COSTAIN LIMITED

REGISTERED NUMBER 610201

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2009

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

BUSINESS REVIEW

The Company operates in the building and civil engineering markets, primarily within the United Kingdom

Turnover for the year was £893 2 million (2008 £828 7 million) and the company recorded a profit on ordinary activities after taxation of £1 6 million (2008 £9 0 million) Shareholders' funds increased to £59 4 million at 31 December 2009 (2008 £59 1 million) A dividend of £2 4 million was paid during the year (2008 £5 0 million) (see page 4)

At the year-end, the order book was £2 3 billion, of which £740 million related to 2010 The company also had preferred bidder positions in excess of £350 million We have continued to secure major new contracts and preferred bidder positions in 2010, 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

Since the year-end, Costain Group PLC, the ultimate parent undertaking, increased its banking and contract bonding facilities to £345 million and extended them to September 2013 These facilities are available to the company and provide the headroom needed to continue to develop the business

Health, Safety and the Environment

Costain places the highest priority on the effective management of Health, Safety and the Environment The company has a policy requiring all staff and supply chain partners to possess appropriate safety competency cards

The Accident Frequency Rate for the year was 0 17, this compares favourably with our major contractor peer group and we remain fully committed to achieving improvements in this performance in the future

Strategy

The 'Being Number One' strategy, successfully implemented since 2006, has established Costain Group as one of the UK's leading engineering and construction businesses The success has provided a platform that presents the business 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 Costain 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 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 that are looking for contractors capable of providing the full "life-cycle" of services In order to succeed, it is essential that Costain has the scale and ability to deploy the resources required by such customers

Operations

In Water, the Company 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 AMP5 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 In joint venture, Costain was also awarded the £225 million Brighton & Hove waste water treatment works contract for Southern Water

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

BUSINESS REVIEW – continued
This was secured by leveraging Costain's complementary skills in waste and process engineering and provides a firm platform for future growth

In Marine, the Felixstowe South Reconfiguration project is well advanced and is due to be completed in December 2010 St Germans, the second largest pumping station in Europe, is now entering the commissioning phase, following completion of the main building

In Highways, there was another good year with a number of new awards 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 Company 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 company delivered a major part of London Underground's 'Cooling the Tube' programme on the Victoria line, including fans to remove some 120m^3 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 company has secured the renewal of its successful five-year framework with the Manchester Airport Group

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

The business received numerous awards in the year, including "Major Contractor of the Year" from New Civil Engineer magazine for an unprecedented second successive year and the "Supreme Award" from Construction News

Principal risks
The principal risks, which could affect the operations and consequently the results of the company, are

- People – A flexible, highly skilled and well-motivated work force is essential to meeting the company's business objectives
- Health and Safety – Safety is the number one priority within the company It is a responsibility of both the company and individual employees to ensure that the company's operations are managed in a safe and healthy manner
- Competition – The markets in which the company operates are highly competitive The company wins work in these competitive markets by being customer focused and innovative
- Market and economic factors – The company is dependent on a macroeconomic environment that encourages both private and public sector infrastructure investment
- Contract risk – The company is exposed to financial, brand and reputational risk if it fails to complete contracts on time or within the contract price or fails to comply with the contract specification
- Failing to win contracts – If the company fails to win major work from a key client this could cause short-term turnover and profitability issues
- Risk of missing deadlines – The construction industry is highly schedule driven and failure to meet schedule requirements within contacts could adversely affect the company's reputation and/or exposure to financial liability

- Change of Government policy – The company is partly dependent on the current UK Government's policy with regard to improving public infrastructure, buildings and services notably in the education, roads, health, waste and nuclear sectors A change in priorities resulting in a reduction in Government investment and funding in such areas would be likely to adversely affect the company's future revenues and profitability
- Procurement delays – Certain Government-related projects on which the company may work may require relevant approvals from Government ministers or senior civil servants It is possible that, due to difficulties obtaining such approvals, projects may be delayed before procurement has started, during the tender stage or during the period between the appointment of a preferred bidder and the exchange of contracts Such delays could affect future revenue streams and have an adverse impact on the company's business, results of operations and financial condition
- Contract disputes – The company takes a prudent view on valuing formal disputes on contracts This will reduce the potential risk of over-valuation
- Supply chain – The company is reliant on its supply chain and if a sub-contractor or supplier failed financially or was responsible for late or inadequate delivery or poor quality of work on a project then it could impact the company
- IT systems – The company is dependent on IT systems for the delivery of its business and believes that its IT systems are reliable and well protected but the company recognises that such systems need constant updating and maintenance because failure could damage the company
- Insurance – The company believes it has robust, comprehensive and adequate insurance cover but it recognises that a claim could be made against the company, which exceeds the limits of insurance cover or is in respect of a matter that is uninsurable
- Environment – The company recognises that its activities could potentially have a significant influence upon the quality and diversity of the environment and that a breach of its environmental obligations could be damaging to the company

Risk management has been an important issue within the company for many years and this includes a specific project risk management procedure, which requires a Tender Project Risk Register and a Commercial Risk Review to be prepared in respect of each contract bid The risks are divided into four categories safety, technical, operational and environmental and are reviewed by the project manager and commercial manager of the project on a continuing basis following contract award

The Executive Investment Panel reviews tender bids and risk mitigations in respect of those bids and part of its purpose is to ensure that the company is as selective as possible when taking on potential liabilities or recognising opportunities

The company considers the following Key Performance Indicators are the most effective measures of progress toward achieving its objectives Profit before tax, Order book, Cash flow from operations, Accident Frequency Rate and staff retention rate As part of the monitoring of these indicators, a Project Manager's Report is produced for each project and reviewed by senior management every month This report contains a number of indicators regarding project performance Health and Safety, Customer service, Programme, Financial performance, Claims and variations, Cash management, Resource levels and Risk management

Donations

Costain Limited charitable donations of £88,985 (2008 £78,013) were made during the year No political donations were made (2008 £Nil)

As required by the Large – and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, donations in excess of £2,000 must be reported in the Financial Statements

	£
Community and Sport	32,907
Water Aid	12,164
East Anglian Children's Hospice	2,000
Business in the Community	5,800
Rainbow Trust Children's Charity	2,157
Cherished Memories	3,000
Help for Heroes	2,200
Kent Air Ambulance	9,000
Crash	6,000
	75,228

DIRECTORS

The directors and those who held office during the year were as follows

A Wyllie	A J Vaughan
A O Bickerstaff	S F Wells
R P N Bruce	D G James
M D Hunter	T A Wood
D H Jenkins	
A Kay	

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

AUDITORS

Pursuant to Section 487 of the Companies Act the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office

FORWARD-LOOKING STATEMENTS

The report may contain 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

CREDITOR PAYMENT POLICY AND PRACTICE

As a result of the nature of the company's businesses, the contractual relationships with suppliers of goods and services and with sub-contractors vary according to circumstances It is the company's policy to enter into any appropriate form of contractual agreement on payment terms and to pay according to those terms The company does not follow any particular code of practice for the payment of creditors In practice, the company makes every effort to pay when it can be confirmed that the supplier has provided the goods or services in accordance with the relevant terms of the contract The amount of trade creditors shown in the balance sheet at the end of the financial year represents 45 days (2008 60 days) of average daily purchases

EMPLOYMENT OF DISABLED PERSONS

It is the company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue wherever possible the employment of and to arrange appropriate training for those who become disabled and to provide equal opportunities for the training and career development of disabled employees

EMPLOYEE INVOLVEMENT

The Costain Group provides information to its employees both of a general company nature and to encourage awareness of financial and economic factors, which affect the company in various ways These include an in-house magazine, information via our electronic mail system (including a monthly Chief Executive's update), circulation of press releases, management briefings on company results, a report to employees on the annual financial statements of the Group and annual pension scheme reports Participation and involvement are encouraged through regular management meetings with employees

DIVIDEND

The directors approved a final ordinary dividend in respect of the current financial year of £0 6165 (2008 £1 2844) per share This was the only dividend paid during the year

BY ORDER OF THE BOARD

CLIVE L FRANKS
SECRETARY
16 April 2010

REGISTERED OFFICE
Costain House, Vanwall Business Park
Maidenhead, Berkshire SL6 4UB

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COSTAIN LIMITED
For the year ended 31 December 2009

We have audited the financial statements of Costain Limited for the year ended 31 December 2009 set out on pages 7 to 20 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP.

Opinion on financial statements
In our opinion the financial statements
- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

S. McCallion

S McCallion (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

16 April 2010

COSTAIN LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	893,213,105	828,668,077
Cost of sales		(870,888,759)	(800,385,443)
Gross profit		22,324,346	28,282,634
Administrative expenses		(20,505,906)	(21,189,887)
Operating profit	2	1,818,440	7,092,747
Interest received			
- On amounts due from group undertakings		266,488	5,001,767
- External		109,921	989,040
Profit on ordinary activities before taxation	3	2,194,849	13,083,554
Taxation	6	(619,933)	(4,062,413)
Profit on ordinary activities after taxation		1,574,916	9,021,141

There were no recognised gains or losses other than the profit for the year and the preceding year

The above results are all derived from continuing operations

THE NOTES ON PAGES 9 TO 20 FORM PART OF THESE FINANCIAL STATEMENTS

COSTAIN LIMITED
BALANCE SHEET
As at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	7	10,296,133	6,947,159
Investments	8	28	29
		10,296,161	6,947,188
Current assets			
Stocks		2,314,858	1,517,659
Debtors amounts falling due within one year	9	258,842,043	284,358,374
Debtors amounts falling due after more than one year	9	20,186,245	12,438,607
Cash at bank and in hand	10	35,182,036	27,304,276
		316,525,182	325,618,916
Creditors amounts falling due within one year	11	(262,000,945)	(270,543,724)
Net current assets		54,524,237	55,075,192
Total assets less current liabilities		64,820,398	62,022,380
Creditors: amounts falling due after more than one year	12	(4,546,439)	(2,303,745)
Provisions for liabilities and charges	13	(825,000)	(572,691)
Net assets		59,448,959	59,145,944
Capital and reserves			
Called up share capital	15	3,892,858	3,892,858
Profit and loss account	16	55,556,101	55,253,086
Equity shareholders' funds	17	59,448,959	59,145,944

The financial statements were approved by the Board of Directors on 16 April 2010 and were signed on its behalf by

M D Hunter
Director

Company Registered Number 610201

THE NOTES ON PAGES 9 TO 20 FORM PART OF THESE FINANCIAL STATEMENTS

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards under the historical cost convention

Interests in unincorporated joint arrangements, which are not subsidiary undertakings, are accounted for by recognising the company's share of the assets and liabilities, profits, losses and cash flows, measured according to the terms of the arrangement

The Company's principal business activity, which involves long-term contracts with a number of customers across the United Kingdom, is described in the business review on page 1 To meet its day-to-day working capital requirements, it uses cash balances provided from shareholders' capital and retained earnings The ultimate parent company, Costain Group PLC, manages its United Kingdom cash balances using a centralised cash system and surplus cash held by the Company outside joint arrangements is loaned at interest to a fellow subsidiary on a day-to-day basis These loans are repaid daily to meet any cash requirements Also, as part of its contracting operations, the Company may be required to provide performance and other bonds and it satisfies these requirements by utilising committed bonding facilities from banks and surety companies made available to Costain Group PLC and its subsidiaries

The directors have acknowledged the guidance "Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009 The directors have considered the Company's financial requirements, the current order book and future opportunities and the available bonding facilities As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus, they continue to adopt the going concern basis in preparing these financial statements

CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent company includes the company in its own published consolidated financial statements

TURNOVER

Turnover is measured at the fair value of the consideration received or receivable, net of value added tax and includes the company's share of turnover of joint arrangement contracts

Turnover from construction contracts is described below

Turnover from the sale of goods and services is recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer, the amount of turnover can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the company

Rental income is recognised in the income statement on a straight-line basis over the term of the lease Lease incentives are recognised as an integral part of the total rental income on a straight-line basis over the term of the lease

LONG-TERM CONTRACTS

Turnover arises from increases in valuations on contracts Where the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, turnover and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet

1. **Accounting policies** - continued

date Stage of completion is assessed by reference to the proportion of contract costs incurred for the work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion

When it is probable that total contract costs will exceed total contract turnover, the expected loss is recognised as an expense immediately

Variations and claims are included where it is probable that the amount, which can be measured reliably, will be recovered from the customer When the outcome of a construction contract cannot be estimated reliably, contract turnover is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable

Contract costs are recognised as expenses in the period in which they are incurred

BID COSTS

Costs associated with bidding for contracts are written off as incurred When it is probable that a contract will be awarded, usually when the company has secured preferred bidder status, costs incurred from that date to the date of financial close are carried forward in the balance sheet

TAXATION

Deferred taxation has been recognised as a liability or asset, except as otherwise required by FRS 19 'Deferred Tax', if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future An asset is not recognised to the extent that the transfer of economic benefit in future is uncertain Deferred tax assets and liabilities recognised have not been discounted

FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at year-end exchange rates Exchange differences on such items and on transactions completed in the ordinary course of business are dealt with in profit on ordinary activities Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transactions

PENSIONS

The company participates, on a defined contributions basis, in two pension schemes for the benefit of its own and seconded employees The assets of both schemes are held separately from those of the company in independently administered funds

The cost of pensions, in respect of the pension schemes in which the company participates, is charged to the profit and loss account and is equal to the contributions payable in the accounting period

SHARE BASED PAYMENTS

Costain Group PLC operates various equity-settled and cash-settled share option schemes Equity-settled share-based payments are measured at fair value at the date of grant and the fair value is expensed over the vesting period, based on the estimate of awards that will eventually vest For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date Fair value is measured by the use of the Black-Scholes option pricing model

STOCKS

Stocks comprise raw materials and are stated at the lower of cost and net realisable value

1 Accounting policies - continued

DEPRECIATION

Except for land, which is not depreciated, the cost or valuation of tangible fixed assets is depreciated over the expected life on a straight-line basis to residual values as follows

	Percentage per annum
Long leasehold buildings	2%
Plant and equipment	10% - 50%

2. Business and geographical segment information

Business segments
The majority of turnover arises from building and civil engineering work and turnover by destination is not materially different from turnover by origin

Geographical segments	Turnover 2009 £	Turnover 2008 £
United Kingdom	893,213,105	828,668,077

	Operating profit 2009 £	Operating profit 2008 £
United Kingdom	1,818,440	7,092,747

	Net assets 2009 £	Net assets 2008 £
United Kingdom	(46,989,840)	(78,405,935)
Rest of the World	136,893	153,687
External debtors and creditors	(46,852,947)	(78,252,248)
Other net assets	106,301,906	137,398,192
Equity shareholders' funds	59,448,959	59,145,944

External and intra-group	Turnover 2009 £	Turnover 2008 £
External turnover	882,876,188	820,461,970
Intra-group turnover	10,336,917	8,206,107
	893,213,105	828,668,077

3. Profit on ordinary activities before taxation

	2009 £	2008 £
Profit on ordinary activities is stated after charging		
Hire of plant and machinery	36,340,875	29,375,699
Depreciation	2,776,440	2,374,000
Profit on sale of fixed assets	-	-
Auditors' remuneration – audit of these financial statements	275,000	275,000

Fees paid to KPMG Audit Plc for services other than the statutory audit of the company are not disclosed in these accounts since the consolidated accounts of the ultimate parent, Costain Group PLC, are required to disclose non-audit fees on a consolidated basis

4. Remuneration of directors

	2009 £	2008 £
Directors' emoluments	1,836,596	1,785,375
The emoluments, excluding pension contributions, of the highest paid director	277,567	293,056
The highest paid director's accrued retirement pension (per annum)	70,480	99,224

	Number of directors 2009	2008
Retirement benefits under defined benefit schemes are accruing to the following number of directors who held office at the year end	8	8

A Wyllie and A O Bickerstaff receive their remuneration entirely as directors of Costain Group PLC

The director long-term incentive plans all relate to shares in Costain Group PLC

5 Staff numbers and costs

The average number of operational personnel employed by the company during the year in the United Kingdom was 417 (2008 312)

In addition, the average number of staff seconded from a group undertaking that worked during the year for the company was 2,156, comprising administrative 518 and operational 1,638 (2008 526 and 1,667)

The aggregate payroll costs were as follows

	2009 £	2008 £
Wages and salaries	103,463,713	96,494,418
Social security costs	10,591,105	9,594,344
Pension costs	15,953,418	15,510,184
Share-based payments	1,128,099	632,288
	131,136,335	122,231,234

5 Staff numbers and costs - continued

The company participates in the Building & Civil Engineering stakeholder pension scheme known as EasyBuild

The company incurs pension costs in respect of employees seconded from a group undertaking on a defined contributions basis As from 1 April 2006, the seconded employees that participate in the Costain Group's UK defined benefit pension scheme are provided with benefits based on a Career Average Revalued Earnings basis The scheme was closed for future accrual on 30 September 2009 and replaced by a defined contribution scheme Details of the schemes are included in the financial statements of Costain Group PLC

The cost for the period of contributions to these schemes is included in the analysis above There are no outstanding or prepaid contributions at the balance sheet date

6 Taxation

	2009 £	2008 £
On profit for the year		
United Kingdom corporation tax at 28% (2008 28 5%)	(1,638,454)	(1,138,491)
Adjustment in respect of prior years	-	52,175
Total current tax	(1,638,454)	(1,086,316)
Deferred taxation	491,957	(2,998,769)
Adjustments in respect of prior year and change of tax rate	526,564	22,672
Tax on profit on ordinary activities	(619,933)	(4,062,413)

Tax reconciliation	2009 £	2008 £
Profit on ordinary activities before taxation	2,194,849	13,083,554
Tax at 28% (2008 28 5%)	(614,558)	(3,728,813)
Sundry disallowed expenditure	(531,939)	(427,030)
(Increase)/decrease in timing differences	(491,957)	2,964,416
Deferred tax rate change	-	52,936
Adjustments for prior years	-	52,175
Total current tax	(1,638,454)	(1,086,316)

The elements of deferred taxation at 28% are as follows

	2009 £	2008 £
Accelerated capital allowances	2,451,151	2,276,637
Other timing differences	4,997,528	4,153,521
	7,448,679	6,430,158

6 Taxation - continued

The movement in the deferred taxation asset was as follows

	£
Asset at the beginning of the year	6,430,158
Amount charged to the profit and loss account	491,957
Credited in respect of prior years	526,564
Asset at the end of the year	7,448,679

The company has other deferred taxation assets that have not been recognised on the basis that their future economic benefit was not assured as at the balance sheet date Tax relief will be obtained if suitable profits arise in future accounting periods

The full potential deferred taxation assets not recognised at 28% were

	2009 £	2008 £
Other timing differences	-	356,353
Trading tax losses	-	38,112
Surplus ACT	7,379,002	7,379,002
Capital losses	147,375	147,375

7 Tangible fixed assets

	Land and buildings		Plant and equipment	Total
	Freehold	Leasehold over 50 years		
Cost	£	£	£	£
At 1 January 2009	1,077,746	220,000	16,246,505	17,544,251
Additions	-	-	6,425,415	6,425,415
Disposals	-	-	(4,203,176)	(4,203,176)
At 31 December 2009	1,077,746	220,000	18,468,744	19,766,490
Depreciation				
At 1 January 2009	132,849	85,800	10,378,443	10,597,092
Provisions	9,690	4,400	2,762,350	2,776,440
Disposals	-	-	(3,903,175)	(3,903,175)
At 31 December 2009	142,539	90,200	9,237,618	9,470,357
Net book value				
At 31 December 2009	935,207	129,800	9,231,126	10,296,133
At 31 December 2008	944,897	134,200	5,868,062	6,947,159

Freehold land and buildings includes land of £750,746 (2008 £750,746) on which no depreciation has been charged (2008 £Nil)

8 Investments

	Subsidiary undertakings	Joint ventures	Total
	£	£	£
Cost and net book value			
At 1 January 2009	1	28	29
Struck off during the year	(1)	-	(1)
At 31 December 2009	0	28	28

9. Debtors

	2009	2008
Amounts falling due within one year	£	£
Trade debtors	86,316,519	88,250,519
Amounts recoverable on long term contracts	58,080,236	50,397,290
Amounts owing by group undertakings	102,200,852	138,186,290
Other debtors	5,494,934	1,684,556
Prepayments and accrued income	4,656,975	3,206,192
Amount owed by joint venture	2,092,527	2,633,527
	258,842,043	284,358,374
Amounts falling due after more than one year		
Other debtors	12,737,566	6,008,449
Deferred taxation (Note 6)	7,448,679	6,430,158
	20,186,245	12,438,607
	279,028,288	296,796,981

10 Cash at bank and in hand

The company's banker has the right to set off the company's bank balance when in credit against borrowings by Richard Costain Limited In addition, these arrangements require that all cash balances are transferred to a fellow subsidiary, Richard Costain Limited, on a daily basis, such arrangements are commonplace in large groups and facilitate effective cash management Costain Limited's cash balance is replaced with an inter-company receivable from Richard Costain Limited, the directly held cash balance at the balance sheet date reduces to £Nil, with the balance of £35,646,692 (2008 £33,804,276) represented by uncleared items and cash held in separate accounts within joint arrangements

11 Creditors - amounts falling due within one year

	2009 £	2008 £
Trade creditors	104,979,094	131,996,856
Amounts owing to parent and group undertakings	13,495,190	13,971,921
Credit balances on long term contracts	18,224,862	24,120,376
Taxation	1,638,454	1,138,491
Other creditors including taxation and social security	9,649,932	9,410,238
Accruals and deferred income	114,013,413	89,905,842
	262,000,945	270,543,724

12 Creditors - amounts falling due after more than one year

	2009 £	2008 £
Other creditors	4,546,439	2,303,745

13 Provisions for liabilities and charges

	At beginning of year £	Provided £	Utilised £	At end of year £
Other provisions	572,691	825,000	(572,691)	825,000
	572,691	825,000	(572,691)	825,000

The other provisions relate to liabilities incurred on vacated leasehold properties and will be utilised within the next year

14 Share based payments

The following schemes all relate to shares in Costain Group PLC and have earnings and profit targets based on the results of Costain Group PLC

(a) Long-term incentive plans

The following outstanding grants arrange for the grant of shares to executive directors and senior management at an exercise price of £1 per individual grant They have been valued using a Black-Scholes valuation model assuming a 2% dividend yield on the 2009 schemes (2% on the 2008 schemes, 0% pre-2008) and 20% volatility The expected volatility for the share option arrangements uses historical volatility, determined by the analysis of daily share price movements over the past three years, as a basis for estimating the future volatility In 2007, the EPS targets and entitlements in respect of all then outstanding grants were adjusted to take account of the capital raised in that year and the increased number of shares in issue

14. Share based payments - continued

(b) Deferred share bonus plan

The following outstanding grant arranges for the grant of shares to executive directors and senior management A nil-cost option will be granted to participants on a sliding scale between 0% and 100% pro rata to achieving Group Earnings before Interest and Tax of £19 0 million - £21 5 million for the year ended 31 December 2009 The number of shares to which a participant will be entitled will be calculated on the basis of the monetary value of the deferred bonus divided by the average closing share price for the Group during the month of December 2009 The deferred bonus award will vest on the second anniversary of the date of grant provided participants are in employment with the Company and not under notice of termination (either given or received) on the date of vesting

Arrangement	LTIP 2007	LTIP 2007	LTIP 2008
Date of grant	18 April 2007	14 June 2007	21 April 2008
Number of instruments granted	1,054,901	4,139,642	2,453,607
Share price at date of grant	51 0p	48 8p	25 0p
Contractual life	4 Years	4 Years	2 5 Years
Vesting conditions			
- Service period	3 Years	3 Years	3 Years
- EPS Targets	between 3 27p-3 71p	between 3 27p-3 71p	between 3 09p-3 43p
- Year shares issued	2010	2010	2010
Settlement	Shares	Cash	Shares
Normally exercisable in periods to	17 April 2017	13 June 2017	20 April 2018
Expected option life at grant date	4 Years	4 Years	3 Years
Risk-free interest rate	4 5%	4 5%	3 85%
Fair value per granted instrument determined at the grant date	8 4p	7 1p	23 7p
Number of ordinary shares - 2008	1,210,107	4,369,058	2,453,607
Number of ordinary shares - 2009	1,210,107	4,083,295	2,453,607

Arrangement	LTIP 2008	LTIP 2009	DSBP 2009
Date of grant	21 April 2008	7 April 2009	7 April 2009
Number of instruments granted	10,489,905	7,583,743	4,619,202
Share price at date of grant	25 0p	23 0p	23 0p
Contractual life	2 5 Years	2 75 Years	
Vesting conditions			
- Service period	3 Years	3 Years	3 Years
- EPS Targets	between 3 09p-3 43p	between 2 10p-2 75p	n/a (see above)
- Year shares issued	2010	2011	2012
Settlement	Cash	Shares	Shares
Normally exercisable in periods to	20 April 2018	6 April 2019	6 April 2019
Expected option life at grant date	3 Years	3 Years	3 Years
Risk-free interest rate	3 85%	4 31%	4 31%
Fair value per granted instrument determined at the grant date	18 7p	21 8p	21 8p
Number of ordinary shares - 2008	10,030,937	-	-
Number of ordinary shares - 2009	8,789,220	7,339,788	4,468,462

During the year, five participants in the LTIPs left the employ of the Group and ceased to participate in the 2009 LTIP, the 2009 DSBP, the 2007 cash LTIP and the 2008 cash LTIP (2008 two participants left the employ of the Group) The only new grants in the year were the 2009 LTIP and the 2009 DSBP

The options outstanding at the year end have a weighted average contractual life of 1 7 years (2008 2 years)

14. Share based payments - continued

(c) Save As You Earn schemes

The following outstanding SAYE plans have been valued using a Black-Scholes valuation model assuming 2% dividend yield on the 2009 schemes (2% on the 2008 schemes, 0% pre-2008) and 20% volatility The expected volatility for the share option arrangements uses historical volatility, determined by the analysis of daily share price movements over the past three years, as a basis for estimating the future volatility In 2007, the exercise price and entitlements in respect of all then outstanding grants were adjusted to take account for the capital raised in that year and the increased number of shares in issue

Arrangement	**SAYE 2007 3 Yr**	**SAYE 2007 5 Yr**	**SAYE 2008 3 Yr**	**SAYE 2008 5 Yr**
Date of grant	18 May 2007	18 May 2007	23 May 2008	23 May 2008
Number of instruments granted	5,854,721	4,132,235	12,838,252	7,594,368
Share price at date of grant	47 75p	47 75p	24 5p	24 5p
Exercise price	33 3p	33 3p	19 6p	19 6p
Contractual life	3 Years	5 Years	3 Years	5 Years
Vesting conditions				
- Service period	3 Years	5 Years	3 Years	5 Years
- Savings requirement	Yes	Yes	Yes	Yes
Settlement	Shares	Shares	Shares	Shares
Normally exercisable in periods to	31 December 2010	31 December 2012	31 December 2011	31 December 2013
Expected option life at grant date	3 Years	5 Years	3 Years	5 Years
Risk-free interest rate	4 5%	4 5%	3 85%	3 85%
Fair value per granted instrument determined at the grant date	11 27p	12 63p	6 4p	7 08p
Number of ordinary shares – 2008	3,175,048	1,910,779	12,293,449	7,318,692
Number of ordinary shares – 2009	2,727,848	1,640,339	11,155,875	6,755,716

The number and weighted average exercise prices of share options issued under all LTIP (including DSBP) and SAYE Plans

	LTIP plans		SAYE plans		Total	
	p	Number	p	Number	p	Number
Outstanding at the 1 January 2008	39 8	12,602,831	29 5	18,666,868	33 6	31,269,699
Forfeited during the year	38 1	(3,148,423)	31 3	(8,939,981)	33 0	(12,088,404)
Exercised during the year	-	-	17 7	(3,679,949)	17 7	(3,679,949)
Granted during the year	20 7	12,943,512	19 6	20,432,620	20 0	33,376,132
Outstanding at 31 December 2008	28 6	22,397,920	22 9	26,479,558	25 5	48,877,478
Forfeited during the period	44 4	(6,268,283)	24 5	(2,591,465)	38 6	(8,859,748)
Exercised during the year	-	-	21 2	(138,136)	21 2	(138,136)
Granted during the period	23 0	12,567,498	-	-	23 0	12,567,498
Outstanding at 31 December 2009	24 9	28,697,135	22 7	23,749,957	23 9	52,447,092

Exercisable at the end of the year	-	-	29 3	1,470,179	29 3	1,470,179

The share options exercised during the year related to the SAYE 2004 5 year Plan, which matured in December 2009

15. Share capital

	2009 and 2008 Authorised	2009 and 2008 Issued and fully paid
	£	£
Ordinary shares of £1 each	5,000,000	3,892,858

16. Reserves

	Profit and loss
	£
At 1 January 2009	55,253,086
Profit for the financial year	1,574,916
Dividend paid in the financial year	(2,400,000)
Equity-settled share-based payments	1,128,099
At 31 December 2009	55,556,101

17 Reconciliation of movement in shareholders' funds

	2009	2008
	£	£
Profit for the financial year	1,574,916	9,021,141
Dividend paid in the financial year	(2,400,000)	(5,000,000)
Equity-settled share-based payments	1,128,099	584,972
Opening shareholders' funds	59,145,944	54,539,831
Closing shareholders' funds	59,448,959	59,145,944

18. Contingent liabilities

The company has entered into cross guarantees together with the ultimate parent company and certain fellow group undertakings for overdraft facilities made available to the group At 31 December 2009, these liabilities amounted to £Nil (2008 £Nil)

There are also contingent liabilities in respect of performance bonds and other undertakings entered into in the ordinary course of business

19. Subsidiary undertakings, joint ventures and joint arrangements

Investments held in subsidiary undertakings and joint ventures are

	Activity	Percentage of equity held	Country of incorporation
Joint ventures			
4Delivery Ltd	Civil Engineering	40	England
Brighton & Hove 4Delivery Ltd	Civil Engineering	49	England
ACM Health Solutions Ltd	Construction	33 33	England
Stratus Integrated Services Ltd	Construction	25	England

19 Subsidiary undertakings, joint ventures and joint arrangements - continued

The major joint arrangements in which the company has an interest are

Joint arrangements	Activity	Percentage of equity held
A-one+ Integrated Highway Services – MAC 10	Civil Engineering	25
A-one+ Integrated Highway Services – MAC 7	Civil Engineering	33
A-one+ Integrated Highway Services – MAC 12	Civil Engineering	33
Costain-Carillion Joint Venture – M1 Widening & A5/M1 Link	Civil Engineering	50
Educo UK Joint Venture – Bradford Schools	Building	50
Galliford-Costain-Atkins Joint Venture – United Utilities	Civil Engineering	42
Stream Three Joint Venture – Costain-VWS (UK) Ltd	Civil Engineering	50
Costain-Skanska Joint Venture – A14	Civil Engineering	50
Costain-Laing O'Rourke Joint Venture – Kings Cross Eastern Range	Civil Engineering	50
Costain-Laing O'Rourke Joint Venture – Farringdon	Civil Engineering	50
Lafarge Costain Joint Venture – E & SE Framework	Civil Engineering	50

All subsidiary undertakings, joint ventures and joint arrangements operate in the United Kingdom

20 Related party transactions

Transactions with wholly owned subsidiaries of Costain Group PLC, the ultimate parent company, are exempt from disclosure under FRS 8 Related party disclosures

The company's related party transactions as defined by FRS 8 and the nature of the relationships and the amounts involved are summarised below

Sales of goods and services to related parties	2009 Joint arrangements	2009 Joint ventures	2009 Total	2008 Joint arrangements	2008 Joint ventures	2008 Total
	£	£	£	£	£	£
Staff	36,646,049	13,776,015	50,422,064	26,174,322	11,603,110	37,777,432
Management services	-	-	-	91,990	-	91,990
Construction services and materials	157,508	-	157,508	438,734	1,357,110	1,795,844
	36,803,557	13,776,015	50,579,752	26,705,046	12,960,220	39,665,266

21. Ultimate parent undertaking

The largest and the smallest group of undertakings for which group financial statements are drawn up is that of the ultimate parent undertaking, Costain Group PLC, a company registered in England and Wales

Copies of the group financial statements of Costain Group PLC may be obtained from the registered office of the company, Costain House, Vanwall Business Park, Maidenhead, Berkshire SL6 4UB