



Creating a new UK force in the provision of integrated services

**Recommended all-share merger of
Costain Group PLC and
May Gurney Integrated Services plc**

27 March 2013

Key messages

- > Combination of Costain and May Gurney, creating a new UK force in the provision of integrated services
- > Broader range and greater scale of capabilities to meet customers' changing demands
- > Greater financial strength and scale, underpinned by significant earnings visibility in a combined long-term order book of c. £3.9bn¹
- > Achieved by recommended all-share merger
- > Pre-tax cost synergies of £10m per annum giving double digit earnings enhancement² in first full financial year
- > The Company to be called Costain May Gurney PLC

1. Based on Costain's order book of £2.4 billion as at 31 December 2012 and May Gurney's order book of £1.5 billion as at 30 September 2012

2. For YE 31 December 2014, before amortisation of acquired intangibles, employment related deferred consideration and integration costs

Creating a new UK force in the provision of integrated services

- > Combining the skills, capabilities and experience of c. 11,000 people
- > Broader range and greater scale of capabilities to meet customers' changing demands
- > Delivering innovative and cost-effective solutions to address essential national needs in the markets in which Costain and May Gurney operate
- > Larger addressable market, with a combined client base across the private sector, central and local government and regulated industries
- > Leveraging the strengths of the Costain and May Gurney brands
- > Greater financial strength and scale, increasing the opportunity to bid for large, complex and multi-disciplinary contracts

High quality, long-term customers

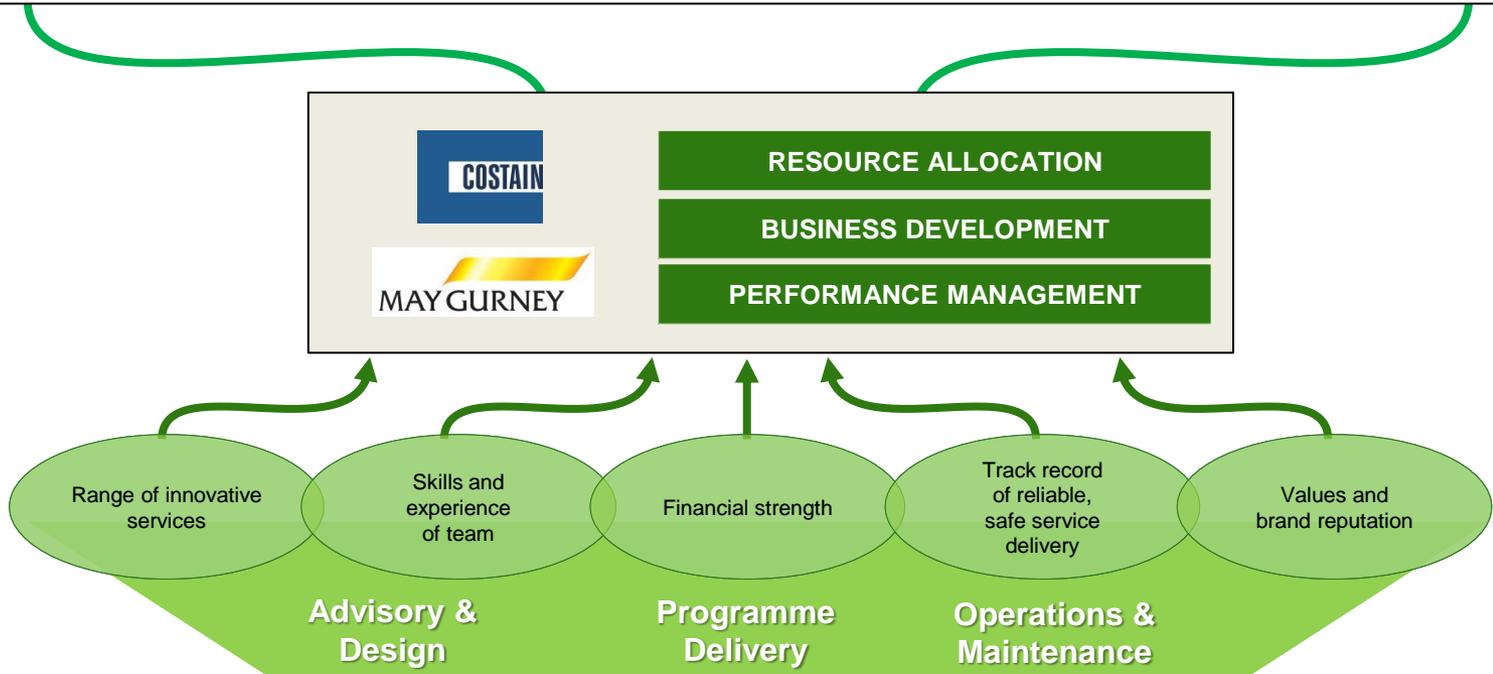
Costain



May Gurney



Combined Group business model



Strategic rationale

Enhanced range of capabilities to address customers' changing demands

Hydrocarbons & chemicals



Costain

- > Professional/Consulting services
- > Upstream front end consulting services
- > Mid stream front end & delivery services

May Gurney

- > Maintenance & enhancement
- > Gas mains replacement

Nuclear process



Costain

- > Decommissioning infrastructure
- > Managing nuclear waste
- > Decommissioning & clean-up
- > Professional/Consulting services
- > Design innovation

Waste



May Gurney

- > Recycling collection
- > Recycling centres

Costain

- > Waste treatment solutions
- > Waste infrastructure

Both

- > Professional/Consulting services

Water



May Gurney

- > Water maintenance
- > Professional/Consulting services
- > Clean & waste water repair
- > Waterways

Costain

- > Water retail services
- > Capital replacement programme management & delivery

Both

- > Asset management and maintenance

Strategic rationale

Enhanced range of capabilities to address customers' changing demands

Highways



Costain

- > Traffic communications
- > Asset management
- > Programme management

May Gurney

- > High street lighting

Both

- > Professional/Consulting services
- > Highways maintenance

Rail



Costain

- > Major multi-disciplinary projects
- > Major transportation hubs
- > Professional/Consulting services

May Gurney

- > Signalling & maintenance

Both

- > Upgrade & refurbishment

Power



Costain

- > Distribution
- > Renewables services
- > Transmission
- > Maintenance & enhancement
- > Professional/Consulting services

May Gurney

- > Cable installation

Airports



Costain

- > Delivering programmes of work
- > Asset maintenance
- > Modelling & design
- > Professional/Consulting services

Strategic rationale

Enhanced range of capabilities to address customers' changing demands

Local government services



May Gurney

- > Highway asset management services
- > Waste collection services
- > Waste recycling services
- > Passenger services

Costain

- > Water hygiene services
- > Minor hard FM services

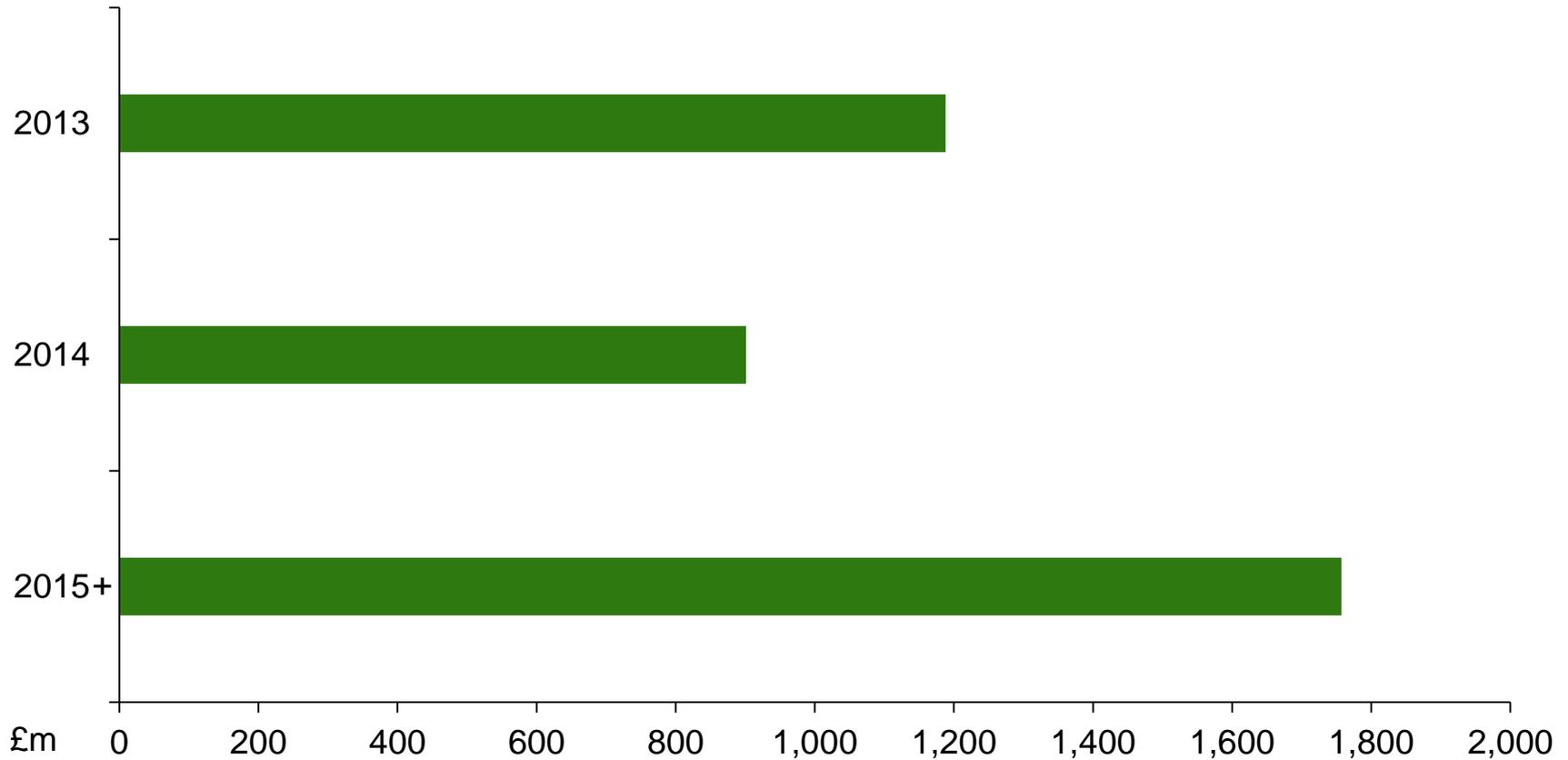
Fleet and passenger services



May Gurney

- > Transportation services
- > Waste collection and recycling vehicles
- > Snow clearance vehicles
- > Street cleaning equipment
- > Street repair and maintenance vehicles
- > Repair and maintenance fleet
- > Professional/consulting services

Combined order book of c. £3.9bn



NB: Based on Costain's order book of £2.4 billion as at 31 December 2012 and May Gurney's order book of £1.5 billion as at 30 September 2012

Transaction terms

- > Post the merger, current Costain shareholders would own 53% and May Gurney shareholders would own 47% of Costain May Gurney PLC
- > May Gurney shareholders will receive 0.8275 new Costain May Gurney PLC shares plus a second interim dividend of 5.6 pence per May Gurney share in lieu of a final dividend for ye 31 March 2013
- > New Costain May Gurney PLC shares will not rank for Costain 2012 final dividend of 7.25 pence per Costain share, payable in May 2013
- > Costain May Gurney PLC would be listed on the LSE's Main Market
- > Merger conditional on approval of both sets of shareholders
- > Irrevocable undertakings to vote in favour received in respect of 27.37% of May Gurney's issued share capital and 42.67% of Costain's issued share capital

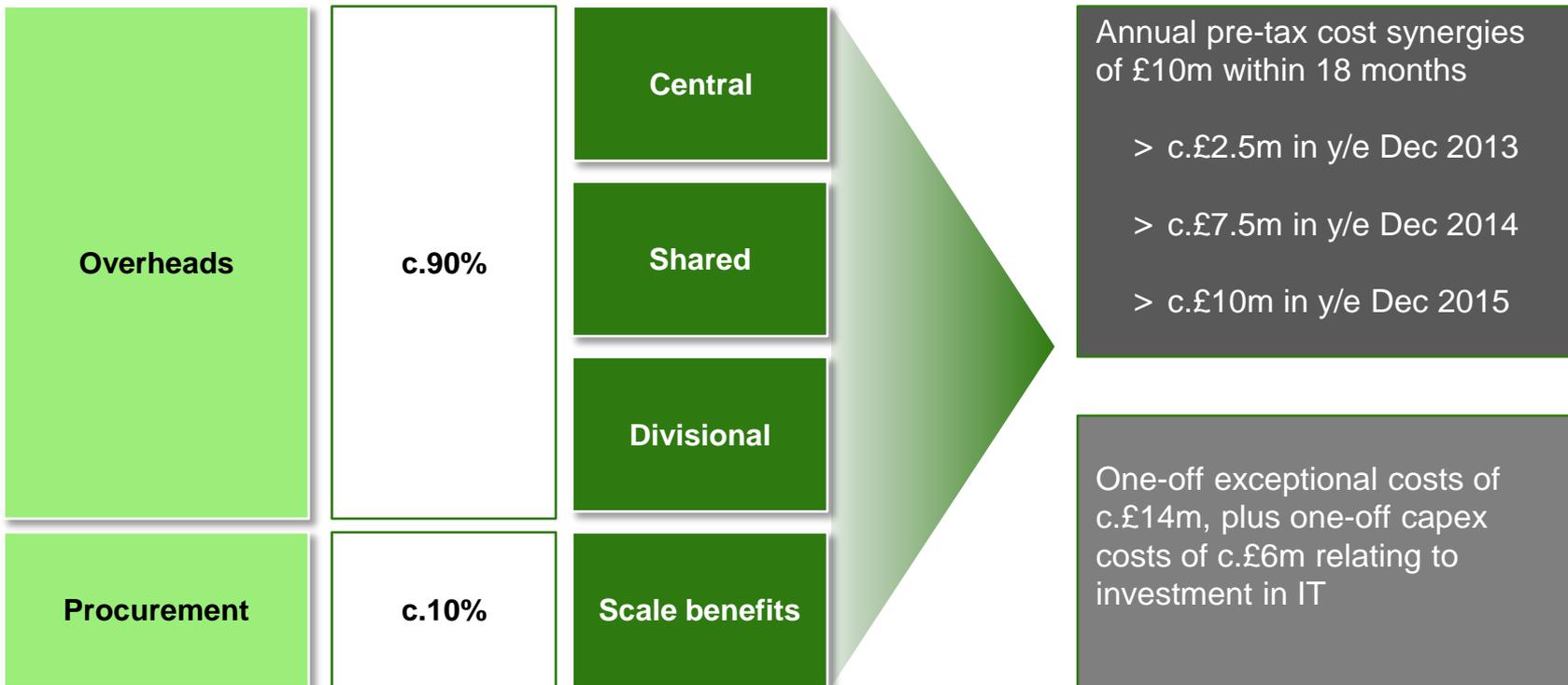
Management of Costain May Gurney PLC

- > Costain's executive team, Andrew Wyllie (CEO) and Tony Bickerstaff (Group FD), would manage Costain May Gurney PLC
- > All existing Costain and May Gurney NEDs would join the board, with David Allvey as Chairman and Baroness Margaret Ford as Deputy Chairman
- > The Costain May Gurney PLC board would comprise:
 - **David Allvey** Chairman
 - **Baroness Margaret Ford** Deputy Chairman
 - **Ishbel Macpherson** Senior Independent Director
 - **Andrew Wyllie** Chief Executive
 - **Tony Bickerstaff** Group Finance Director
 - **Michael Alexander** Non-executive Director
 - **Jane Lodge** Non-executive Director
 - **Willie MacDiarmid** Non-executive Director
 - **James Morley** Non-executive Director
 - **Andrew Walker** Non-executive Director
 - **Samer Younis** Non-executive Director

Integration plan

- > Maintain customer focused approach
- > Branding
 - Listed entity to be called Costain May Gurney PLC
 - Use of Costain and May Gurney brands as required by customers
- > Operating model
 - Common overhead services delivered centrally
 - Roll out of Costain Oracle platform across the May Gurney operations
- > Aim to achieve full integration within 18 months of completion
- > Corporate headquarters in Maidenhead; May Gurney's office in Trowse, Norfolk retained as shared services centre and operational office
- > A clear integration focus
 - Speed of implementation and rapid cultural fit
 - Well developed plan in place
 - Ensuring business as usual service to all customers

Delivery of cost synergies



Combined Group capital structure

- > Pro forma market capitalisation of £378m¹
- > Costain net cash of £105.7m as at 31 Dec 2012; May Gurney net debt of £77.0m (£74m finance leases) as at 30 Sept 2012
- > Transaction and integration costs of c.£40m
- > Pro-forma modest net debt position, including finance leases
- > New combined bank facilities of £140m, comprising:
 - existing Costain £45m RCF expiring in Sept 2015 (at LIBOR plus 1.75%-2.95%)
 - new £65m RCF and £30m term loan expiring in June 2017 (at LIBOR plus 1.75%-2.95%)
 - covenants relate to leverage (net debt / EBITDA) and interest cover, tested quarterly
- > Additional bonding & surety facilities of c. £400m
- > Terms of offer allow for the possibility that a significant provision may be required by the Combined Group as a purchase price accounting adjustment in relation to the fair value of the net assets acquired
- > Costain May Gurney PLC would have a robust balance sheet and would be well placed to take advantage of market opportunities

¹ Based on Costain share price of 306 pence and 123.7m shares in issue

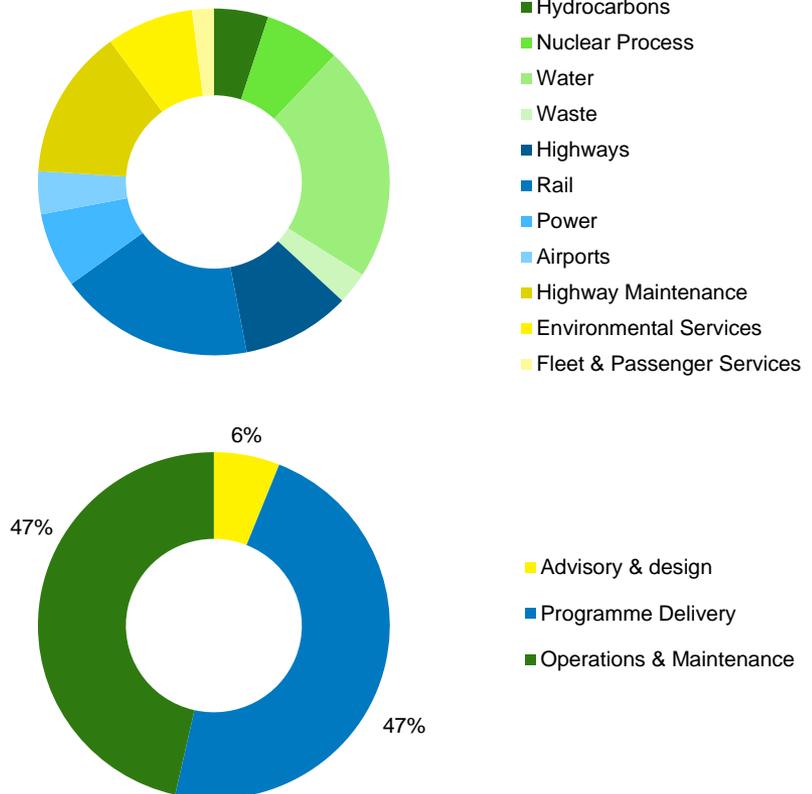
Regulatory timetable

- > **Rule 2.7 announcement** 26 March 2013
- > **Publication of Prospectus / Class 1 Circular (Costain)** 26 March 2013
- > **Publication of Scheme Document (May Gurney)** Mid April 2013
- > **May Gurney Court and shareholder meetings** Early May 2013
- > **Costain shareholder meeting** Early May 2013
- > **Completion/First day of Costain May Gurney PLC** First week of June 2013

Creating a new UK force in the provision of integrated services

- > Combined revenues of c.£1.6bn¹, broadly 50/50% support services and project delivery
- > Combined EBITDA of c.£80m¹, plus cost synergies of £10m
- > Forward order book of c. £3.9bn² giving long term earnings visibility
- > Robust balance sheet
- > Pro forma combined market capitalisation of £378m³
- > Post synergies, the merger is expected to be double digit earnings enhancing⁴ in the first full financial year

Indicative revenue split by sectors



Notes

- 1 Based on aggregation of last 12 months to 31 December 2012 for Costain and last 12 months to 30 September 2012 for May Gurney
- 2 Based on Costain's order book of £2.4 billion as at 31 December 2012 and May Gurney's order book of £1.5 billion as at 30 September 2012
- 3 Based on Costain share price of 306 pence and 123.7 million shares in issue
- 4 For year ending 31 December 2014, before amortisation of acquired intangibles, employment related deferred consideration and integration costs

Source: Costain and May Gurney

Key messages

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- > Achieved by recommended all-share merger

1. Based on Costain's order book of £2.4 billion as at 31 December 2012 and May Gurney's order book of £1.5 billion as at 30 September 2012



Appendices

May Gurney overview

Key facts

- > A leading support services business
- > Over 95% of revenues from delivering long-term essential services to the public and regulated sectors
- > May Gurney has two divisions:
 - Public Sector Services (Highways, Environmental, Fleet & Passenger Services)
 - Regulated Sector Services (Utility, Rail, Waterways Services)
- > Traded on AIM
- > Head office in Trowse, Norfolk, UK
- > Employs c. 6,000 people in over 230 locations

May Gurney overview

May Gurney's markets

Strategy to address resilient market segments

Public Sector Services

c.60% of Group revenues

- > Highway Services
 - Highway maintenance: £2.8 billion p.a. plus £780 million p.a. on street lighting
- > Environment Services
 - Environmental services: £3.9 billion p.a., including £1.2 billion p.a. on waste collection
- > Fleet & Passenger Services
 - Fleet services: £730 million p.a.
 - Passenger services: £3.0 billion p.a.

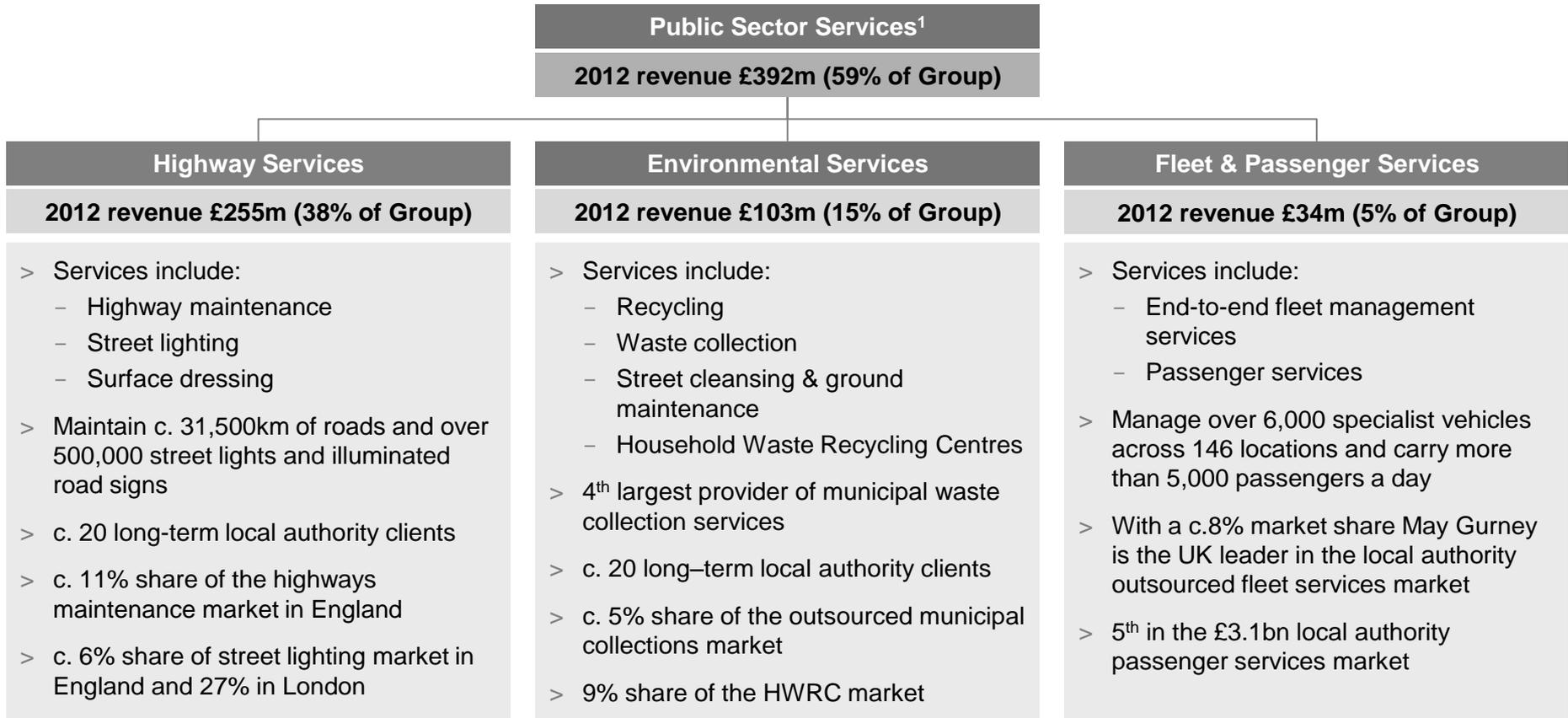
Regulated Sector Services

c.40% of Group revenues

- > Utility Services
 - Water: average expenditure of £4.4 billion p.a. across AMP5 (2010-15)
 - Gas: distribution networks market £1.8 billion p.a.
- > Rail Services
 - Network Rail: average expenditure of £3.3 billion p.a. across CPR4 (2009-14) on structures, signalling, property and enhancements
- > Waterways Services
 - Waterways services: £20 million of work p.a. for Canal & River Trust.
 - £2.45 billion UK government budgeted spend between 2011 and 2015 on flooding/coastal erosion risk management

May Gurney Overview

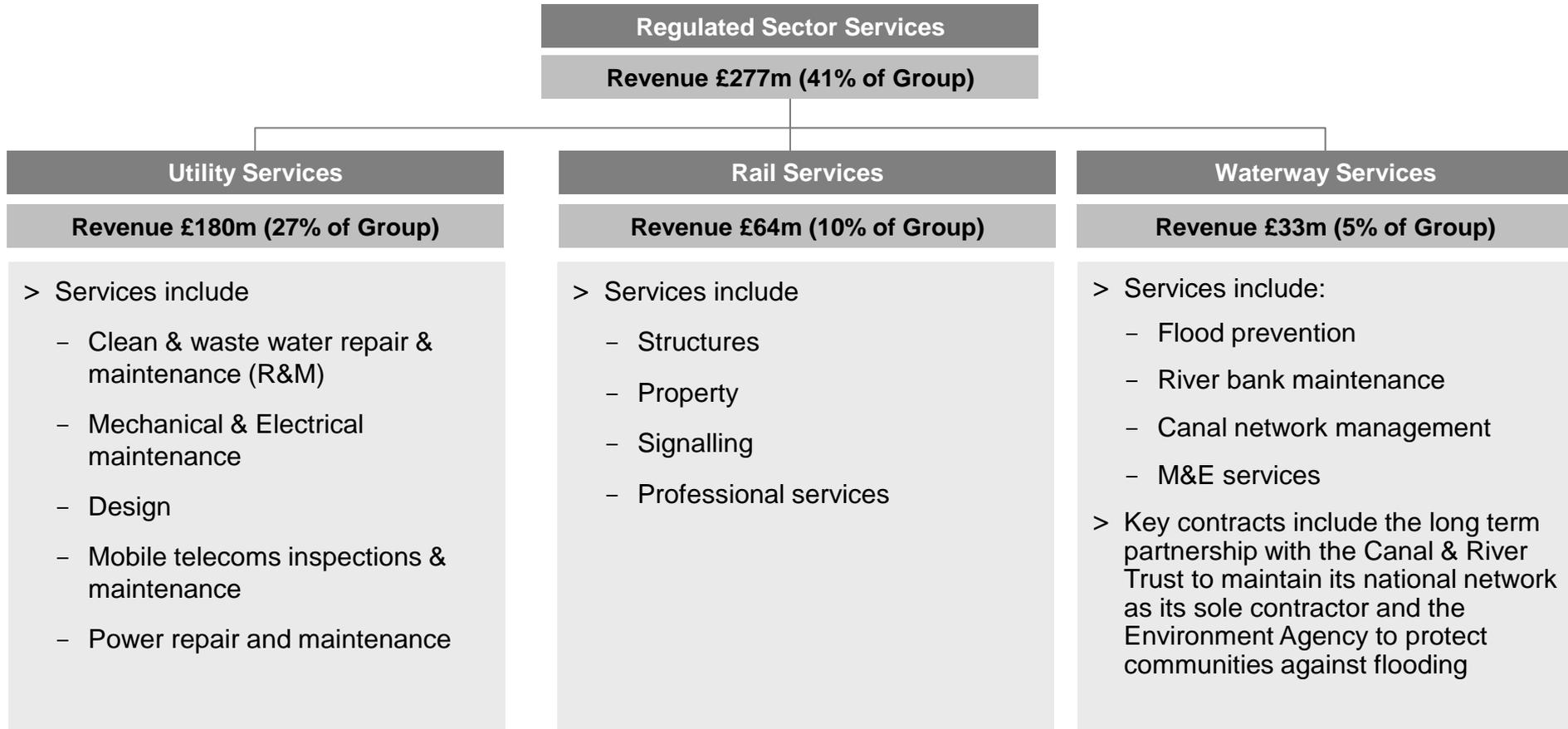
Public Sector Services division



¹ Excludes discontinued Facility Services business and includes Fleet & Passenger Services pro-forma revenue for full-year contribution of TransLinc acquisition

May Gurney Overview

Regulated Sector Services division



May Gurney Overview

Historic trading

Key historic financial information

Year end March, £m	FY10	FY11	FY12	1H12 ¹
Revenue	483.1	571.4	695.3	338.9
EBITA	22.1	25.1	30.1	12.6
<i>EBITA margin</i>	4.6%	4.4%	4.3%	3.7%
Reported PBT	18.4	18.8	19.3	5.4
Cash generated from operations	30.7	28.6	42.4	15.4
Free cash flow	13.2	14.1	19.0	(7.1)
Cash	43.4	36.2	31.0	20.0
Net cash (ex-finance leases)²	43.3	36.2	11.0	(3.0)

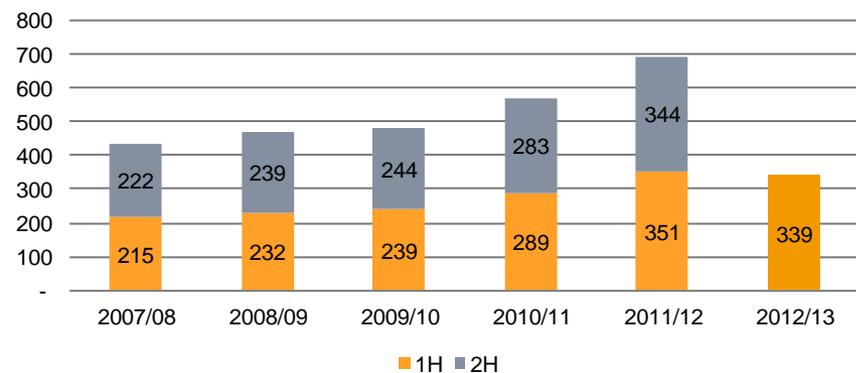
Source May Gurney HY 12 results presentation and AR 2012 and 2011

Note

1 Continuing operations

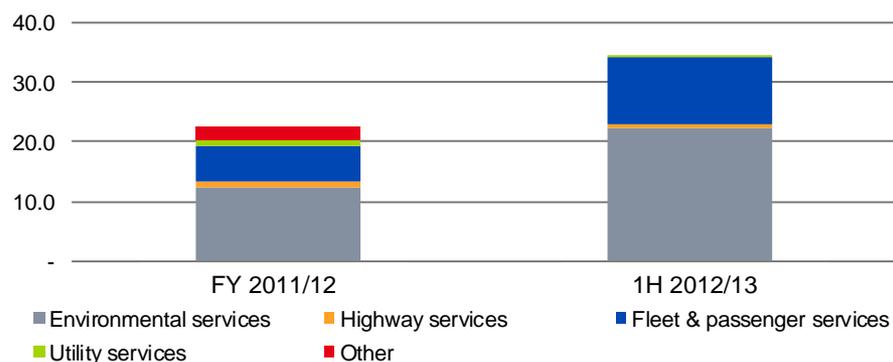
2 Finance leases of £74 million as at 30 September 2012

Revenue £m



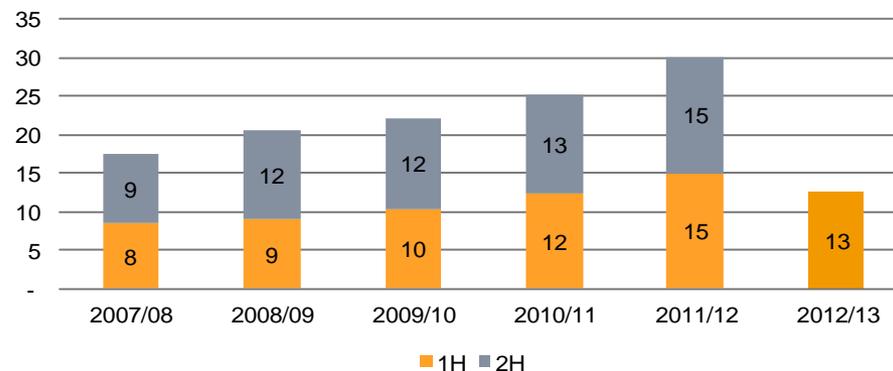
Source May Gurney company reports

Capex £m



Source May Gurney HY 12 results presentation

EBITA £m



Source May Gurney company reports

Costain Overview

Key facts

- > One of the UK's leading, Tier One, engineering solutions providers
- > The 'Choosing Costain' strategy provides valuable solutions for Government agencies and blue-chip customers
- > Costain provides consultancy, construction and operational maintenance for:
 - Infrastructure (highways, power, rail and airports)
 - Natural resources (water, waste, nuclear, power, and hydrocarbons & chemicals)
- > Listed on the London Stock Exchange
- > Head office in Maidenhead
- > Employs approx. 4,000 people
- > Year end December
- > Revenue in 2012 of £934.5m, adjusted group operating profit of £25.1m and net cash of £105.7m

Costain's business divisions

Natural Resources

Water

A leading provider of Capital Framework and Maintenance Framework Programmes under the current AMP 5 arrangements

Waste

Delivering major waste schemes across the UK, the sector provides integrated and complete support services

Hydrocarbons and chemicals

Developing and implementing solutions for upstream and midstream oil and gas and chemical sectors in the UK and Abu Dhabi

Nuclear

Major frameworks delivered across key strategic assets

Infrastructure

Highways

Delivering major programmes for the Highways Agency, maintenance under the current MAC contracts and Early Contractor Involvement works

Rail

A leading provider of multidisciplinary projects, currently delivering major projects principally focused on transportation hubs most recently at Farringdon, Reading and Paddington

Power

Focusing on thermal generation, new nuclear, offshore wind, transmission, distribution and biomass

Airports

Delivering programmes of work across airport assets at Heathrow, Gatwick and Manchester

Both divisions delivering...

Advisory & Design

Pre-investment advisory

Developing engineering solutions to customers' needs through the appropriate use of service and technology. To provide efficient and effective advice to customers' challenges

Complex programme advisory

Building on the extensive capability across the business. Costain is often employed at pre-development phase and development phase of project solutions

Operational excellence advisory

Provides customers with engineering consultancy, advice and support across the asset lifecycle

Sustainability and energy advisory

Delivering investment with certainty and responsibility

Programme Delivery

Programme leadership

Delivering operational excellence in complex construction projects.

Sustainable delivery

Costain's experience of delivering major schemes on time, to budget and to a high level of quality remains a core capability.

Partnering and Collaboration

Costain continues to drive efficient delivery of these projects focusing on its people, process and partners

Operations & Maintenance

Infrastructure network management

Operating assets to drive efficient and effective utilisation. Minimising whole-life cost and maximising value

Asset management and maintenance

The acquisition of Promanex, during 2011, delivers operations and maintenance activity across the power, water and nuclear sectors

Facilities management

Supporting customers' needs to focus on their core business, partnering with and developing these to a successful conclusion

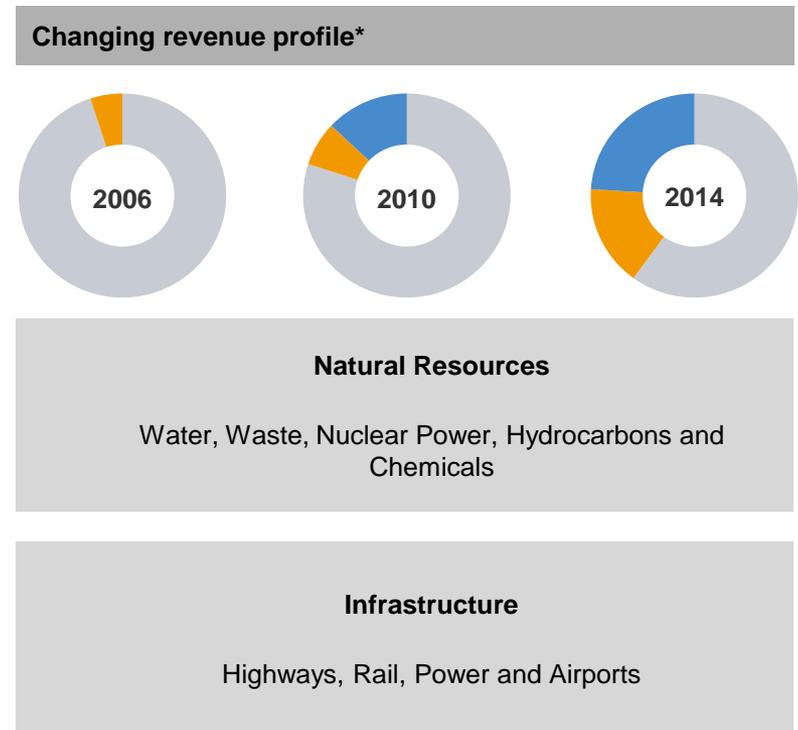
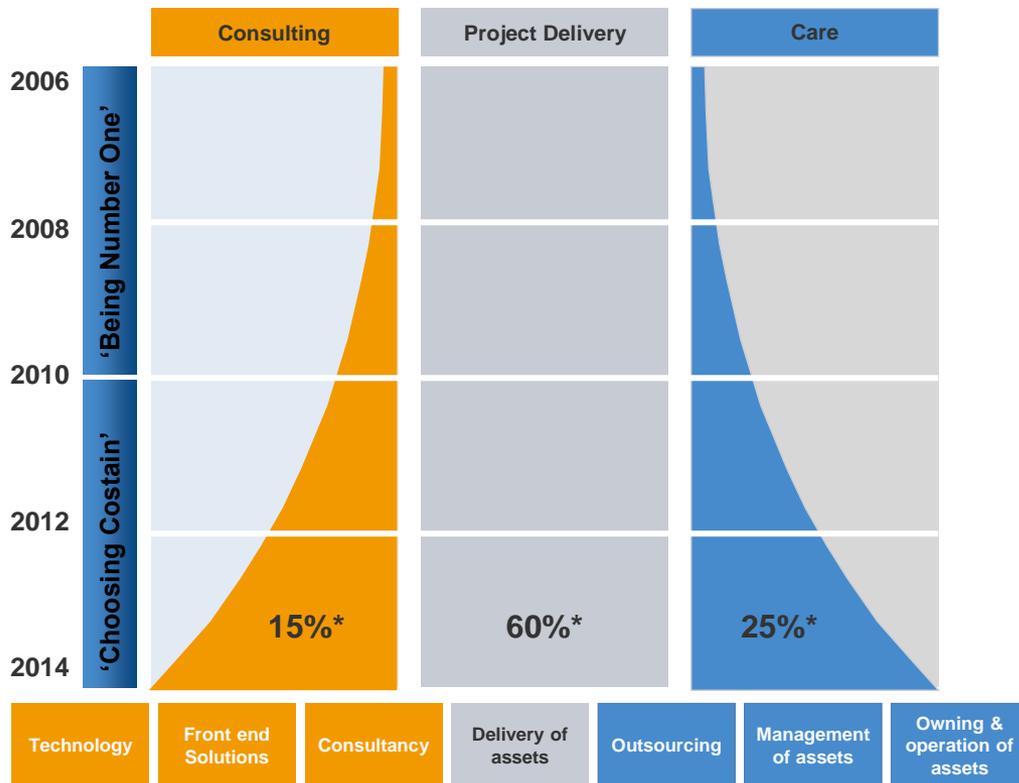
Safety first and compliance culture

Delivering maintenance of major assets

Costain's strategy

Developing Tier 1 capabilities to meet Costain's customers' needs

As a leading Tier One Engineering solutions provider to blue chip customers in chosen markets, Costain continues to strengthen its position by increasing its focus on customers' needs and providing a broader range of services in markets underpinned by national needs, essential maintenance and regulated spend



* Indicative

Support service activities represent 28% of Costain's revenues secured to date for 2013

Costain's market focus

As a leading Tier 1 Engineering solutions provider to blue chip customers in chosen markets, Costain continues to strengthen their position by increasing the focus on customers' needs and providing a broader range of services in markets underpinned by national needs, essential maintenance and regulated spend



Highways: Focus on delivering Managed Motorway Schemes. Continue targeting major highways schemes and selective Local Authority contracts. Developing technology capability and international markets whilst increasing self delivery.

£8bn



Rail: Align as service provider of choice for Network Rail and other rail customers, with a focus on delivery of London Bridge Station and developing partnerships to increase consultancy and technology offering. Continue to develop electrification and Track & Signal capability and expand geographic footprint.

£17bn



Power: Focus on transmission OHL project delivery. Provide front end consultancy in Carbon Capture technology and nuclear new build and actively grow support services, whilst developing capability through JV's and partnerships. Strengthen position in construction and O&M of biomass conversion projects.

£10bn



Water: Continue to target and deliver large capital frameworks e.g. AMP 6. Grow R&M capability, broaden Operations and commissioning services to customers. Accelerate the growth of Severn Trent Costain and offer technology and consultancy services to UK water customers and overseas partners.

£11bn



Nuclear Process: Focus on being the leading provider of technology based consultancy, engineering, project delivery and asset support for the UK's decommissioning and waste management, fuel cycle and defence markets.

£4bn



Hydrocarbons & Chemicals: A leading provider of engineering solutions, focusing on upstream and international gas processing markets. Develop capabilities and exploit opportunities in these markets through JV's and partnerships with key customers.

£20bn

Costain overview

Historic trading

Key historic financial information

Year end December, £m	FY09	FY10	FY11	FY12
Revenue	993.4	924.5	868.5	934.5
EBITA	22.9	18.3	24.1	25.1
<i>EBITA margin</i>	2.3%	2.0%	2.8%	2.7%
Reported PBT	18.1	27.9	23.9	26.1
Cash generated from operations	(16.1)	31.4	34.7	(22.3)
Free cash flow	(23.0)	34.1	31.9	(22.6)
Cash	120.8	146.0	141.7	107.4
Net cash ²	120.5	144.3	140.1	105.7

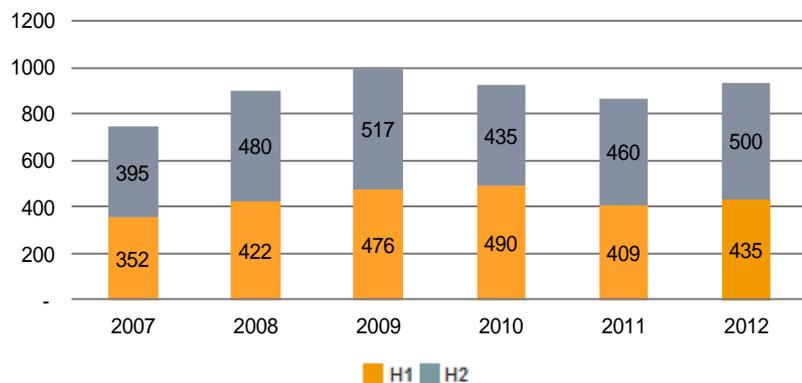
Source Costain company reports

Notes

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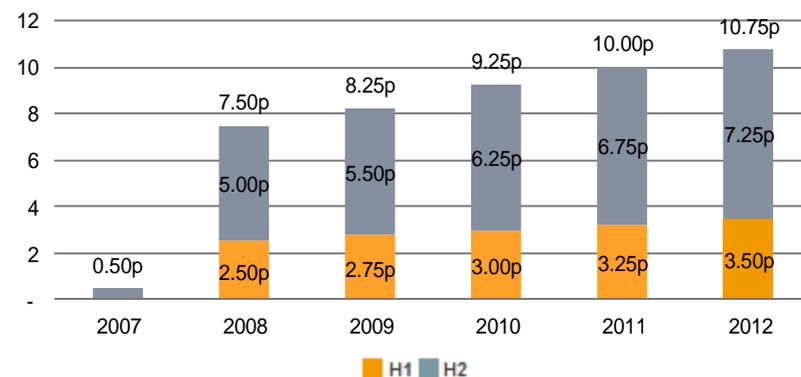
2 Less overdraft facility

Revenue £m



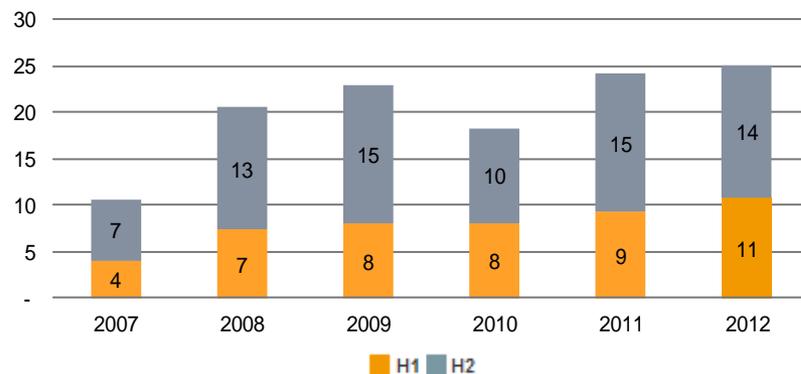
Source Costain company reports

Dividend per share (pence)



Source Costain company reports

EBITA £m



Source Costain company reports

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