Costain Group PLC

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

Results for the year ended 31 December 2010

Costain announces another strong performance, a significant increase in profit before tax, an enhanced cash balance, a robust order book and an increased dividend for the year.

Year ended 31 December	2010	2009
Revenue*	£1,022.5m	£1,061.1m
Profit from operations**	£29.4m	£20.8m
Profit before tax**	£27.9m	£18.1m
Net cash	£144.3m	£120.5m
Earnings per share***	36.4p	23.0p
Full year dividend***	9.25p	8.25p

* Including share of joint ventures & associates
** Including profit arising from PFI transfer / sales
*** Restated following 1 for 10 share consolidation

- Profit from operations** increased by 41% to £29.4 million (2009: £20.8 million)
- Profit before tax** increased by 54% to £27.9 million (2009: £18.1m million)
- Strong net cash position at £144.3 million (2009: £120.5 million)
  - average month-end cash balance of £116.0 million during the year (2009: £125.3 million)
- Revenue* at £1,022.5 million (2009: £1,061.1 million)
- Year-end order book of £2.4 billion maintaining long-term earnings visibility (2009: £2.6 billion)
  - repeat order customers account for in excess of 80% of order book
  - includes c. £800 million of secured work for 2011
- In addition, preferred bidder positions at year-end maintained at over £400 million
- Banking and bonding facilities increased in early 2010 by 20% to £345 million and extended to September 2013
- IAS 19 pension scheme deficit reduced to £28.9 million at year-end, net of deferred tax (2009: £75.4 million)
  - PFI assets of £22.0 million transferred into the Costain Pension Scheme during the year
- Recommended final dividend of 6.25p, increasing total payout for the year by 12% to 9.25p (2009: 8.25p***)
- Implementing 'Choosing Costain' strategy in order to broaden further Costain's market position across the design and engineering, construction, and operations and maintenance spectrum.

David Allvey, Chairman, commented:

"We have delivered another excellent performance. Once again, the Group has demonstrated its resilience in a continuing 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.

"Through our 'Choosing Costain' strategy, we are making good progress in achieving our vision of building Costain into 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.

"To expedite the delivery of our strategy, we said that we would look at appropriate acquisition opportunities, an example of which is Mouchel Group plc, as well as organic growth. We are actively progressing a number of opportunities ranging from bolt-on to transformational transactions, and all of which must meet a strict set of criteria in the event that they were to be concluded.

"We look to the future with confidence, reinforced by our robust year-end order book, enhanced cash balance and the ongoing support of our customers committed to long-term capital investment programmes. That confidence is reflected in the Board's recommendation to increase the total dividend for the year."

9 March 2011

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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

Notes to Editors

Costain is an international engineering, construction and maintenance group with a reputation for technical excellence founded on more than 140 years of experience. The Company's business segments are in Infrastructure (Highways, Rail, Nuclear and Airports), Environment (Water, Waste, Marine and Education), Energy & Process (hydrocarbons & chemicals, nuclear process and power activities) and Land Development.

The Company is focused on market sectors where it expects there to be a significant investment driven by national needs.

It has worked on a number of significant infrastructure projects in the UK, including the St Pancras railway station and the Channel Tunnel Rail Link, and is currently working on a number of significant projects including the municipal waste treatment infrastructure for the Greater Manchester Waste Disposal Authority and EVAP D at Sellafield, one of the largest nuclear projects in the UK.

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

CHAIRMAN'S STATEMENT

Overview & strategy

I am delighted to report a strong Group performance in 2010, which provides evidence of the continuing significant strides we are making in the delivery of our 'Choosing Costain' strategy which is designed both to build on the Group's current strengths and to broaden its earnings streams in order to achieve our vision of becoming one of the UK's top solutions providers.

The fundamental dynamic driving our marketplace is the fact that, irrespective of the economic environment, the UK urgently requires billions of pounds to be invested in its basic infrastructure. Whether in roads, water, waste or power, investment decisions for our long-term national success have to be - and are being - taken today.

Whilst customers, both in the public and private sectors, continue to place significant contracts they also continue to drive for major cost savings in the process.

Costain has demonstrated that it has the proven ability to meet the exacting needs of its blue-chip customers. This is being achieved through a combination of factors including the outstanding quality of our people, the innovative solutions that Costain provides to meet its customers' demands and the utilisation of technology to facilitate those innovative solutions.

Last year we unveiled 'Choosing Costain', the latest stage in our evolving strategic development which is designed to take advantage of new opportunities arising from the ongoing structural changes in the sector through the further expansion of our market position across the design and engineering, construction, and operations and maintenance spectrum.

To expedite the delivery of our strategy, we said that we would look at appropriate acquisition opportunities as well as organic growth. We are actively progressing a number of opportunities ranging from bolt-on to transformational transactions, and all of which must meet a strict set of criteria in the event that they were to be concluded.

Approaches to Mouchel Group plc

The Group is currently in an offer period in relation to Mouchel Group plc. Following completion of comprehensive initial due diligence, including management meetings with Mouchel, the Board of Costain approached the board of Mouchel on 17 February 2011 with a revised proposal, reflecting our assessment of the valuation of Mouchel. Since then, the board of Mouchel has entered a "co-operation agreement" with a third party.

Results

Revenue, including the Group's share of joint ventures and associates, for the year was £1,022.5 million (2009: £1,061.1 million). The slight decrease reflects the deliberate actions taken to reduce the Group's exposure to the health and education sectors, where we anticipated significant expenditure cuts, whilst increasing our efforts to secure infrastructure and energy related projects which indeed showed strong revenue growth.

Profit from operations was £29.4 million (2009: £20.8 million), an increase of 41%, including the benefit of the transaction, as announced in November 2010, that transferred the Group's interest in a portfolio of six PFI investments into the Costain Pension Scheme.

We actively trade our PFI equity portfolio in order to invest in future opportunities for the Group. In 2010, the equity transfer into the Costain Pension Scheme ('CPS') brought forward and realised a profit of £11.2 million from the sale of the six PFI investments (2009: £2.0 million profit generated from sales of PFI investments). By way of comparison, after allowing for an additional accrual of £2.0 million for share-based payments as a result of the overall level of profit achieved by the Group following the transaction, the PFI transfer generated an additional profit of £7.2 million compared to the profit from PFI equity sales in 2009.
Net financing expense amounted to £1.5 million (2009: £2.7 million) which incorporated net interest income of £0.1 million (2009: £2.1 million) and a pension scheme related net interest cost of £1.6 million (2009: £4.8 million).

Profit before tax was £27.9 million (2009: £18.1 million), an increase of 54%.

Basic earnings per share were 36.4p (2009: 23.0p***).

As a consequence of continuing to secure major contracts during the year, despite the prevailing economic conditions, the Group finished the year with an order book of £2.4 billion (2009: £2.6 billion).

The Group has no significant borrowings and net cash balances at the year-end totalled £144.3 million (2009: £120.5 million), including the Group's share of cash held by construction joint venture arrangements of £33.8 million (2009: £36.0 million). The average month-end net cash balance during the year was £116.0 million (2009: £125.3 million).

Dividend

The Board is recommending the payment of a final dividend for the year of 6.25 pence per share (2009: 5.5 pence***). If approved at the forthcoming Annual General Meeting, the dividend will be paid on 20th May 2011 to shareholders on the register, as at 15th April 2011. This would bring the total for the full year to 9.25 pence per share (2009: 8.25 pence***), an increase of 12% over the prior year.

Pension

Costain now only offers a defined contribution scheme for employees.

As indicated above, the Board agreed with the Trustee of the Costain Pension Scheme ('CPS') a transaction to reduce significantly the Group's pension deficit through the transfer of the Group's interest in a portfolio of six PFI investments into the CPS at an agreed valuation of £22.0 million.

During the year, the pension scheme assets also increased in value as a result of a recovery in the global equities markets. However, this was partially offset by an increase in liabilities due to an increase in longevity assumptions and a reduction in the liability discount rate.

Consequently, as at 31 December 2010, the deficit in the UK Pension Scheme recorded in the Group's balance sheet in accordance with IAS 19 was £28.9 million, net of deferred tax (31 December 2009: £75.4 million).

An agreement was also finalised last year with the Trustee of the CPS regarding the actuarial valuation as at 31 March 2010, and the associated deficit recovery plan. This agreement, which incorporates the £22.0 million transfer of the PFI investments, will result in a corresponding reduction in the Group's future annual cash contributions into the CPS over a thirty-nine month period starting with effect from 1 January 2011.

Share Consolidation

At last year's Annual General Meeting of the Company, shareholders approved a 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.

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.

Clive Franks, the Group's Company Secretary, who has been with Costain for thirty years, is to retire with effect from 31 May 2011. Clive has been an outstanding member of the Costain team. He has shown skill, knowledge and commitment throughout and demonstrated a deep understanding of the Costain culture and the values which we all embrace. We wish him a long and happy retirement.

Tracey Wood, HR and Legal Director, will also become Group Company Secretary with effect from 1st June 2011.

Summary & Outlook

We have delivered another excellent performance. Once again, the Group has demonstrated its resilience in a continuing 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.

Through our 'Choosing Costain' strategy, we are making good progress in achieving our vision of building Costain into 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. Our strategy of growing the business through a combination of organic growth and targeted acquisitions is providing a number of exciting options for us to consider.

We therefore look to the future with confidence, reinforced by our robust year-end order book, enhanced cash balance and the ongoing support of our customers committed to long-term capital investment programmes. That confidence is reflected in the Board's recommendation to increase the total dividend for the year.

DAVID ALLVEY
Chairman

9 March 2011

CHIEF EXECUTIVE'S REVIEW

Overview

Costain delivered another strong performance in 2010, reinforcing the Group's position as one of the UK's premier engineering and construction businesses.

In what continued to be challenging economic conditions, we are pleased to report a significant growth in profit before tax, a robust order book, a strong net cash position and a recommendation to increase the dividend for the year.

Our performance was widely recognised during the year, and we were delighted to receive the "Contractor of the Decade" award from New Civil Engineer magazine.

As a result of implementing our 'Choosing Costain' strategy, we made good progress towards achieving our vision to be one of the UK's top solutions providers with the scale and capability to meet successfully the increasingly complex and challenging needs of major customers.

Our growth aspirations and ambition for the business will be achieved by organic growth and by suitable acquisitions in line with strategy and we are progressing a number of options in this respect.

Over the next decade there will be very substantial investment in the UK's critical transport, energy, water and waste infrastructures. We believe that spending will be prioritised on meeting a number of identified essential national needs including ensuring energy security, the provision of a sustainable water supply, meeting the demanding requirements of European waste legislation and creating key transport infrastructure capable of supporting necessary economic growth.

The sheer scale of the investment required, and the time in which it needs to be delivered, is driving a reshaping of the UK's engineering and construction sector landscape. Customers require suppliers of broad capability and scale with whom they can have the confidence to place large, multi-year contracts.

Costain is changing rapidly, and our on-going commitment to providing our customers with the increasingly full-service offering they are demanding, from front-end engineering consultancy and design, through construction to back-end care and maintenance, ensures that we are well placed to provide valuable and cost effective solutions to meeting those national needs.

2010: another strong performance

There have been a number of key achievements during the year, which have been delivered despite an environment of economic recession and considerable market uncertainty. Of particular note:

- Operating profits increased by 41%, and profit before tax increased 54% to £27.9 million, including profit resulting from the transfer of PFI assets into the pension fund
- Revenue (including share of joint ventures and associates) was maintained in excess of £1.0 billion
- Following major contract awards during the year, the order book at the year-end was £2.4 billion, providing long-term earnings visibility
- Our balance sheet was strengthened further, with the net cash position increasing to £144.3 million
- An actuarial review of the pension scheme was completed and the deficit significantly reduced
- Earnings per share increased 58% to 36.4 pence

The Board is consequently recommending an increased final dividend.

Progress in Operations

In line with our strategy, during the year we integrated the scaled-back Community division into an enlarged Environment division which, together with the Infrastructure and Energy and Process divisions, form the core focus for the development of the Group's operations.

The enlarged Environment division focuses on the water and waste markets as well as the specific requirements of a number of long term customers. Costain is a leading player in the provision of services to the water utilities under their Asset Management Programme (AMP5) and is currently progressing well on the delivery of the Manchester Waste scheme, Europe's largest waste project. The division has a £1.2 billion order book, and we expect further opportunities in sectors where investment is driven largely by legislation and regulatory requirements.

Our Infrastructure division, which incorporates activities in the highways, rail, nuclear and airports sectors, had another good year with increased revenue, upper quartile margins and an order book increased to £1.1 billion. In line with our strategy we also increased our highways maintenance activity and our joint venture now maintains around one in three motorway miles in the UK. The division has a substantial pipeline of future work.

The Energy and Process division, which undertakes work in the hydrocarbons and chemicals, nuclear processing and power sectors, had another excellent year. Progress has been good on the Evaporator D contract at Sellafield, the UK's largest nuclear decommissioning project. There is a clear need to invest in UK energy infrastructure, and we see potential for further growth in this sector.

Our Land Development activity in Spain, which is a joint venture with a subsidiary of Santander Bank, continued to be subject to very difficult market conditions. As anticipated, no land sales were completed in the year. Activity has been scaled back until the market improves and maximum shareholder value can be secured for the assets. Separately, the first phase of the 600-berth yacht marina was completed and the first sales have been achieved.

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

Order book providing long term earnings visibility

As a direct result of the implementation of our customer focused strategy, we continued to secure major contract awards throughout the year. At 31st December the order book stood at £2.4 billion (2009: £2.6 billion) providing good long term earnings visibility.

In addition, we ended the year with preferred bidder positions on contracts with an aggregate value in excess of £400 million.

During the year we secured over £900 million of new orders across the business reflecting the breadth of our operations. Of particular note was the Highways Agency Managed Motorway framework, Welsh Water AMP 5 contract, a 10-year nuclear framework for Magnox South, Bond Street station upgrade for London Underground and cable tunnel infrastructure for National Grid. We also secured from the Highways Agency the 5-year MAC 14 highways maintenance contract, our fourth such award making our joint venture the market leader.

Some 14% of the total Group order book is now in maintenance related activities.

Our strategy focuses on providing valuable solutions for major customers who have long-term or multi project investment programmes. We are delighted that major customers continue to re-appoint Costain for their investment plans: our repeat order level has remained above the 80% level. We were also delighted to secure a number of new customers during the year including National Grid.

The year-end order book included circa £800 million of work secured for 2011.

Since the year end, we have continued to secure major new contracts and preferred bidder positions including work at London Heathrow for BAA, runway refurbishment for Manchester Airports, our third contract on Crossrail and a new bridge across the River Thames for Surrey County Council.

Whilst economic conditions are expected to remain challenging, the level of tendering and estimating remains high. We have a good pipeline of opportunities and our bidding teams remain fully occupied.

Strong finances

We have further enhanced our financial position during the year. Given our strategic focus on major customers and their increasingly large and longer-term contracts, being able to demonstrate a strong financial covenant is an important requirement for the stakeholders in the business.

We maintained a strong net cash position, which at the end of the year had increased to £144.3 million. The average month end cash position was down slightly to £116.0 million. The Group has no significant borrowings.

Our banking and bonding facilities were extended early in the year to 2013 and increased by 20% to £345 million. Consequently, we have the necessary headroom available to capitalise on major market opportunities as they arise and achieve our longer-term strategic objectives.

During the year, as previously announced, the parent company group of our customer, AE & E Inova AG, entered insolvency proceedings. As a result there was some uncertainty regarding future payments on the Belvedere waste contract on which we have a sub-contract to AE & E Inova AG. On 20 December 2010, Hitachi Zosen Corporation purchased AE & E Inova AG. The project is proceeding as usual and there are no outstanding payments on the contract.

Enhancing our Safety, Health and Environmental performance

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

Further progress was made in the year and we recorded an improved Group Accident Frequency Rate (AFR) reducing from 0.16 to 0.15, which continues to compare favourably with our major contractor peer group.

We received a total of 56 RoSPA safety awards including the prestigious Order of Distinction for our Energy and Process operations recognising 15 consecutive annual Gold awards.

Notwithstanding our industry-leading safety performance, there was a fatal accident involving an employee of a sub-contractor on the East & South-East Asset Management Framework project. This reinforces the need for continuous vigilance and focus on our safety performance.

Our proactive commitment to mitigating the environmental and social impacts of our operations resulted in the receipt of our first Gold award following an external assessment by Business in the Community.

Developing our people

We can only achieve our strong business performance by ensuring that we employ and retain a highly talented and motivated team of people.

We are investing across the organisation to ensure that we continue to have the skills and resources necessary to deliver exceptional business performance. We place particular emphasis on skills training and during the year received the Best Graduate Development award from the Association of Graduate Developers and Recruiters.

There were a number of changes to the Executive Board including the appointment of Alan Kay as Managing Director of the Environment division following the retirement of David Jenkins, and the appointment of Alex Vaughan in the new role of Corporate Development Director.

Tracey Wood, who will become Group Company Secretary on 1 June 2011, will also continue to be responsible for HR and legal matters on the Executive Board whilst Christina Wade, who has nearly 20 years experience in HR and joins Costain from Centrica, has been appointed as the new Group HR Director.

'Choosing Costain': meeting national needs

Turning now to the future, we are in a situation where the UK faces unprecedented challenges.

We have a growing population, the impact of climate change, finite waste disposal capacity, and the need to ensure a secure, sustainable and balanced portfolio of energy sources. An ageing and increasingly obsolete infrastructure means that there is a clear national need for strategic investment.

For the UK to remain competitive globally and for the economy to flourish it is essential that reliable infrastructure is in place to achieve this objective and to meet the challenges ahead. To give one example, the UK Government identified in its 2010 Budget that the UK requires up to £200 billion of investment by 2020, much of which will come from the private sector, to secure a low-carbon energy future.

These pressing national needs also have to be weighed against the economic realities of uncertainty, a reduced ability of the public sector to invest, macroeconomic constraints and customers who are increasingly seeking value-driven solutions.

Such a challenging market environment also provides major opportunity for businesses able to create and deliver those solutions.

Our 'Choosing Costain' strategy, which is focused on targeting the blue-chip customers in chosen sectors whose major spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements. Through 'Choosing Costain', the Group continues to develop its scale and resources to meet successfully the increasingly complex delivery programmes and outsourcing needs of major customers.

Over the next decade, the Board believes 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, Hydrocarbons & Chemicals

Therefore, Costain's strategy is both to build on the Group's current strengths and to broaden and improve the quality of earnings streams by accelerating the development of an integrated business, providing front-end engineering consultancy, construction and on-going care and maintenance services.

We will continue to ensure the appropriate application of innovation and new technology is at the very heart of the services that we provide. It is such effective application that allows us to develop and deliver solutions that save our customers millions of pounds every year through enhanced, technology-led solutions, thus generating high levels of repeat order business

As previously announced, it is expected that the Company's growth aspirations and ambition for the business will be achieved through a combination of organic growth and by suitable acquisitions in line with strategy.

The way in which we work and our continuing commitment to deliver on our promises will help ensure that our customers, partners, people, suppliers and investors 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 that 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 have again delivered a strong performance despite the continuation of very challenging operating conditions.

Costain has been transformed in recent years as a result of the robust implementation of our focused strategy, and is establishing itself as one of the UK's leading solutions providers.

Whilst economic conditions are expected to remain challenging, we continue to benefit from our strategy of focusing on major customers in chosen sectors whose spending plans are underpinned by strategic national needs, regulatory commitments or essential maintenance requirements.

We are approaching the future with confidence, and I look forward to reporting on further progress during the year.

ANDREW WYLLIE
Chief Executive

9 March 2011

Environment

The Environment division includes Costain's water, waste, marine and education activities.

In 2010, the Environment and Community business units were combined into a single, enlarged Environment division. Accounting for c. 50% of the Group's forward order book, the Environment division is focused on delivering solutions that meet the needs of long-term customers and particularly in the water and waste markets.

Revenue (including share of joint ventures and associates) for the year was £489.8 million (2009: £593.9 million), with an operating profit of £17.2 million (2009: £3.3 million) including profit of £11.2 million arising from the transfer of six PFI investments into the CPS. As previously reported, the profit - pre-PFI transfer - was impacted by costs associated with the amalgamation of the enlarged division, bidding activity particularly for waste PFI opportunities, and additional costs on a marine project.

The division's year-end order book was £1.2 billion (2009: £1.4 billion).

The UK water market is core to Costain. OFWAT's five-year, £22 billion Asset Management Programme (AMP-5) commenced in 2010. Following outstanding performance on its AMP-4 contracts, Costain was re-appointed on AMP-5 frameworks with Southern Water, United Utilities and Welsh Water. The Group was also successful in securing a new ten-year £400 million contract with Severn Trent and has been chosen for Northumbrian Water's preferred contractor and consultant select list to carry out its major water infrastructure upgrade and maintenance framework.

In addition to long-term asset management contracts, Costain has continued successfully to design, secure and deliver major complex capital works infrastructure. Construction commenced on the Brighton and Hove waste water treatment works for Southern Water whilst in a further expansion of its operations and maintenance (O&M) activities, Costain secured the contract to deliver Severn Trent's minor works O&M services.

The UK waste market in 2010 continued to offer significant long-term growth opportunities for Costain.

An example of the current major investment in this sector is the Greater Manchester Waste contract, the UK's largest ever combined recycling, waste and renewable energy project managing approximately 1.2 million tonnes of waste per year. Under the five-year contract secured with Viridor-Laing, Costain is responsible for the construction of a total of 43 state-of-the-art recycling and waste treatment facilities, based at 27 different locations across Greater Manchester. To date, the Company has successfully handed over 33 different facilities.

Delivery of the UK's largest Energy from Waste (EfW) plant, the Riverside Resource Recovery Facility (RRRF), is entering its final phase with testing and commissioning underway. A strategic river-served waste management facility for London, the first waste has been delivered using the jetty in readiness for the start of thermal treatment. Generating energy from a renewable resource, the RRRF will help London manage its own waste and also make a significant contribution to helping the capital meet its plan to be 85% self-sufficient in energy by 2020.

The UK urgently needs to significantly increase and enhance its ports capacity. Costain's position as a leader in specialist maritime engineering significantly enhances its competitive advantage in this market.

The Felixstowe South Reconfiguration Phase One is nearing completion with final handover in early 2011. This project for a 730 metre long, deep-water container quay, will enable the Port of Felixstowe to handle the world's largest and most advanced container ships – a unique capability in the current UK market.

In our Local Education Partnership with Lewisham, under the Building Schools for the Future programme, we achieved financial close on four PFI schools with a combined value of £82 million and one, under a design-and-build contract, with a value of £18 million.
The final phase of the Bradford BSF Programme has progressed with four secondary schools currently due for completion and ready for occupation in 2011.

Infrastructure

The Infrastructure division includes Costain's highways, rail and airports activities.

Revenue (including share of joint ventures and associates) for the year was £395.3 million (2009: £364.8 million), with an operating profit of £12.2 million (2009: £16.9 million).

Whilst the division continued to record upper-quartile margin performance, profitability was impacted by a high level of bidding costs and, as previously announced, a high level of project bonuses in 2009.

The division's year-end order book was £1.1 billion (2009: £1.0 billion), an increase of 10%.

Costain's appointment in joint venture as Managing Agent Contractor ('MAC') for the Highways Agency Area 14 further strengthened Costain's position as a leading provider of highways maintenance services. Together with MAC Areas 10, 7 and 12 this means Costain's joint venture is responsible for a third of the Highways Agency Network.

The award of the contract for the Major Project framework in early 2010 to develop, construct and commission Managed Motorways for the Highways Agency provides a significant boost to the Group's strategy of focusing on providing solutions that deliver value and the savings required by customers today. Our ongoing projects such as M1 J10 to 13 and the A40 for the Welsh Assembly Government are progressing ahead of schedule and budget.

The Company's capability in the Highways sector was underlined further with the successful completion of the Bell Common Tunnel, for the Highways Agency and the Church Village By-pass for Rhonnda Cynon Taf. Both projects were ahead of programme and under budget.

In Rail, Costain is engaged on two of the UK's largest rail projects including Crossrail, Europe's largest infrastructure project, and Network Rail's Thames-link programme. On Crossrail, Costain secured two portal contracts during the year whilst on Thameslink, the Group is working on the key Farringdon Station project, a major component in overall programme providing 'twelve car' capability at the station.

On London Underground, Costain was awarded the Bond Street station redevelopment contract. The Company also successfully completed the Victoria Mid-Tunnel Vent Shafts contract.

The Group's framework contract with the Manchester Airport Group continues to perform well and the recent award of the runway renewal at Manchester reinforces Costain's capability in this sector. The year also saw the completion of the impressive new North Terminal Interchange and Forecourt at Gatwick for Gatwick Airport Ltd together with the award of a role on BAA's Heathrow Local Project Integrator framework.

The Company was awarded a contract from National Grid for its London Cable Replacement Tunnel. The contract is worth approximately £200 million and forms part of National Grid's investment plans in the capital to ensure a continued safe and reliable electricity transmission network. The work will involve building a new high voltage electricity cable tunnel between Hackney and Willesden (via Kensal Green) and Kensal Green and Wimbledon.

Energy & Process Division

The Energy and Process division includes Costain's hydrocarbons & chemicals, nuclear process and power activities.

Revenue (including share of joint ventures and associates) for the year was £136.6 million (2009: £101.2 million), with an operating profit of £8.2 million (2009: £9.3 million including specific provision release).

The division's year-end order book was £127 million (2009: £180 million).

With the decline of North Sea gas, the UK is urgently investing in underground gas storage capacity as a safeguard against interruptions in supplies from overseas. With several projects planned in various locations around the UK, Costain is well-advanced in constructing E.ON's underground gas storage facility at Holford in Cheshire. This facility will have a capacity to store 156 million cubic metres of gas and is due to go into commercial operation in autumn 2011.

Costain successfully completed its work with Eni in Pakistan associated with the engineering and procurement of gas processing facilities linked with the Bhit and Badra fields. In the Middle East, Costain has developed its operations in Abu Dhabi with a continued focus on Das Island.

In the nuclear sector, the high profile 'Sellafield Evaporator D Project' made significant progress. Complex process plant modules are being fabricated offsite and will be delivered to Sellafield by sea barge.

Costain has a number of projects underway for Magnox at various sites around the UK. In September, Costain was awarded a ten-year decommissioning framework contract centred on the delivery of Fuel Element Debris dissolution.

Land Development

Revenue for the year was £0.8 million (2009: £1.2 million) with a loss after tax of £1.8 million (2009: loss of £2.6 million). The reduced loss reflects a significant reduction in the cost base during the year.

As previously reported, the real estate market in Spain has remained very challenging with little activity in the development land market. Such conditions are expected to prevail for some time. As well as continuing to reduce its cost base, the Group's joint venture development company, Alcaidesa, continues to manage and bring forward planning consent to add long-term value to the land bank to ensure there are attractive land sales opportunities when market conditions improve.

Efforts during the year were also focussed on completing the 600 berth yacht marina, adjacent to Gibraltar, which was successfully opened in August 2010. The marina has been well received and has generated a good level of early occupancy. Further investment is being undertaken to increase the value-added services available including a repair yard and dry dock with travel lift which are expected to open in summer 2011.

Results for the year ended 31 December 2010
Consolidated income statement

Year ended 31 December

	Notes	2010	2009
		£m	£m
Revenue (Group and share of joint ventures and associates)	2	**1,022.5**	1,061.1
Share of joint ventures and associates	8	**(98.0)**	(67.7)
Group revenue		**924.5**	993.4
Cost of sales		**(883.9)**	(949.2)
Gross profit		**40.6**	44.2
Administrative expenses		**(23.2)**	(22.2)
Group operating profit		**17.4**	22.0
Profit on sales of interests in joint ventures and associates	3	**11.2**	2.0
Profit on sale of land and property		**1.3**	-
Share of results of equity accounted joint ventures and associates	8	**(0.5)**	(3.2)
Profit from operations	2	**29.4**	20.8
Finance income	4	**30.7**	26.0
Finance expense	4	**(32.2)**	(28.7)
Net finance expense		**(1.5)**	(2.7)
Profit before tax		**27.9**	18.1
Income tax expense	5	**(4.8)**	(3.5)
Profit for the year attributable to equity holders of the parent		**23.1**	14.6
Earnings per share			
Basic (2009 restated)	6	**36.4p**	23.0p
Diluted (2009 restated)	6	**35.4p**	22.6p

Share numbers included in the earnings per share calculation have been restated for the 1 for 10 share consolidation (Note 6).

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 income and expense
Year ended 31 December

	2010	2009
	£m	£m
Profit for the year	**23.1**	14.6
Exchange differences on translation of foreign operations	**(1.1)**	(3.6)
Cash flow hedges:		
Group		
Effective portion of changes in fair value during year	**0.3**	(0.4)
Net change in fair value transferred to retained earnings	**(0.3)**	(0.9)
Tax recognised on changes in fair value	**-**	0.4
Joint ventures and associates		
Effective portion of changes in fair value (net of tax) during year	**(1.3)**	2.7
Net change in fair value (net of tax) transferred to retained earnings	**8.1**	1.9
Actuarial gains/(losses) on defined benefit pension scheme	**24.6**	(67.4)
Tax recognised on actuarial (gains)/losses recognised directly in equity	**(8.1)**	18.9
Other comprehensive income/(expense) for the year	**22.2**	(48.4)
Total comprehensive income/(expense) for the year attributable to equity holders of the parent	**45.3**	(33.8)

Consolidated statement of changes in equity
Year ended 31 December

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total Equity £m
At 1 January 2009	31.7	1.7	10.6	(12.7)	2.3	33.6
Profit for the year	-	-	-	-	14.6	14.6
Other comprehensive income/(expense)	-	-	(3.6)	3.7	(48.5)	(48.4)
Equity-settled share-based payments	-	-	-	-	1.1	1.1
Dividend paid	-	0.2	-	-	(4.9)	(4.7)
At 31 December 2009	31.7	1.9	7.0	(9.0)	(35.4)	(3.8)
At 1 January 2010	**31.7**	**1.9**	**7.0**	**(9.0)**	**(35.4)**	**(3.8)**
Profit for the year	**-**	**-**	**-**	**-**	**23.1**	**23.1**
Other comprehensive income/(expense)	**-**	**-**	**(1.1)**	**6.8**	**16.5**	**22.2**
Transfer between reserves	**-**	**-**	**0.9**	**-**	**(0.9)**	**-**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**1.5**	**1.5**
Dividend paid	**-**	**0.1**	**-**	**-**	**(5.5)**	**(5.4)**
At 31 December 2010	**31.7**	**2.0**	**6.8**	**(2.2)**	**(0.7)**	**37.6**

Consolidated statement of financial position
As at 31 December

	Notes	2010 £m	2009 £m
ASSETS			
Non-current assets			
Property, plant and equipment		**9.7**	11.5
Intangible assets		**0.1**	1.0
Investments in equity accounted joint ventures		**24.5**	27.2
Investments in equity accounted associates		**1.5**	1.6
Loans to equity accounted joint ventures		**10.8**	12.8
Loans to equity accounted associates		**0.6**	2.5
Other		**18.9**	12.7
Deferred tax		**20.9**	34.6
Total non-current assets		**87.0**	103.9
Current assets			
Inventories		**1.3**	2.4
Trade and other receivables		**162.0**	201.9
Cash and cash equivalents	9	**146.0**	120.8
Total current assets		**309.3**	325.1
Total assets		**396.3**	429.0
EQUITY			
Share capital		**31.7**	31.7
Share premium		**2.0**	1.9
Foreign currency translation reserve		**6.8**	7.0
Hedging reserve		**(2.2)**	(9.0)
Retained earnings		**(0.7)**	(35.4)
Total equity attributable to equity holders of the parent		**37.6**	(3.8)
LIABILITIES			
Non-current liabilities			
Retirement benefit obligations	10	**39.6**	104.7
Other payables		**5.2**	4.5
Provisions for other liabilities and charges		**2.5**	3.1
Total non-current liabilities		**47.3**	112.3
Current liabilities			
Trade and other payables		**304.8**	313.3
Income tax liabilities		**1.7**	1.7
Bank overdrafts	9	**1.7**	0.3
Provisions for other liabilities and charges		**3.2**	5.2
Total current liabilities		**311.4**	320.5
Total liabilities		**358.7**	432.8
Total equity and liabilities		**396.3**	429.0

Consolidated cash flow statement
Year ended 31 December

	Notes	**2010 £m**	2009 £m
Cash flows from operating activities			
Profit for the year		**23.1**	14.6
Adjustments for:			
Share of results of joint ventures and associates	8	**0.5**	3.2
Finance income	4	**(30.7)**	(26.0)
Finance expense	4	**32.2**	28.7
Income tax	5	**4.8**	3.5
Profit on sales of interests in joint ventures and associates	3	**(11.2)**	(2.0)
Depreciation of property, plant and equipment		**1.7**	2.7
Amortisation of intangible assets		**0.9**	0.9
Share-based payments expense		**4.5**	1.1
Profit on sale of plant and equipment		**(1.2)**	-
Profit on sale of land and property		**(1.3)**	-
Cash from operations before changes in working capital and provisions		**23.3**	26.7
Decrease/(increase) in inventories		**1.1**	(0.8)
Decrease/(increase) in receivables		**37.2**	(32.7)
(Decrease)/increase in payables		**(10.2)**	9.1
Movement in provisions and employee benefits		**(20.0)**	(18.4)
Cash from/(used by) operations		**31.4**	(16.1)
Interest paid		**(0.9)**	(0.5)
Income tax received		**0.2**	0.1
Net cash from/(used by) operating activities		**30.7**	(16.5)
Cash flows from/(used by) investing activities			
Interest received		**1.0**	2.6
Dividends received from joint ventures and associates		**0.1**	0.6
Additions to property, plant and equipment		**(1.1)**	(7.2)
Additions to intangible assets		**-**	(0.1)
Proceeds of disposal of property, plant and equipment		**3.8**	0.4
Proceeds from sales of interests in joint ventures and associates		**-**	8.7
Additions to investments in joint ventures and associates		**-**	(0.2)
Loan repayments by joint ventures and associates		**0.5**	0.7
Additions to loans to joint ventures and associates		**(5.9)**	(9.7)
Net cash used by investing activities		**(1.6)**	(4.2)
Cash flows used by financing activities			
Ordinary dividends paid		**(5.4)**	(4.7)
Repayment of borrowings		**-**	(0.3)
Net cash used by financing activities		**(5.4)**	(5.0)
Net increase/(decrease) in cash, cash equivalents and overdrafts		**23.7**	(25.7)
Cash, cash equivalents and overdrafts at beginning of the year	9	**120.5**	146.9
Effect of foreign exchange rate changes		**0.1**	(0.7)
Cash, cash equivalents and overdrafts at end of the year	9	**144.3**	120.5

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 2010 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 8 March 2011) does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009 but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies, and those for 2010 will be delivered in advance of the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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

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

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

(i) Changes in accounting policy

IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, typically under PFI arrangements. The Group is a party to these arrangements through certain of its investments in joint ventures and associates. The adoption of IFRIC 12 has not resulted in any significant changes to the assets recorded within the Group's investments although there is a change in the timing of profit recognition over the lifetime of the contract. Importantly, there is no change in the overall project cash flows. IFRIC 12 has been adopted in the year with retrospective effect. The effect of adoption on comparative amounts was immaterial and so comparative amounts have not been restated.

(ii) Change in operating segments

During the year, the Group changed its internal management and reporting structure and combined the activities previously reported separately as its Environment and Community activities into a single enlarged Environment segment. Comparative segment information has been restated accordingly.

2 Operating segments

Segment information is based on four business segments: Environment, Infrastructure, Energy & Process and Land Development operations in Spain. The activities previously reported separately as Community have been combined into a single enlarged Environment segment and comparative segment information has been restated accordingly. The segments are strategic business units with separate management reporting to a segment managing director and have different core customers or different services. This information is provided to the Chief Executive who is the chief operating decision maker.

Year ended 31 December 2010	Environment	Infrastructure	Energy & Process	Land Development	Central	Total
	£m	£m	£m	£m	£m	£m
Segment revenue						
External revenue	**422.3**	**371.0**	**131.2**	**-**	**-**	**924.5**
Share of revenue of JVs and associates	**67.5**	**24.3**	**5.4**	**0.8**	**-**	**98.0**
Total segment revenue	**489.8**	**395.3**	**136.6**	**0.8**	**-**	**1,022.5**
Segment profit						
Group operating profit/(loss)	**3.6**	**12.2**	**8.0**	**-**	**(6.4)**	**17.4**
Profit on sales of joint ventures and associates	**11.2**	**-**	**-**	**-**	**-**	**11.2**
Profit on sales of land and property	**1.3**	**-**	**-**	**-**	**-**	**1.3**
Share of results of JVs and associates	**1.1**	**-**	**0.2**	**(1.8)**	**-**	**(0.5)**
Profit/(loss) from operations	**17.2**	**12.2**	**8.2**	**(1.8)**	**(6.4)**	**29.4**
Net finance expense						**(1.5)**
Profit before tax						**27.9**
Segment assets	**66.7**	**78.7**	**48.6**	**35.2**	**0.2**	**229.4**
Unallocated assets:						
Deferred tax						**20.9**
Cash and cash equivalents						**146.0**
Total assets						**396.3**
Segment liabilities	**156.5**	**112.1**	**46.6**	**-**	**0.5**	**315.7**
Unallocated liabilities:						
Retirement benefit obligations						**39.6**
Overdrafts						**1.7**
Income tax liabilities						**1.7**
Total liabilities						**358.7**

Year ended 31 December 2009	Environment	Infrastructure	Energy & Process	Land Development	Central	Total
	£m	£m	£m	£m	£m	£m
Segment revenue						
External revenue	531.9	364.8	96.7	-	-	993.4
Share of revenue of JVs and associates	62.0	-	4.5	1.2	-	67.7
Total segment revenue	593.9	364.8	101.2	1.2	-	1061.1
Segment profit						
Group operating profit/(loss)	2.1	16.9	9.1	-	(6.1)	22.0
Profit on sales of JVs and associates	2.0	-	-	-	-	2.0
Share of results of JVs and associates	(0.8)	-	0.2	(2.6)	-	(3.2)
Profit/(loss) from operations	3.3	16.9	9.3	(2.6)	(6.1)	20.8
Net finance expense						(2.7)
Profit before tax						18.1
Reportable segment assets	118.8	76.8	42.3	35.4	0.3	273.6
Unallocated assets:						
Deferred tax						34.6
Cash and cash equivalents						120.8
Total assets						429.0
Segment liabilities	186.8	92.8	46.0	-	0.5	326.1
Unallocated liabilities:						
Retirement benefit obligations						104.7
Overdrafts						0.3
Income tax liabilities						1.7
Total liabilities						432.8

	Revenue 2010	Revenue 2009
	£m	£m
United Kingdom	**1,000.8**	1,025.8
Spain	**0.8**	1.2
Rest of the world	**20.9**	34.1
	1,022.5	1,061.1

3 Profit on sales of interests in joint ventures and associates

The £11.2 million profit on sales of interests in joint ventures and associates relates to the transfer of a portfolio of six PFI investments to The Costain Pension Scheme for £22.0 million. As a result of this transfer, £8.1 million of fair value adjustments on the PFI financial assets relating to cash flow hedges were recycled through the income statement.

4 Net finance expense

	2010 £m	2009 £m
Interest income from bank deposits	**0.4**	1.2
Interest income on loans to related parties	**0.6**	1.4
Expected return on defined benefit pension scheme assets	**29.7**	23.4
Finance income	**30.7**	26.0
Interest payable on bank overdrafts and loans	**(0.9)**	(0.5)
Interest cost on the present value of the defined benefit obligations	**(31.3)**	(28.2)
Finance expense	**(32.2)**	(28.7)
Net finance expense	**(1.5)**	(2.7)

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

5 Income tax

	2010 £m	2009 £m
On profit for the year:		
United Kingdom corporation tax at 28.0% (2009: 28.0%)	**-**	-
Adjustments in respect of prior years	**0.2**	0.1
Current tax credit for the year	**0.2**	0.1
Deferred tax charge for the current year	**(5.0)**	(3.4)
Adjustments in respect of prior years	**-**	(0.2)
Deferred tax charge for the year	**(5.0)**	(3.6)
Income tax expense in the consolidated income statement	**(4.8)**	(3.5)
Effective rate of tax	**17.2%**	19.3%

	2010 £m	2009 £m
Tax reconciliation:		
Profit before tax	**27.9**	18.1
Income tax at 28.0% (2009: 28.0%)	**(7.8)**	(5.1)
Rate adjustments relating to overseas profits	**(0.8)**	0.2
Share of results of joint ventures and associates at 28.0% (2009: 28.0%)	**(0.1)**	(0.9)
Disallowed provisions and expenses	**(0.9)**	(0.5)
Non-taxable gains and profits relieved by capital losses	**3.5**	0.6
Utilisation of previously unrecognised temporary differences	**0.8**	2.3
Rate adjustment relating to deferred tax	**0.3**	-
Adjustments in respect of prior years	**0.2**	(0.1)
Income tax expense in the consolidated income statement	**(4.8)**	(3.5)

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

6 Earnings per share

The calculation of earnings per share is based on profit of £23.1 million (2009: £14.6 million) and the number of shares set out below:

	2010 (millions)	2009 (millions)
Weighted average number of ordinary shares in issue for basic earnings per share calculation	**63.5**	63.4
Dilutive potential ordinary shares arising from employee share schemes	**1.7**	1.3
Weighted average number of ordinary shares in issue for diluted earnings per share calculation	**65.2**	64.7

Share numbers included in the earnings per share calculation have been restated for the 1 for 10 share consolidation.

7 Dividends per share

During the year, the 2009 final dividend of 5.5p (2009: 5.0p) per share was paid to shareholders (£3.5 million in cash and £0.1 million via scrip alternative). An interim 2010 dividend of 3.0p (2009: 2.75 p) per share (£1.9 million in cash (2009: £1.7 million in cash and £0.1 million via scrip alternative)) was also paid.

A final dividend in respect of the year ended 31 December 2010 of 6.25p per share, amounting to a dividend of £4.0 million, is to be proposed at the Annual General Meeting. If approved, the dividend is expected to be paid on 20 May 2011 to shareholders registered at the close of business on 15 April 2011; a scrip dividend alternative will be offered. These financial statements do not reflect this dividend payable.

8 Investments

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

				2010				2009
	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	**0.8**	**81.1**	**16.1**	**98.0**	1.2	49.0	17.5	67.7
(Loss)/profit before tax	**(2.5)**	**0.5**	**1.4**	**(0.6)**	(3.7)	(0.8)	0.9	(3.6)
Income tax	**0.7**	**(0.1)**	**(0.5)**	**0.1**	1.1	(0.2)	(0.5)	0.4
(Loss)/profit for the year	**(1.8)**	**0.4**	**0.9**	**(0.5)**	(2.6)	(1.0)	0.4	(3.2)
Non-current assets	**23.6**	**-**	**81.4**	**105.0**	21.7	36.8	114.5	173.0
Current assets	**32.7**	**21.4**	**(8.0)**	**46.1**	35.3	16.4	17.0	68.7
Current liabilities	**(15.5)**	**(20.6)**	**(6.9)**	**(43.0)**	(2.9)	(14.6)	(13.8)	(31.3)
Non-current liabilities	**(17.0)**	**(0.1)**	**(65.0)**	**(82.1)**	(27.5)	(38.0)	(116.1)	(181.6)
Investments in joint ventures and associates	**23.8**	**0.7**	**1.5**	**26.0**	26.6	0.6	1.6	28.8

Net interest payable by joint ventures and associates in 2010 was £0.9 million (2009: £1.6 million payable).

9 Cash and cash equivalents

Cash and cash equivalents are analysed below, and include the Group's share of cash held by jointly controlled operations of £33.8 million (2009: £36.0 million).

	2010	2009
	£m	£m
Cash and cash equivalents	**146.0**	120.8
Bank overdrafts	**(1.7)**	(0.3)
Cash, cash equivalents and overdrafts in the cash flow statement	**144.3**	120.5

10 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 £8.1 million (2009: £11.5 million).

Defined benefit scheme

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

	2010	2009	2008
	£m	£m	£m
Present value of defined benefit obligations	**(576.7)**	(560.5)	(435.8)
Fair value of scheme assets	**537.1**	455.8	385.6
Recognised liability for defined benefit obligations	**(39.6)**	(104.7)	(50.2)

Movements in present value of defined benefit obligations:

	2010	2009
	£m	£m
At 1 January	**560.5**	435.8
Current service cost	**-**	1.7
Past service cost	**1.2**	1.2
Interest cost	**31.3**	28.2
Actuarial losses	**8.5**	113.7
Benefits paid	**(24.8)**	(23.1)
Contributions by members	**-**	3.0
At 31 December	**576.7**	560.5

Movements in fair value of scheme assets:

	2010	2009
	£m	£m
At 1 January	**455.8**	385.6
Expected return on scheme assets	**29.7**	23.4
Actuarial gains	**33.1**	46.3
Contributions by employer	**43.3**	20.6
Contributions by members	**-**	3.0
Benefits paid	**(24.8)**	(23.1)
At 31 December	**537.1**	455.8

Expense recognised in the income statement:

	2010	2009
	£m	£m
Current service cost	**-**	1.7
Past service cost	**1.2**	1.2
Interest cost on defined benefit obligations	**31.3**	28.2
Expected return on scheme assets	**(29.7)**	(23.4)
Total	**2.8**	7.7

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

	2010	2009
	£m	£m
Cost of sales	**1.0**	2.6
Administrative expenses	**0.2**	0.3
Finance income	**(29.7)**	(23.4)
Finance expense	**31.3**	28.2
Total	**2.8**	7.7

Fair value of scheme assets

	2010	2009
	£m	£m
Equities	**207.9**	211.5
High yield bonds	**54.0**	50.6
Government bonds	**131.2**	99.9
Corporate bonds	**53.0**	61.5
Infrastructure and property	**36.0**	-
Absolute return funds and cash	**55.0**	32.3
Total	**537.1**	455.8

The infrastructure holding is the portfolio of six PFI investments transferred by the Group to The Costain Pension Scheme in 2010. The investments were transferred at £22.0 million and all subsequent cash flows benefit the pension scheme. The transfer is included with the employer contributions figure in the movement in fair value of scheme assets.

Principal actuarial assumptions (expressed as weighted averages):

	2010	2009
	%	%
Discount rate	**5.40**	5.70
Expected rate of return on scheme assets	**6.11**	6.51
Future pension increases	**3.40**	3.50
Inflation assumption	**3.40**	3.50

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. The scheme rules specify that future pension increases are based on changes in the Retail Price Index.

Weighted average life expectancy from age 65 as per mortality tables used to determine benefits at 31 December 2010 and 31 December 2009 is:

	2010		2009	
	Male (years)	**Female (years)**	Male (years)	Female (years)
Currently aged 65	**21.4**	**23.6**	20.3	23.2
Non-retirees	**24.2**	**25.5**	21.3	24.1

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:	22.1	0.2
Decrease inflation (and pension increases) by 0.25%, decreases pension liability and pension cost by:	19.4	1.1
Increase life expectancy by one year, increases pension liability and pension cost by:	14.7	0.8

Defined contribution plans
The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £5.3 million (2009: £3.8 million).

11 Related party transactions

The Group has related party relationships with its major shareholders, subsidiaries, joint ventures and associates and jointly controlled operations, in relation to the sales of construction services and materials and the provision of staff, and with The Costain Pension Scheme. The total value of these services in 2010 was £131.2 million (2009: £115.2 million); transactions with The Costain Pension Scheme are included in Note 10.

12 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 2010 and are included by reference in the Directors' Report.

These risks and uncertainties include:

- the general economic outlook, 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 failure to follow the Group's Best Practice procedures: projects are not delivered to time, cost, quality or appropriate health and safety and environmental standards and, therefore, do not meet clients' expectations; in addition, failure to follow Company Standards, Policies, Procedures and Guidelines could adversely affect the Group's reputation and/or expose the Group to financial liabilities and adversely affect the operational, financial and share price performance;

- 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 failure to compete effectively in the marketplace resulting in a failure to win work;
- 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; and
- the loss of IT systems.

13 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.

14 Responsibility statements

The Company's statutory accounts for the year ended 31 December 2010 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 financial statements for the year ended 31 December 2010, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Business Review, which is incorporated into the Directors' Report in those financial statements, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board:

D P ALLVEY
Chairman

ANDREW WYLLIE
Chief Executive