant attraction to customers in the energy and process market. Additional key resources have been added to the team as part of our continued investment to significantly grow our activity in this area.

## **Land Development**

Revenue for the year was £1.2 million (2008: £1.1 million) with a loss after tax of £2.6 million (2008: loss of £2.3 million). The loss in the year represents operating and interest costs and a land value write down.

As previously reported, the real estate market in Spain has been significantly impacted by the global recession. The Group's joint venture development company, Alcaidesa, continues to secure infrastructure development planning consents on its land bank. This process adds long-term value to the land bank and will facilitate land sales to developers as the market improves.

The construction of the 600-berth yacht marina, adjacent to Gibraltar, is on target and is expected to be operational in Summer 2010. We have started forward selling and letting berths and the Group is looking at opportunities to develop associated commercial activities subject to pre-lettings.

An external assessment of the book value of land held has been carried out and, as a consequence, a small write down on one piece of land due to market conditions and planning constraints was necessary.

Results for the year ended 31 December 2009

### Consolidated income statement

Year ended 31 December

	Notes	2009 £m	2008 £m
Revenue (Group and share of joint ventures and associates)	2	<b>1,061.1</b>	996.0
Share of joint ventures and associates	7	<b>(67.7)</b>	(93.4)
<b>Group revenue</b>		<b>993.4</b>	902.6
Cost of sales		<b>(949.2)</b>	(861.3)
Gross profit		<b>44.2</b>	41.3
Administrative expenses		<b>(22.2)</b>	(21.8)
<b>Group operating profit</b>		<b>22.0</b>	19.5
Profit on sales of interests in joint ventures and associates		<b>2.0</b>	2.7
Share of results of equity accounted joint ventures and associates	7	<b>(3.2)</b>	(3.9)
<b>Profit from operations</b>	2	<b>20.8</b>	18.3
Finance income	3	<b>26.0</b>	34.8
Finance costs	3	<b>(28.7)</b>	(30.0)
Net finance (expense)/income		<b>(2.7)</b>	4.8
<b>Profit before tax</b>		<b>18.1</b>	23.1
Income tax expense	4	<b>(3.5)</b>	(4.9)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>14.6</b>	18.2
Earnings per share - basic	5	<b>2.3p</b>	2.9p
Earnings per share - diluted	5	<b>2.3p</b>	2.9p

During the year and the previous year, no businesses were acquired. 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 (expense) / income

Year ended 31 December

	Notes	2009 £m	2008 £m
<b>Profit for the year</b>	2	<b>14.6</b>	18.2
Exchange differences on translation of foreign operations		<b>(3.6)</b>	9.7
Cash flow hedges:			
Group			
Effective portion of changes in fair value during year		<b>(0.4)</b>	0.9
Net change in fair value of cash flow hedges transferred to retained earnings		<b>(0.9)</b>	0.1
Tax recognised on changes in fair value		<b>0.4</b>	(0.3)
Joint ventures and associates			
Effective portion of changes in fair value (net of tax) during year		<b>2.7</b>	(10.9)
Disposed during year (net of tax)		<b>1.9</b>	(0.7)
Actuarial losses on defined benefit pension scheme		<b>(67.4)</b>	(10.5)
Tax recognised on actuarial losses recognised directly in equity		<b>18.9</b>	3.0
<b>Other comprehensive expense for the year</b>		<b>(48.4)</b>	(8.7)
<b>Total comprehensive (expense) / income for the year attributable to equity holders of the parent</b>		<b>(33.8)</b>	9.5

## Consolidated statement of changes in equity

As at 31 December

	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
Comprehensive income / (expense)	-	-	9.7	(10.9)	10.7	9.5
Share-based payments	-	-	-	-	0.5	0.5
Shares issued	0.2	0.5	-	-	-	0.7
Dividend paid	0.1	0.1	-	-	(4.7)	(4.5)
At 31 December 2008	<b>31.7</b>	<b>1.7</b>	<b>10.6</b>	<b>(12.7)</b>	<b>2.3</b>	<b>33.6</b>
At 1 January 2009	<b>31.7</b>	<b>1.7</b>	<b>10.6</b>	<b>(12.7)</b>	<b>2.3</b>	<b>33.6</b>
Comprehensive income / (expense)	-	-	<b>(3.6)</b>	<b>3.7</b>	<b>(33.9)</b>	<b>(33.8)</b>
Share-based payments	-	-	-	-	<b>1.1</b>	<b>1.1</b>
Dividend paid	-	<b>0.2</b>	-	-	<b>(4.9)</b>	<b>(4.7)</b>
At 31 December 2009	<b>31.7</b>	<b>1.9</b>	<b>7.0</b>	<b>(9.0)</b>	<b>(35.4)</b>	<b>(3.8)</b>

## Consolidated statement of financial position

As at 31 December

	Notes	2009 £m	2008 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant & equipment		11.5	7.7
Intangible assets		1.0	1.8
Investments in joint ventures		27.2	32.2
Investments in associates		1.6	0.1
Loans to joint ventures		12.8	9.5
Loans to associates		2.5	0.9
Other receivables		12.7	6.0
Deferred income tax assets		34.6	18.9
<b>Total non-current assets</b>		<b>103.9</b>	<b>77.1</b>
<b>Current assets</b>			
Inventories		2.4	1.6
Trade and other receivables		201.9	180.3
Cash and cash equivalents	8	120.8	147.3
<b>Total current assets</b>		<b>325.1</b>	<b>329.2</b>
<b>Total assets</b>		<b>429.0</b>	<b>406.3</b>
<b>EQUITY</b>			
Share capital		31.7	31.7
Share premium		1.9	1.7
Foreign currency translation reserve		7.0	10.6
Hedging reserve		(9.0)	(12.7)
Retained earnings		(35.4)	2.3
<b>Total equity attributable to equity holders of the parent</b>		<b>(3.8)</b>	<b>33.6</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Retirement benefit obligations	9	104.7	50.2
Other payables		4.5	2.4
Provisions for other liabilities and charges		3.1	8.0
<b>Total non-current liabilities</b>		<b>112.3</b>	<b>60.6</b>
<b>Current liabilities</b>			
Trade and other payables		313.3	305.0
Income tax liabilities		1.7	1.7
Overdrafts	8	0.3	0.4
Interest bearing loans and borrowings		-	0.3
Provisions for other liabilities and charges		5.2	4.7
<b>Total current liabilities</b>		<b>320.5</b>	<b>312.1</b>
<b>Total liabilities</b>		<b>432.8</b>	<b>372.7</b>
<b>Total equity and liabilities</b>		<b>429.0</b>	<b>406.3</b>

## Consolidated cash flow statement

Year ended 31 December

	Notes	2009 £m	2008 £m
<b>Cash flows from operating activities</b>			
<b>Profit for the year</b>		<b>14.6</b>	18.2
Adjustments for:			
Depreciation of property, plant & equipment		<b>2.7</b>	2.1
Amortisation of intangible assets		<b>0.9</b>	1.0
Finance income	3	<b>(26.0)</b>	(34.8)
Finance costs	3	<b>28.7</b>	30.0
Share-based payments expense		<b>1.1</b>	0.6
Income tax	4	<b>3.5</b>	4.9
Profit on sales of interests in joint ventures and associates		<b>(2.0)</b>	(2.7)
Share of results of joint ventures and associates	7	<b>3.2</b>	3.9
Amounts written off equity and loan to associates	7	<b>-</b>	0.4
<b>Cash from operations before changes in working capital and provisions</b>		<b>26.7</b>	23.6
(Increase) / decrease in inventories		<b>(0.8)</b>	0.4
Increase in receivables		<b>(32.7)</b>	(24.7)
Increase in payables		<b>9.1</b>	35.5
Movement in provisions and employee benefits		<b>(18.4)</b>	(11.5)
<b>Cash from operations</b>		<b>(16.1)</b>	23.3
Interest paid		<b>(0.5)</b>	(0.7)
Income tax received		<b>0.1</b>	-
<b>Net cash from operating activities</b>		<b>(16.5)</b>	22.6
<b>Cash flows used by investing activities</b>			
Interest received		<b>2.6</b>	6.5
Dividends received from joint ventures and associates		<b>0.6</b>	0.7
Additions to property, plant & equipment		<b>(7.2)</b>	(5.8)
Additions to intangible assets		<b>(0.1)</b>	(0.1)
Proceeds of disposal of property, plant & equipment		<b>0.4</b>	-
Proceeds from sales of interests in joint ventures and associates		<b>8.7</b>	5.0
Additions to investment in joint ventures and associates		<b>(0.2)</b>	-
Loan repayments by joint ventures and associates		<b>0.7</b>	-
Additions to loans to joint ventures and associates		<b>(9.7)</b>	(11.7)
<b>Net cash used by investing activities</b>		<b>(4.2)</b>	(5.4)
<b>Cash flows used by financing activities</b>			
Issue of ordinary share capital		<b>-</b>	0.7
Ordinary dividends paid		<b>(4.7)</b>	(4.5)
Repayment of borrowings		<b>(0.3)</b>	(0.3)
<b>Net cash used by financing activities</b>		<b>(5.0)</b>	(4.1)
<b>Net (decrease) / increase in cash, cash equivalents and overdrafts</b>		<b>(25.7)</b>	13.1
<b>Cash, cash equivalents and overdrafts at beginning of the year</b>	8	<b>146.9</b>	133.4
Effect of foreign exchange rate changes		<b>(0.7)</b>	0.4
<b>Cash, cash equivalents and overdrafts at end of the year</b>	8	<b>120.5</b>	146.9

## 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 2009 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 9 March 2010) does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008 but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies, and those for 2009 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 Group has negative shareholders' equity at 31 December 2009 arising from market movements on the Group's defined benefit pension scheme. This is a long-term liability and does not adversely impact the short-term financial requirements of the Group. 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.

#### (i) Changes 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 2. 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.
- 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 the information previously disclosed in a Capital and reserves note in the financial statements. In addition, the Group has elected to present a separate income statement 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.

## Notes to the financial statements – continued

### 2 Business and geographical segment information by origin

From 1 January 2009, segment information is based on the information provided to the Chief Executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers or offer different services.

<b>Year ended 31 December 2009</b>	<b>Environment £m</b>	<b>Infrastructure £m</b>	<b>Community £m</b>	<b>Energy &amp; Process £m</b>	<b>Land Development £m</b>	<b>Central £m</b>	<b>Total £m</b>
Group revenue	376.2	364.8	155.7	96.7	-	-	993.4
Share of revenue of JVs and associates	49.9	-	12.1	4.5	1.2	-	67.7
<b>Total segment revenue</b>	<b>426.1</b>	<b>364.8</b>	<b>167.8</b>	<b>101.2</b>	<b>1.2</b>	<b>-</b>	<b>1,061.1</b>
Group operating profit/(loss)	13.1	16.9	(11.0)	9.1	-	(6.1)	22.0
Profit on sales of JVs and associates	-	-	2.0	-	-	-	2.0
Share of results of JVs and associates	(1.4)	-	0.6	0.2	(2.6)	-	(3.2)
<b>Segment result</b>	<b>11.7</b>	<b>16.9</b>	<b>(8.4)</b>	<b>9.3</b>	<b>(2.6)</b>	<b>(6.1)</b>	<b>20.8</b>
Net finance cost							(2.7)
<b>Profit before tax</b>							<b>18.1</b>
<b>Reportable segment assets</b>	<b>99.6</b>	<b>76.7</b>	<b>19.1</b>	<b>42.3</b>	<b>35.6</b>	<b>0.3</b>	<b>273.6</b>
Unallocated assets:							
Deferred taxation							34.6
Cash							120.8
<b>Total assets</b>							<b>429.0</b>
<b>Reportable segment liabilities</b>	<b>125.7</b>	<b>92.8</b>	<b>61.1</b>	<b>46.0</b>	<b>-</b>	<b>0.5</b>	<b>326.1</b>
Unallocated liabilities:							
Retirement benefit obligations							104.7
Overdraft and loans							0.3
Income tax							1.7
<b>Total liabilities</b>							<b>432.8</b>

## Notes to the financial statements – continued

### 2 Business and geographical segment information by origin – continued

Year ended 31 December 2008	Environment £m	Infrastructure £m	Community £m	Energy & Process £m	Land Development £m	Central £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
<b>Total segment revenue</b>	<b>417.0</b>	<b>208.7</b>	<b>285.6</b>	<b>83.6</b>	<b>1.1</b>	<b>-</b>	<b>996.0</b>
Group operating profit/(loss)	13.8	14.4	(8.5)	5.5	-	(5.7)	19.5
Profit on sales of JVs and associates	-	-	2.7	-	-	-	2.7
Share of results of JVs and associates	(2.2)	-	0.6	-	(2.3)	-	(3.9)
<b>Segment result</b>	<b>11.6</b>	<b>14.4</b>	<b>(5.2)</b>	<b>5.5</b>	<b>(2.3)</b>	<b>(5.7)</b>	<b>18.3</b>
Net financing income							4.8
<b>Profit before tax</b>							<b>23.1</b>
<b>Reportable segment assets</b>	<b>101.7</b>	<b>48.1</b>	<b>28.8</b>	<b>26.3</b>	<b>35.2</b>	<b>-</b>	<b>240.1</b>
Unallocated assets:							
Deferred taxation							18.9
Cash							147.3
<b>Total assets</b>							<b>406.3</b>
<b>Reportable segment liabilities</b>	<b>142.4</b>	<b>70.8</b>	<b>71.4</b>	<b>35.0</b>	<b>-</b>	<b>0.5</b>	<b>320.1</b>
Unallocated liabilities:							
Retirement benefit obligations							50.2
Overdraft and loans							0.7
Income tax							1.7
<b>Total liabilities</b>							<b>372.7</b>

### Geographical Segments

	Revenue	
	2009 £m	2008 £m
United Kingdom	<b>1,025.8</b>	969.6
Spain	<b>1.2</b>	1.1
Rest of the world	<b>34.1</b>	25.3
	<b>1,061.1</b>	996.0

## Notes to the financial statements – continued

### 3 Net finance (expense) / income

	2009 £m	2008 £m
Interest income from bank deposits	1.2	5.6
Interest income on loans to related parties	1.4	0.9
Expected return on defined benefit pension scheme assets	23.4	28.3
Finance income	<u>26.0</u>	<u>34.8</u>
Interest payable on bank overdrafts and loans	(0.5)	(0.7)
Interest cost on the present value of the defined benefit obligations for pension scheme liabilities	(28.2)	(29.3)
Finance expense	<u>(28.7)</u>	<u>(30.0)</u>
Net finance (expense) / income	<u>(2.7)</u>	<u>4.8</u>

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

### 4 Income tax

	2009 £m	2008 £m
<b>On profit for the year:</b>		
United Kingdom corporation tax at 28.0% (2008: 28.5%)	-	-
Adjustments in respect of prior years	0.1	0.1
Current tax credit for the year	<u>0.1</u>	<u>0.1</u>
Deferred taxation charge for the current year	(3.4)	(5.0)
Adjustments in respect of prior years	(0.2)	-
Deferred taxation charge for the year	<u>(3.6)</u>	<u>(5.0)</u>
<b>Income tax expense in the consolidated income statement</b>	<u>(3.5)</u>	<u>(4.9)</u>

	2009 £m	2008 £m
<b>Tax reconciliation:</b>		
Profit before tax	<u>18.1</u>	<u>23.1</u>
Income tax at 28.0% (2008: 28.5%)	(5.1)	(6.6)
Rate adjustments relating to overseas profits	0.2	0.5
Share of results of joint ventures and associates at 28.0% (2008: 28.5%)	(0.9)	(1.1)
Disallowed provisions and expenses	(0.5)	(0.8)
Non-taxable gains and profits relieved by capital losses	0.6	0.8
Utilisation of previously unrecognised temporary differences	2.3	2.1
Rate adjustment relating to deferred tax	-	0.1
Adjustments in respect of prior years	(0.1)	0.1
<b>Income tax expense in the consolidated income statement</b>	<u>(3.5)</u>	<u>(4.9)</u>

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.

## Notes to the financial statements – continued

### 5 Earnings per share

The calculation of earnings per share is based on profit of £14.6 million (2008: £18.2 million) and the number of shares set out below:

	<b>2009</b> <b>(millions)</b>	2008 (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	<b>633.7</b>	631.9
Dilutive potential ordinary shares arising from employee share schemes	<b>12.7</b>	2.1
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	<b>646.4</b>	634.0

### 6 Dividends per share

During the year, the 2008 final dividend of 0.5 pence (2008: 0.5 pence) per share was paid to shareholders (£3.1 million in cash and £0.1 million via scrip alternative (2008: £3.0 million in cash and £0.1 million via scrip alternative)). An interim 2009 dividend of 0.275 pence (2008: 0.25 pence) per share (£1.7 million in cash and £0.1million via scrip alternative (2008: £1.5 million in cash and £0.1 million via scrip alternative)) was also paid.

A final dividend in respect of the year ended 31 December 2009 of 0.55p per share, amounting to a dividend of £3.5 million, is to be proposed at the Annual General Meeting. If approved, the dividend is expected to be paid on 21 May 2010 to shareholders registered at close of business on 23 April 2010 and a scrip dividend alternative will be offered. These financial statements do not reflect this dividend payable.

## Notes to the financial statements – continued

### 7 Investments

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

	2009				2008			
	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	<b>1.2</b>	<b>49.0</b>	<b>17.5</b>	<b>67.7</b>	1.1	71.8	20.5	93.4
(Loss)/profit before tax	<b>(3.7)</b>	<b>(0.8)</b>	<b>0.9</b>	<b>(3.6)</b>	(3.3)	(1.3)	(0.1)	(4.7)
Income tax	<b>1.1</b>	<b>(0.2)</b>	<b>(0.5)</b>	<b>0.4</b>	1.0	(0.1)	(0.1)	0.8
(Loss)/profit for the year	<b>(2.6)</b>	<b>(1.0)</b>	<b>0.4</b>	<b>(3.2)</b>	(2.3)	(1.4)	(0.2)	(3.9)
Non-current assets	<b>21.7</b>	<b>36.8</b>	<b>114.5</b>	<b>173.0</b>	13.3	73.9	71.8	159.0
Current assets	<b>35.3</b>	<b>16.4</b>	<b>17.0</b>	<b>68.7</b>	40.6	21.1	15.2	76.9
Current liabilities	<b>(2.9)</b>	<b>(14.6)</b>	<b>(13.8)</b>	<b>(31.3)</b>	(2.9)	(41.5)	(7.8)	(52.2)
Non-current liabilities	<b>(27.5)</b>	<b>(38.0)</b>	<b>(116.1)</b>	<b>(181.6)</b>	(19.2)	(53.1)	(79.1)	(151.4)
Investments in joint ventures and associates	<b>26.6</b>	<b>0.6</b>	<b>1.6</b>	<b>28.8</b>	31.8	0.4	0.1	32.3
Financial commitments	<b>2.2</b>	<b>3.5</b>	<b>11.6</b>	<b>17.3</b>	5.8	3.5	4.7	14.0
Capital commitments	<b>2.2</b>	<b>-</b>	<b>28.3</b>	<b>30.5</b>	-	0.2	10.5	10.7

Net interest payable by joint ventures and associates in 2009 was £1.6 million (2008: £2.8 million payable). The financial commitments relate to Alcaidesa and joint ventures involved in PFI schemes and the capital commitments relate to ongoing construction work. All figures are the Group's share.

## Notes to the financial statements – continued

### 8 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 £36.0 million (2008: £34.2 million).

	<b>2009</b>	2008
	<b>£m</b>	£m
Cash and cash equivalents	<b>120.8</b>	147.3
Bank overdrafts	<b>(0.3)</b>	(0.4)
Cash, cash equivalents and overdrafts in the cash flow statement	<b><u>120.5</u></b>	<u>146.9</u>

### 9 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 £11.5 million (2008: £8.4 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 2007 and was updated to 31 December 2009 by a qualified independent actuary.

	<b>2009</b>	2008	2007
	<b>£m</b>	£m	£m
Present value of defined benefit obligations	<b>(560.5)</b>	(435.8)	(511.1)
Fair value of scheme assets	<b>455.8</b>	385.6	460.5
Recognised liability for defined benefit obligations	<b><u>(104.7)</u></b>	<u>(50.2)</u>	<u>(50.6)</u>

Movements in present value of defined benefit obligations:

	<b>2009</b>	2008
	<b>£m</b>	£m
At 1 January	<b>435.8</b>	511.1
Current service cost	<b>1.7</b>	4.7
Past service cost	<b>1.2</b>	1.2
Interest cost	<b>28.2</b>	29.3
Actuarial losses / (gains)	<b>113.7</b>	(94.6)
Benefits paid	<b>(23.1)</b>	(19.8)
Contributions by members	<b>3.0</b>	3.9
At 31 December	<b><u>560.5</u></b>	<u>435.8</u>

Movements in fair value of scheme assets:

	<b>2009</b>	2008
	<b>£m</b>	£m
At 1 January	<b>385.6</b>	460.5
Expected return on scheme assets	<b>23.4</b>	28.3
Actuarial gains/ (losses)	<b>46.3</b>	(105.1)
Contributions by employer	<b>20.6</b>	17.8
Contributions by members	<b>3.0</b>	3.9
Benefits paid	<b>(23.1)</b>	(19.8)
At 31 December	<b><u>455.8</u></b>	<u>385.6</u>

## Notes to the financial statements – continued

### Pensions - continued

Expense recognised in the income statement:

	<b>2009</b>	2008
	<b>£m</b>	£m
Current service cost	<b>1.7</b>	4.7
Past service cost	<b>1.2</b>	1.2
Interest cost on defined benefit obligations	<b>28.2</b>	29.3
Expected return on scheme assets	<b>(23.4)</b>	(28.3)
Total	<b><u>7.7</u></b>	<u>6.9</u>

The expense is recognised in the following line items in the income statement:

	<b>2009</b>	2008
	<b>£m</b>	£m
Cost of sales	<b>2.6</b>	5.2
Administrative expenses	<b>0.3</b>	0.7
Financial income	<b>(23.4)</b>	(28.3)
Finance costs	<b>28.2</b>	29.3
Total	<b><u>7.7</u></b>	<u>6.9</u>

Principal actuarial assumptions (expressed as weighted averages):

	<b>2009</b>	2008
	<b>%</b>	%
Discount rate	<b>5.70</b>	6.60
Expected rate of return on scheme assets	<b>6.51</b>	6.07
Future salary increases	<b>3.50</b>	2.85
Future pension increases	<b>3.50</b>	2.85
Inflation assumption	<b>3.50</b>	2.85

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 2009 and 31 December 2008 is:

	<b>2009</b>		2008	
	<b>Male</b>	<b>Female</b>	Male	Female
	<b>(years)</b>	<b>(years)</b>	(years)	(years)
Currently aged 65	<b>20.3</b>	<b>23.2</b>	20.3	23.1
Non-retirees	<b>21.3</b>	<b>24.1</b>	21.3	24.0

## Notes to the financial statements – continued

### Pensions – continued

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:	(21.2)	0.1
Decrease inflation (and pension increases) by 0.25%, decreases pension liability and pension cost by:	(18.2)	(1.0)
Increase life expectancy by one year, increases pension liability and pension cost by:	15.5	0.9

### 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 £3.8 million (2008: £1.5 million).

## 10 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. The total value of these services in 2009 was £115.2 million (2008: £137.7 million).

## 11 Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's business, financial condition or results of operations. The Group has specific policies and procedures which are designed to identify, manage and mitigate business risks. The principal risks and uncertainties faced by the Group are detailed in the Annual Report 2009 and are included by reference in the Directors' Report.

These risks and uncertainties include: general economic and political activity, including the extent of any governmental regulation, taxation and interest rates; the Group's ability to attract, develop and retain highly skilled management and personnel; the risk of non-compliance with laws, regulations and standards relating to health and safety and the environment; the pension deficit and the risk that contributions may have to be increased to cover funding shortfalls; change in the UK Government's policies with regard to improving public infrastructure, buildings and services specifically in areas where the Group would expect to compete for work; the risk of incorrectly budgeting/costing long-term contracts; failing to win contracts including the failure to close-out contracts because funding was not available for the project; a failure to meet schedule requirements within contracts which could adversely affect the Group's reputation and/or expose the Group to financial liability; financial failure within the supply chain or the supply chain being responsible for late or inadequate delivery or poor quality of work on a project which damages the Group's reputation and/or causes it to suffer financial loss; a loss of IT systems; claims that exceed the limits of insurance or are uninsurable and procurement delays.

## 12 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.

## **Notes to the financial statements – continued**

### **13 Responsibility statements**

The Company's statutory accounts for the year ended 31 December 2009 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 2009 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 & Operational 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**