

# Being Number One

**COSTAIN**



**BEING NUMBER ONE**

# Being Number One

## Introduction

I am pleased to provide you with your personal copy of this booklet, which sets out our business objectives for 2006.

This document has been introduced directly as a result of feedback received from you during the recent road shows and from my various site visits. I strongly share your view that it is important everybody in Costain understands our common objectives. This booklet provides information on our future plans and targets and comments on the progress that we have made during 2005.

Our Business Plan for the next three years has been finalised recently. This Plan, which is summarised in this document, sets out the overall direction for the business, identifies the risks and challenges that face us and highlights the exciting opportunities that will arise as we continue to grow.

On the following pages we have set out our specific objectives for Costain in 2006, with some of the actions we will be putting in place to achieve our aims.

I hope that you find this document useful and I would welcome any suggestions for further improvement.

2006 promises to be another very exciting year for Costain. We are already a leading business in our sector but our future success depends on us all being committed to Being Number One in everything that we do.

We all have our part to play. I would like to thank you again for your personal contribution to that achievement and your commitment to our future success.



**Andrew Wyllie**  
Chief Executive Officer

A handwritten signature in blue ink, appearing to read 'A. Wyllie', with a horizontal line underneath.

# 2006 Objectives

Costain has tremendous strengths – a great brand, a strong order book and highly motivated people. Our key objectives for 2006 are:

- > **Maintain our priority on the management of Health and Safety, with zero tolerance for accidents.**
- > **To focus our efforts and develop even stronger positions in our key targeted markets.**
- > **To achieve double-digit growth in profit and turnover during the year.**
- > **To provide a challenging and stimulating working environment where our people enjoy their jobs, can fulfil their potential and are recognised for their efforts.**
- > **Ensure we achieve improved customer satisfaction scores by providing excellent and innovative project and framework solutions.**
- > **To continue to develop our supply chain through closer working relationships with a reduced number of key suppliers.**
- > **Implement Best Practice and rigorous risk management across Costain to ensure that our operations are as efficient and effective as possible.**

# Overview of Business Plan

Costain has tremendous strengths – a great brand, a strong order book and highly motivated people. As a result, we are clear leaders in many of the things that we do. A good example is our excellent work in the water market.

But we live in an increasingly competitive world. If we are to continue to be successful in the future, we must strive to be the best, to have a common ambition of Being Number One in absolutely everything that we do. This will enable us to be better, stronger and faster than the competition.

One of our unique strengths is being able to effectively combine industry-leading technical ability with exceptional levels of customer service. We are therefore seeking to build long-term partnerships and framework relationships with quality “blue chip” customers who value our high-calibre skills and have the ability to place repeat orders with Costain.

Having experienced teams, a detailed understanding of our customers’ needs and a strong market position are essential ingredients for delivering long-term growth and profit. It is certainly not possible to be consistently successful by “dabbling” in the things that we do.

Like all businesses, we have limited resources for business development and winning new work, and it is imperative that those resources are targeted where we can build strong market positions and generate the largest return.

**Our strategy for the next three years will therefore be to achieve double-digit growth in profit and turnover by focusing our efforts to develop leading positions in targeted market sectors.**

**We will aim to be “Number One” in all that we do.**

Our future success will depend on having the very best team of people, properly trained and motivated, rewarded and recognised for their efforts. We are reviewing people management and development processes to help ensure that we achieve this key objective.

We all work for Costain and it is essential that we share a common culture so that we can maintain the flexibility to allocate resources quickly in line with rapidly changing market conditions, to share best practice and to let our people achieve their career ambitions in the wider business.

We will be focusing the majority of our efforts to replicate our leading position in the water sector by growing strong market positions in our other targeted market sectors of rail, roads, health, education, retail, nuclear, oil and gas, and marine. In all of these markets, Costain already has recognised skills and capabilities in both the UK and around the World.

The Private Finance Initiative (PFI) will remain one of our key functions and we will focus on opportunities in our target sectors of roads, health and education. This builds on our successes in PFI including the recent award of preferred bidder on the Bradford ‘Building Schools for the Future’ programme.

We will continue to expand our successful property development activities in Spain by undertaking a number of additional projects with our partner, utilising the Alcaidesa brand.

We are increasingly receiving industry and customer recognition for our efforts, including the 2005 Major Contractor of the Year award from Building magazine. In addition, we have received awards from water sector clients for outstanding achievements. It is a testament to your efforts that we consistently receive very positive feedback from our customers and industry peers.

The effective management of Health and Safety is a priority. Although we have an accident rate well below the Major Contractors Group (MCG) average, we maintain a “zero tolerance” approach to accidents. Following our recent return to the MCG, we are now at the forefront of driving improvements and attitude change. We are committed to all of our staff holding a Construction Skills Certification Scheme (CSCS) card where appropriate.

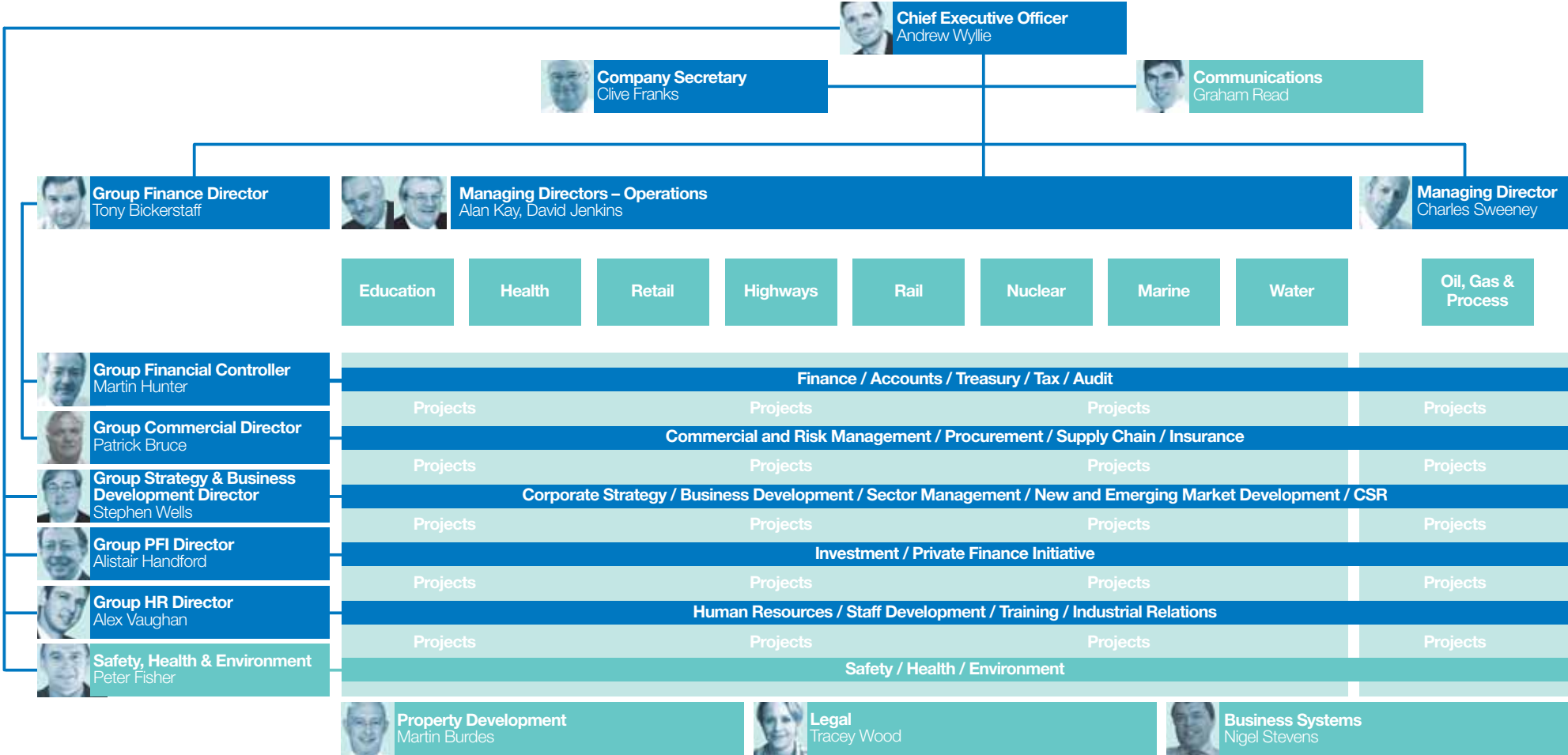
Fundamental to our business approach is effective risk management, which is a key driver throughout Costain helping to ensure the consistency of our service delivery. We are committed to driving the Implementation of Best Practice (IBP) throughout the business and are investing in the new Enterprise IT system to provide a common leading-edge technology platform across all operations.

As with our overall business strategy, our supply chain strategy is to develop higher value long-term relationships with fewer suppliers and partners. Against an industry backdrop of skills shortages and material cost inflation, it is absolutely essential that we develop effective, innovative and mutually beneficial relationships with key suppliers to further improve our performance.

We strongly encourage innovation and continuous improvement to keep us at the leading edge. This will also help to meet our objective of Being Number One in all that we do.

# Company Structure

Maintain our priority on the management of Health and Safety, with zero tolerance for accidents. To focus our efforts and develop even stronger positions in our key targeted markets.



# Objectives

**Objective**  
**Maintain our priority on the management of Health and Safety, with zero tolerance for accidents.**

Safety must always remain at the forefront of our business. We have both corporate and individual responsibility to ensure that our operations are properly and effectively managed in a safe, healthy and environmentally controlled manner.

Although our performance in 2005 was in the upper quartile of our Major Contractor peer group, we are not satisfied with that result.

Safety training is mandatory and a specific safety section is included in every induction. Every day, on every site, you should receive a briefing on managing the safety issues associated with the operations being carried out on that day.

A new system has been introduced to proactively measure the steps we are taking to reduce the risk of health and safety incidents in our operations. This will be achieved by explicit scoring during monthly site inspections, which will indicate how Safety, Health and Environment (SHE) is being managed on our sites and will include issues such as competency, risk assessments and site tidiness.

We are working closely with the Health and Safety Executive and the Major Contractors Group on the introduction of further initiatives relating to specific issues including noise, lifting, vibration white finger, stress and asbestos working.

Specific enhanced performance targets have been set for 2006 in such areas as sustainability and environmental management. The Save It campaign is having a positive impact on our waste management.

We take our relationship with the communities in which we work very seriously. All appropriate projects are required to be members of the Considerate Contractors Scheme and are encouraged to proactively manage community relations.

**Objective**  
**To focus our efforts and develop even stronger positions in our key targeted markets.**

It is commonly recognised that you cannot be consistently successful in any activity, be it sport or business, if you are not the very best at what you do.

The same is the case in Costain. We will only consistently succeed when we have experienced and capable project teams, full understanding of the customers' needs, an excellent track record and detailed market knowledge.

We are fortunate that we have many more opportunities than we have resources to pursue. Our challenge is to focus the majority of our limited resources into those areas where we believe we have the greatest chance of winning and Being Number One.

As part of the Business Plan preparation, we analysed all of our potential markets before agreeing on our targets. In this analysis we took into account a number of factors; including customer requirements, our skills and the opportunity for future growth.

A new monthly Executive Investment Panel, consisting of the members of the Executive Board, has been introduced to review all major new business opportunities to ensure that they are aligned to our strategy.

We have recently appointed experienced leaders to deliver our growth in our target markets, including Charles Ball for Rail and Darren James for Roads.

We recognise that markets change and we will continue to monitor the markets to identify new opportunities.

**Objective**  
**To achieve double-digit growth in profit and turnover during the year.**

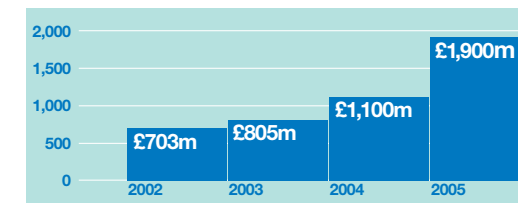
We must continue to grow our business to achieve an even stronger position, provide numerous new career opportunities for our people and deliver increasing returns to our shareholders.

Good progress was made during 2005, which has allowed us to start the year with a record order book of £1.9bn. Particular highlights from last year include success in water asset management, PFI schemes in the health and education sectors, early contractor involvement in major road projects, gas process projects and a marine project in Mexico.

High quality long-term frameworks comprise the majority of our order book and provide an excellent foundation on which to build the business.

Considerable effort is still required to secure new work to hit our profit and turnover targets for 2006. We will achieve these targets through a range of initiatives such as customer targeting, product innovation, effective key account management and building stronger relationships with clients.

**Costain Group PLC order-book**  
2002-2005  
£m



## Objective

# To provide a challenging and stimulating working environment where our people enjoy their jobs, can fulfil their potential and are recognised for their efforts.

If we want to be the leading business in the industry, to be Number One, we need to develop, retain and recruit the best people. We have a vibrant, challenging and growing business; an environment that provides tremendous opportunities for everybody. Our policy is to provide proper recognition and reward for the efforts of both individuals and teams where appropriate.

Everybody who works for Costain should receive an annual performance review during which individual training and development needs are discussed and agreed.

In 2005, more than 5,000 training days have been delivered to Costain people. We are continuing to develop our training regime to ensure that it meets the future needs of our business.

Forums are being created to share best practice and skills in such areas as project, design and commercial management.

In recognition that our people are key to our future success, we have appointed Alex Vaughan as Group Human Resources Director to more effectively manage the team across Costain as a whole.

We are revising our People Management processes so as to ensure that people movement, succession planning and opportunities for promotion are managed in a proactive way across the whole of Costain. Programmes are run for those demonstrating high management potential and a new Executive Development Programme has been introduced as part of our senior succession planning activities.

## Objective

# Ensure we achieve improved customer satisfaction scores by providing excellent and innovative project and framework solutions.

Improving customer satisfaction by understanding their needs and exceeding their expectations through excellent delivery is essential to achieving repeat orders. We must also work to enhance our reputation with our customers so that they recommend us to others.

Key Account Managers have been appointed for each of our customers. It is their job to manage and coordinate the overall Costain relationship with that client. It is also their responsibility to maximise the number of projects and services that we provide to that customer from across the Costain organisation.

We ask our customers to provide regular detailed feedback on our performance, increasingly using Costain Heartbeat – the Company's in-house balanced scorecard to measure performance. We monitor the feedback by project, division and across the whole of Costain. In addition, we take appropriate specific actions necessary to address any customer concerns.

It is encouraging that our customer performance results generally indicate a steady improvement. However, detailed analysis indicates that there is still room for improvement. Enhanced targets have been set for 2006 to ensure that we continue to build our reputation with our customers.

## Objective

# To continue to develop our supply chain, through closer working relationships with a reduced number of key suppliers.

Like the majority of forward thinking organisations, Costain recognises that enhanced performance can be achieved by developing long-term relationships with fewer suppliers.

These mutually beneficial relationships, based on trust and a common set of objectives, deliver real business benefits to both parties. By providing greater certainty of future workload to our suppliers, we will be able to access higher quality people, encourage innovation, strip out duplicated and abortive costs, improve efficiency and increase reliability.

To achieve this, we are concentrating on supplier development within key trades and have set a specific supply chain action plan.

Significant progress was made in 2005 with the appointment of Chris Squires as Supply Chain Director and the formation of a strategic alliance with three mechanical and electrical subcontractors. In 2006, we will focus on other key trades such as building frames and external envelopes.

We will rigorously impose the requirement for all of our suppliers to be from the approved lists where applicable. Using suppliers who have been properly vetted and who work to the Costain systems will help ensure consistent, high quality performance on our projects.

Procurement cards are being issued to all of our sites, which will be used, where appropriate, for small value purchases on the contract. Using these cards significantly reduces the time and cost associated with processing large numbers of small value invoices.

## Objective

# Implement Best Practice and rigorous risk management across Costain to ensure that our operations are as efficient and effective as possible.

When a customer purchases a project from Costain, they rightly expect the very best service that we can offer. Likewise, it goes to the heart of our culture that Costain people are committed to doing a good job.

Consequently, we have set out a clear set of procedures to help ensure that we deliver our objective of consistently high levels of service. These processes are called the Implementation of Best Practice (IBP) and are mandatory on every Costain project.

There is a clear performance link. Our most successful projects implement best practice. Successful projects also tend to be better places to work! We actively measure project compliance with IBP and actions are taken if necessary.

Our processes are constantly reviewed and updated to ensure that they are still relevant and are as efficient and effective as they should be. An important area that will receive much attention in 2006 is design management.

We must also appreciate that there are risks associated with some of the things that we do, and so live risk registers are maintained on every project. Risk assessments are carried out on all of our activities and, where appropriate, detailed method statements are put in place.

Risks and opportunities are also reviewed at a corporate level and Costain is committed to fulfilling the corporate governance requirements of the Combined Code for companies listed on the London Stock Exchange. A new Executive Investment Panel has been formed to review all major new project opportunities.

Costain is making a significant investment in an Oracle-based software system that will be introduced across the whole business in 2006. This new single Enterprise IT system will allow a single technology platform and deliver significant business benefits.

# safe > safer



on time > ahead of time

# smart > smarter



**fast > faster**



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