

# Interim results for the half year ended 30 June 2011



## Transforming Costain

Presentation to analysts  
25 August 2011





# David Allvey, Chairman

COSTAIN



# Welcome to Costain

- » Strategy delivering strong performance
- » Dividend increased
- » Clear ambition to double profit over the medium term



# Tony Bickerstaff, Finance Director



# Strategy transforming Costain

- » Now established Tier One engineering solutions provider
- » Delivering the largest waste PFI project in Europe and the largest nuclear decommissioning project in the UK...and is the leading service provider to the UK Highways Agency
- » Increased tendering activity for £billions of contracts to provide broader range of services across Environment, Infrastructure and Energy & Process markets
- » Further enhanced strong cash position
- » Two acquisitions in last six months
- » c. 25% of revenues now from support service related activities
- » Enhancing position with, and repeat business from, blue chip customer base

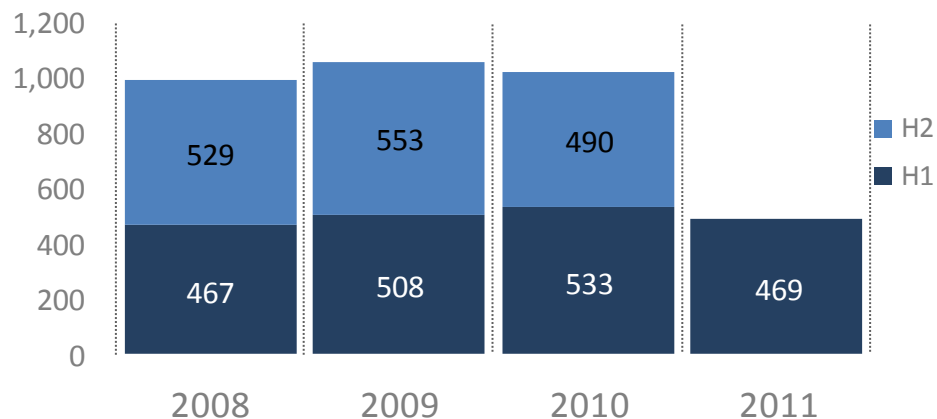
# Financial highlights

- » Revenue\* of £468.5m (H1 2010: £533.4m) following previous strategic decision to withdraw from lower margin activities
- » Profit from operations up 6% to £9.3m (H1 2010: £8.8m)
- » Profit before tax up 23% to £10.1m (H1 2010: £8.2m)
- » Basic earnings per share up 19% to 11.9p (H1 2010: 10.0p)
- » High quality order book at £2.3bn (H1 2010: £2.5bn)
  - » More than £900m of revenue secured for 2011 at half year
- » Strong net cash position of £149.2m (H1 2010: £133.9m)
  - » Average month end balance £132.8m (H1 2010: £114.1m)
- » Total banking and bonding facilities increased by £90m to £435m
- » Increased interim dividend of 3.25p, up 8% on H1 2010 interim dividend of 3.0p

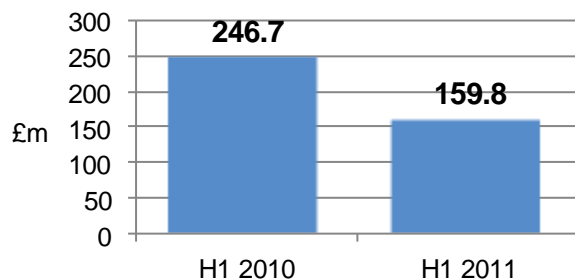
\* Including share of joint ventures and associates

# Revenue profile changing

## Revenue £m

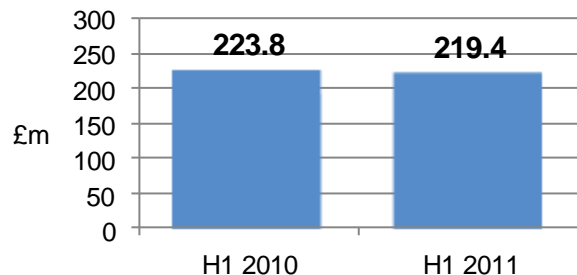


## Environment\*

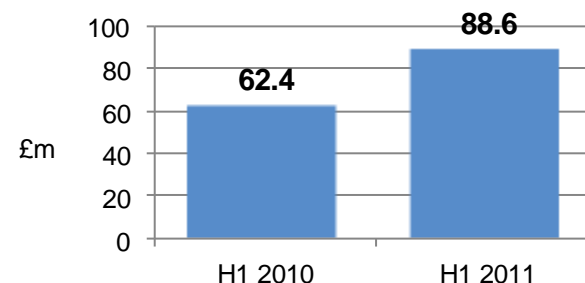


(\* Community division integrated into Environment division in 2010)

## Infrastructure

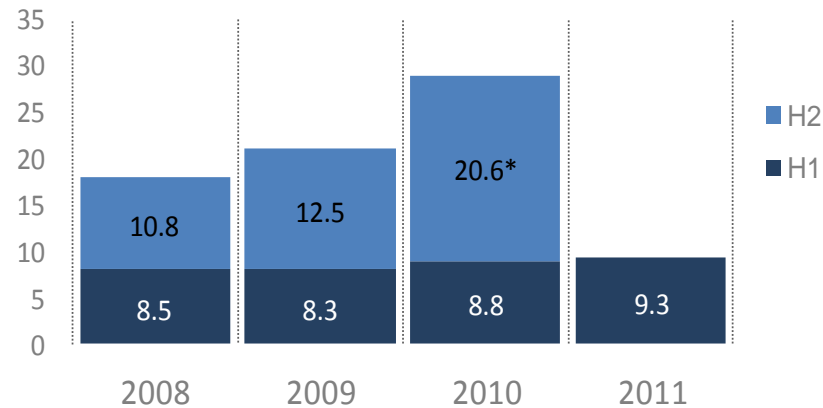


## Energy & Process



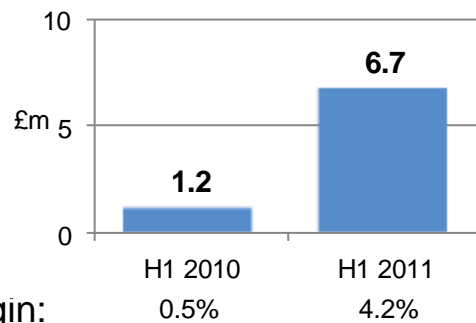
# Growth in profit from operations

## Profit from Operations £m



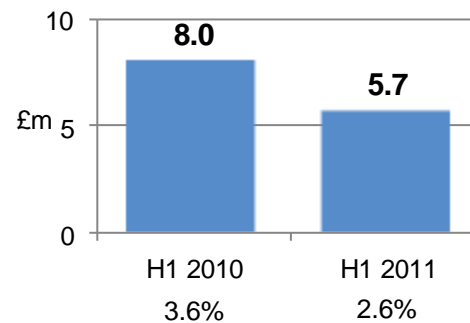
\*including profit arising from PFI transfer to pension scheme

### Environment

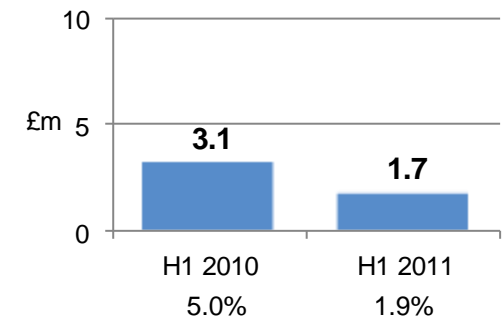


Margin:

### Infrastructure



### Energy & Process





# Segmental income statement

## Half year ended 30 June

	H1 2011		H1 2010		Full Year 2010	
	£m	<i>Margin</i>	£m	<i>Margin</i>	£m	<i>Margin</i>
Environment	6.7	4.2%	1.2	0.5%	17.2*	3.5%
Infrastructure	5.7	2.6%	8.0	3.6%	12.2	3.1%
Energy & Process	1.7	1.9%	3.1	5.0%	8.2	6.0%
Land Development	(0.7)		(0.5)		(1.8)	
Central costs	(4.1)		(3.0)		(6.4)	
<b>Profit from operations</b>	<b>9.3</b>		<b>8.8</b>		<b>29.4*</b>	
Net finance income/(expense)	0.8		(0.6)		(1.5)	
<b>Profit before tax</b>	<b>10.1</b>		<b>8.2</b>		<b>27.9*</b>	
Basic EPS	11.9p		10.0p		36.4p*	

\*Including profits arising from PFI transfer to pension scheme

# Net finance income/(expense)

	H1 2011 £m	H1 2010 £m	FY 2010 £m
<b>Net Bank Deposit/Loan interest</b>	<b>(0.1)</b>	0.4	0.1
<b>IAS19 Pension Scheme interest:</b>			
Expected return on scheme assets	16.3	14.8	29.7
Interest cost on present value of obligations	<u>(15.4)</u>	<u>(15.8)</u>	<u>(31.3)</u>
<b>IAS19 Pension Scheme net interest</b>	<b>0.9</b>	<u>(1.0)</u>	<u>(1.6)</u>
<b>Net finance income/(expense)</b>	<b>0.8</b>	<u>(0.6)</u>	<u>(1.5)</u>

# Enhanced cash position

## Half year ended 30 June

	H1 2011	H2 2010	FY 2010
	£m	£m	£m
<b>Cash and cash equivalents at beginning of period</b>	<b>144.3</b>	120.5	120.5
Cash generated by operating activities	<b>22.6</b>	18.7	30.7
Cash used by investing activities	<b>(14.0)</b>	(1.9)	(1.6)
Dividends	<b>(3.8)</b>	(3.4)	(5.4)
Effects of foreign exchange rate changes	<b>0.1</b>	-	0.1
<b>Cash and cash equivalents at end of period</b>	<b>149.2</b>	133.9	144.3
Net cash reconciliation			
Cash and cash equivalents at end of period	<b>149.2</b>	133.9	144.3
Less: Interest bearing loans and borrowings	<b>0.0</b>	0.0	0.0
<b>Reported net cash</b>	<b>149.2</b>	133.9	144.3

**Average month-end cash balance £132.8m (H1 2010: £114.1m)**

# Increased banking & bonding facilities

- » Facilities increased by £90m to £435m
  - » c. 40% currently utilised for bonding
- » Net cash of £149.2m
- » Supportive and flexible financing in place to support strategy of continuing organic and acquisitive growth



# Balance sheet

## Half year ended 30 June

	30 June 2011 £m	30 June 2010 £m	31 December 2010 £m
Non current assets (excluding pension deficit deferred tax)	82.0	73.2	76.3
Trade and other receivables	175.7	196.6	163.3
Cash	151.2	134.7	146.0
Current assets	<u>326.9</u>	<u>331.3</u>	<u>309.3</u>
<b>Total assets</b>	<b>408.9</b>	<b>404.5</b>	<b>385.6</b>
Current liabilities	<u>(332.4)</u>	<u>(334.7)</u>	<u>(311.4)</u>
<b>Total assets less current liabilities</b>	<b>76.5</b>	<b>69.8</b>	<b>74.2</b>
Non current liabilities (excluding net pension liability)	(8.7)	(7.9)	(7.7)
Pension liability net of deferred tax	<u>(26.5)</u>	<u>(56.3)</u>	<u>(28.9)</u>
<b>Total equity</b>	<b><u>41.3</u></b>	<b><u>5.6</u></b>	<b><u>37.6</u></b>

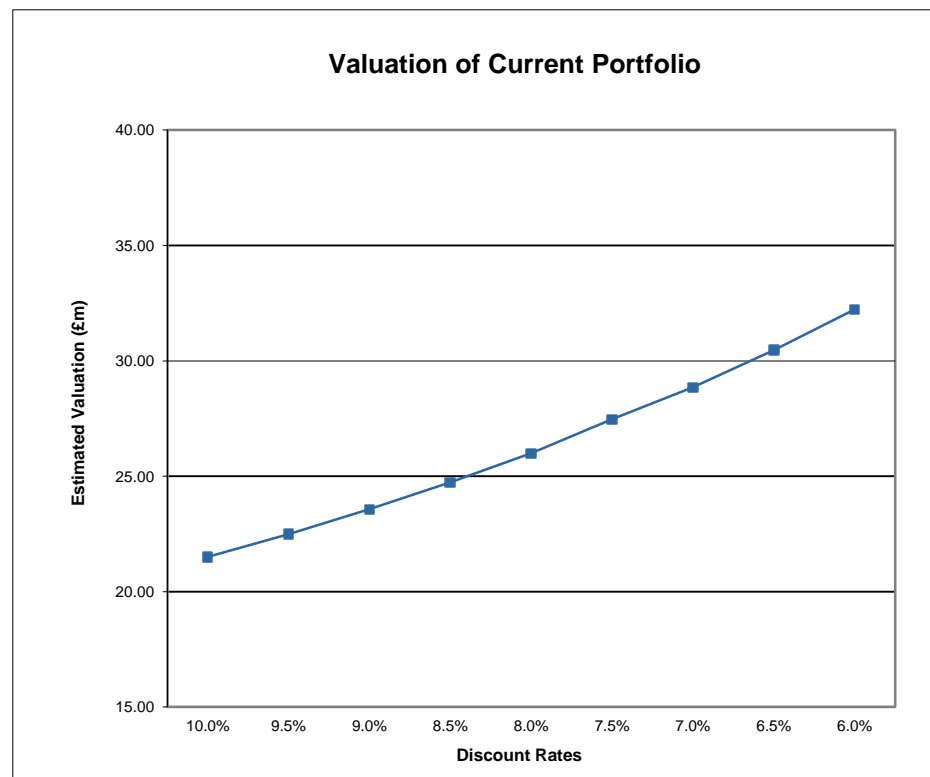
# Pension deficit further reduced

- » Net Deficit reduced to £26.5m (June 2010: £56.3m) due to increased asset returns and company contributions partially offset by an increased inflation assumption
- » Ongoing actions to manage the obligations
  - » Scheme closed to future accrual from 30 September 2009
    - » All current employees now only have defined contribution scheme option
  - » £22m PFI Transfer to scheme completed in November 2010
  - » Actuarial valuation as at 31 March 2010 and recovery plan agreed
    - » Reduced cash contributions from 1 January 2011
  - » Ongoing commitment to match dividend with equivalent additional contribution to pension scheme

	<b>June 2011</b>	<b>Dec 2010</b>	<b>June 2010</b>
	£m	£m	£m
Present value of defined benefit obligations	<b>(579.2)</b>	(576.7)	(540.4)
Fair value of scheme assets	<b>543.4</b>	537.1	462.2
Recognised liability for defined benefit obligations	<b>(35.8)</b>	(39.6)	(78.2)
Deferred tax	<b>9.3</b>	10.7	21.9
Net pension deficit	<b>(26.5)</b>	(28.9)	(56.3)

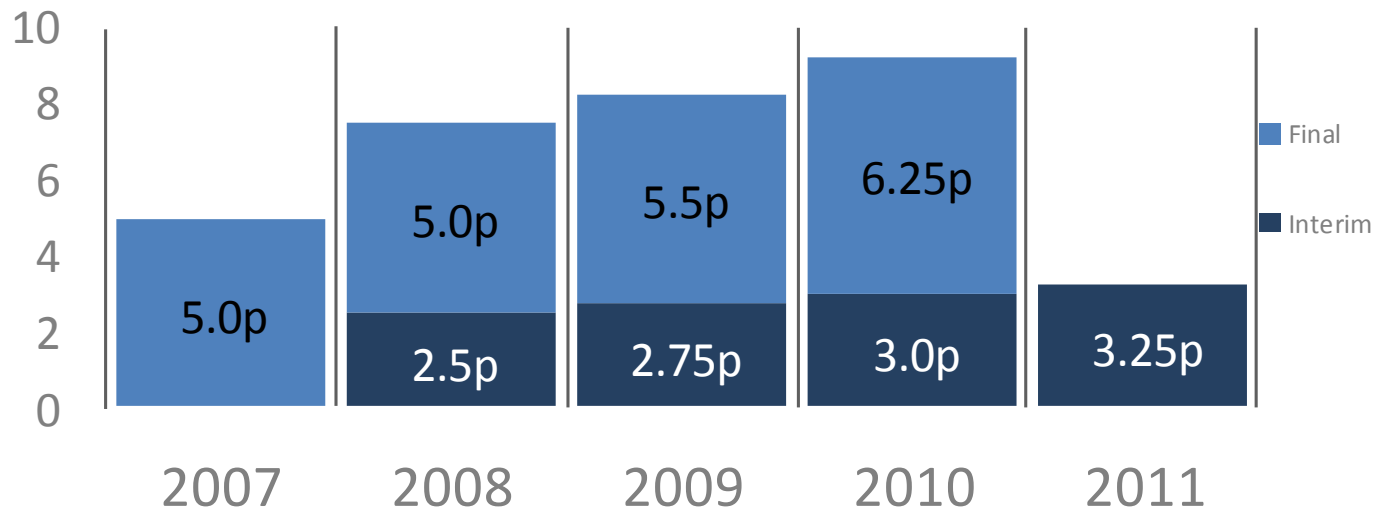
# PFI equity portfolio – estimated valuation

	Status	Invested Capital	Committed Capital	Estimated Valuation
Bridgend	Sold			
Kings	Sold			
Sirhowy	Sold			
Kent Schools	Sold			
Ealing Schools	Sold			
Shropshire	Sold			
Kent Elderly	Sold			
Kingston	Transferred to Pension Scheme			
3 Shires - Lincolnshire				
3 Shires - Leicester				
3 Shires - Derby				
Bradford BSF I	Operations			
Lewisham BSF I				
Aquatrine		1.1	-	5.0
Bradford BSF II		9.3	-	16.1
Lewisham BSF II	Construction		0.9	1.5
Lewisham BSF III			1.3	1.9
Lewisham BSF IV			2.2	3.1
<b>TOTALS</b>		<b>10.4</b>	<b>4.4</b>	<b>27.5</b>



# Increased dividend

- » Interim dividend increased by 8% to 3.25p (H1 2010: 3.00p)
- » Payment on 28 October 2011 to shareholders on the register as at 23 September 2011
- » Option to take shares in lieu





# Andrew Wyllie, Chief Executive

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# Costain is a business being transformed

- » Focussed strategy: **targeting £billions of infrastructure investment & meeting customers' needs**
- » Repositioned as a Tier One engineering solutions provider: **aligned with blue chip customers**
- » Breadth and scale of business enhanced: **consultancy, construction and care**
- » Blue chip customer base: **80% repeat business**
- » Innovation at the heart of the business: **providing the solutions demanded by our customers**
- » Quality order book: **£2.3 billion of longer-term contracts to meet national needs**
- » Accelerating growth by acquisition: **firepower to deliver strategy**
- » Real ambition: **to double profit in the medium term**

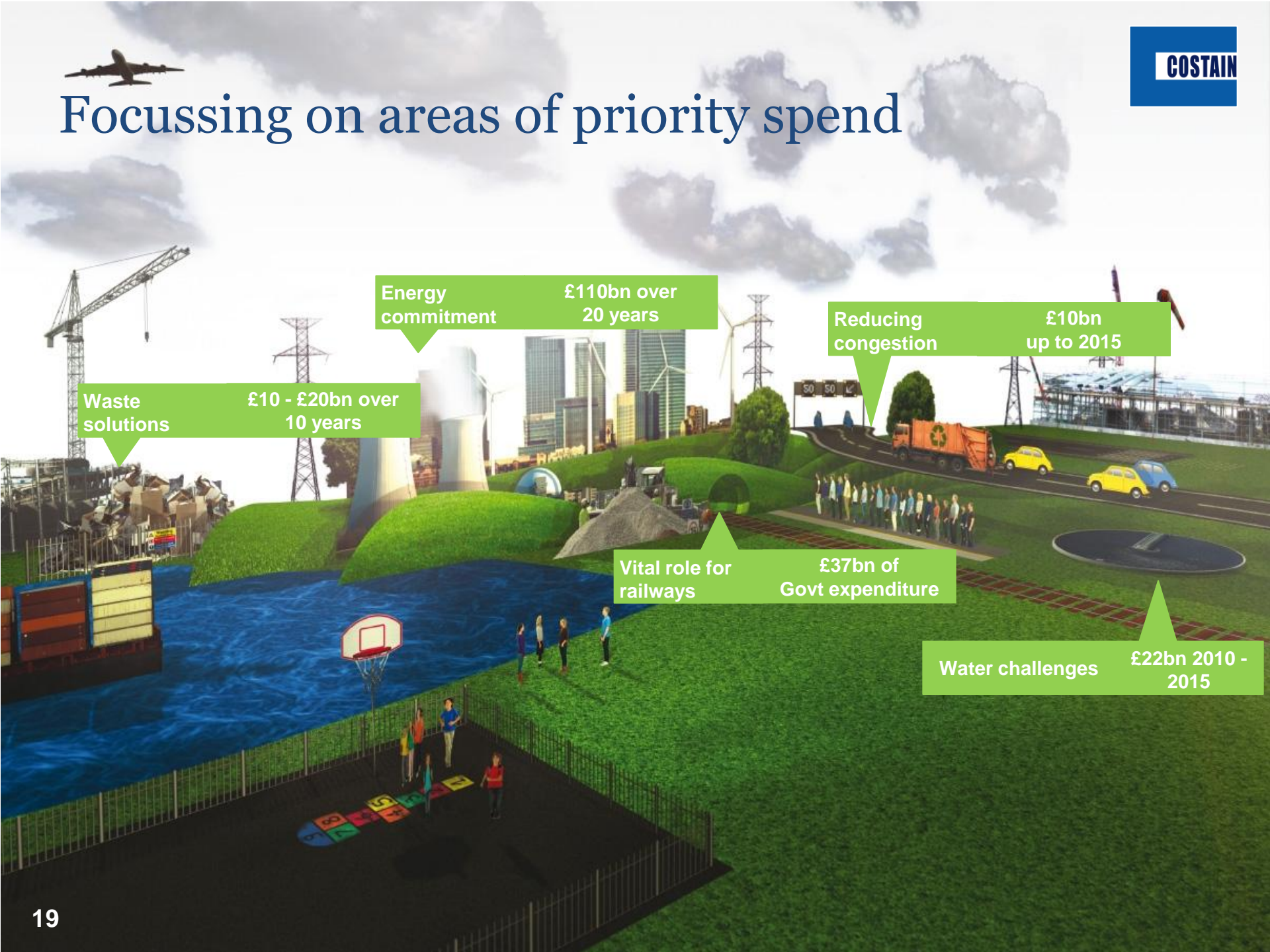
# Business only targeting major customers

- » A business entirely focussed on meeting the needs of major blue chip customers
- » The major customers are:
  - » Working with fewer Tier One suppliers
  - » Placing longer-term, larger contracts...
  - » ...incorporating a wider range of complex services
- » Customers continue to drive for major cost savings
- » Scale and capability essential
- » Strong balance sheet a pre-requisite
- » Driving consolidation on supply side

***Targeting customers whose capex and opex plans are underpinned by legislation, regulation or addressing a national need***



# Focussing on areas of priority spend



**Waste solutions** £10 - £20bn over 10 years

**Energy commitment** £110bn over 20 years

**Reducing congestion** £10bn up to 2015

**Vital role for railways** £37bn of Govt expenditure

**Water challenges** £22bn 2010 - 2015



# Broadening our capabilities to meet our customers' needs



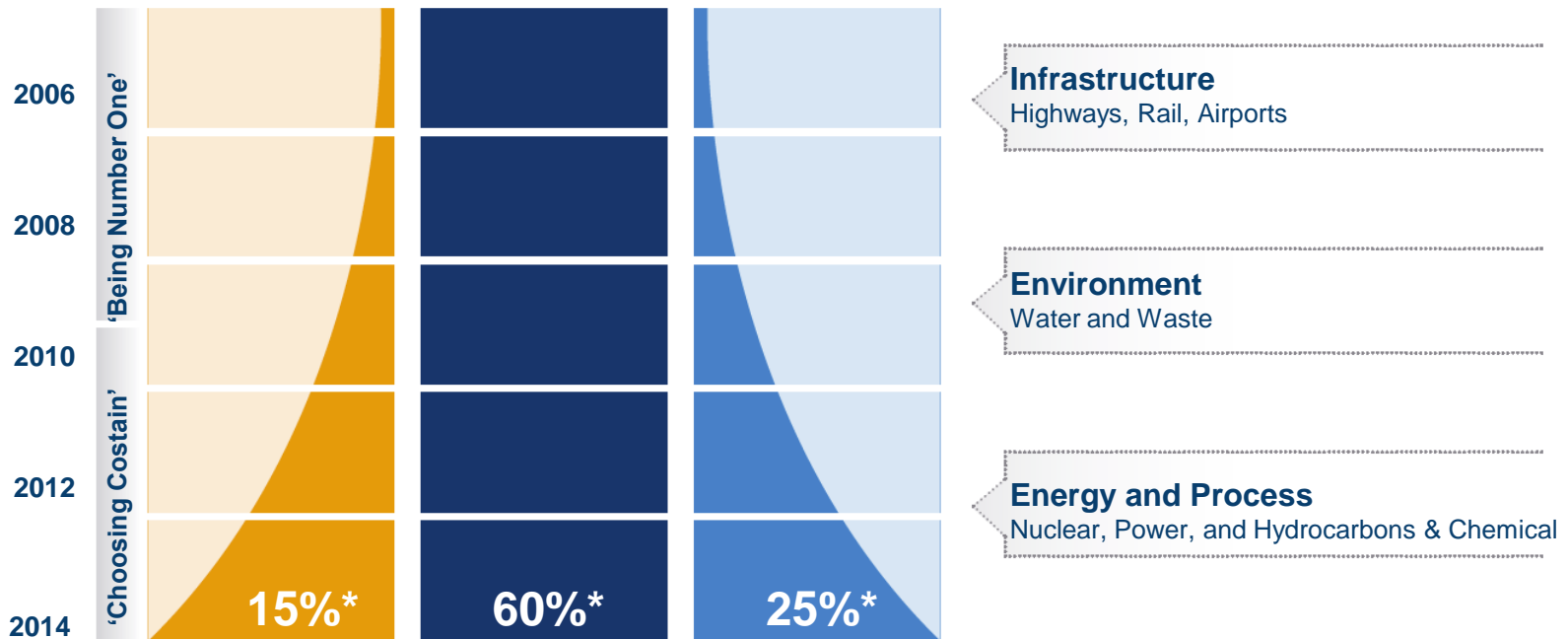
Changing Revenue Profile\*



Consulting

Construction

Care



Technology	Front end Solutions	Consultancy	Delivery of assets	Outsourcing	Management of assets	Owning & Operation of assets
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\*Indicative

# Broadening capability by acquisition

- » ClerkMaxwell: acquired April 2011
  - » Front end engineering and operations support services provider in the upstream oil and gas sector
  - » Based in Aberdeen, workforce of 50 sector specialists
  - » Blue chip customers e.g. Chevron, BG, TAQA, GDF Suez, Talisman Energy, Conoco Phillips
  - » Year to Dec 2010: EBITDA £0.4m, PBT £0.3m
  - » £3.2m initial consideration, deferred consideration based on future performance
  - » Provides us with full hydrocarbons value chain capability
  - » Access to larger and broader customer base
  - » Integration proceeding smoothly

# Broadening capability by acquisition

## » Promanex: acquired August 2011

- » Industrial support services business providing facilities management, installation, repair and maintenance and general asset management
- » Operates in high growth areas of national need: power, petrochemical, nuclear
- » Blue chip customer base e.g. Conoco Philips, EDF, E.On, Magnox, RWE, Scottish & Southern Energy, Siemens, Total
- » £16.4m cash consideration for entire issued share capital
- » Normalised net debt £2.4m
- » Year to Sept 2010: revenue £56.2m, EBITDA £2.4m, operating profit £1.8m
- » 75% revenue generated from long-term contracts
- » 800+ highly skilled maintenance employees
- » We will be able to offer full life cycle proposition to customers in these key markets

# Our enhanced blue chip customer base: 80% repeat business

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# Innovation is an imperative

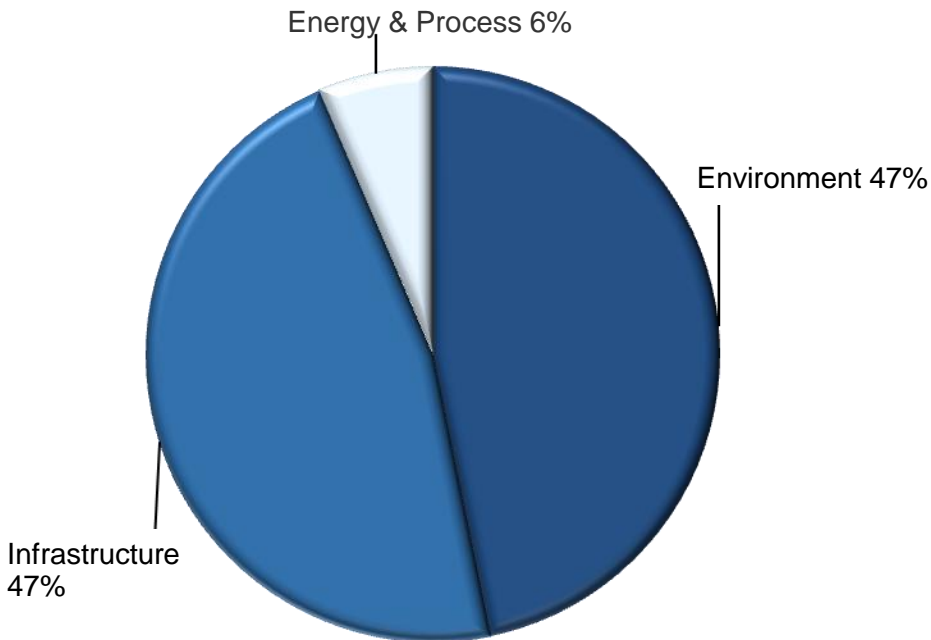
- » Costain applies technical innovation to engineer solutions which add value, reduce costs and achieve operational efficiencies for our customers

Some examples from H1:

- » Appointed by the Energy Technologies Institute to develop the next generation in carbon capture technology
- » Providing cryogenic expertise for FLEX LNG's fixed floating LNG production project for operations in Papua New Guinea
- » Deploying innovative subsea equipment system to protect North Sea oil and gas infrastructure

# Higher quality order book

30 June 2011:  
£2.3 billion



- » Major contract awards during period include:
  - » Centrica: Easington oil refinery upgrade
  - » Welsh Government Head of the Valleys Highway
  - » Network Rail Reading Station
  - » Northumbrian Water AMP5 framework
  - » Magnox radioactive waste management project
- » Repeat business at over 80%
- » c. 70% regulated or maintenance related
- » Preferred bidder positions in excess of £400m
- » More than £900m of revenue for 2011 secured at half year
- » Further contract wins after period end include:
  - » Crossrail Paddington Station project
- » Bidding activity remains high

# Summary and Outlook

- » Strategy delivering performance
  - » robust set of results, enhanced cash balance, strong order book
  - » dividend increased
- » Business being transformed
  - » breadth and scale of operations
  - » established as a Tier One engineering solutions provider
- » Clear ambition
  - » expect to report full year results in line with expectations
  - » ambition to double profit in the medium term

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