



Engineering *Tomorrow*

Results for the year ended 31 December 2012

6 March 2013



Overview

- > Another strong performance
- > Driven by continued focus on delivering integrated services to meet the complex requirements of major customers
- > High quality order book
- > Recommendation to increase the dividend for sixth consecutive year



Financial Review

Tony Bickerstaff, Group Finance Director



Financial summary

- > Revenues of £934.5 million (2011: £986.3 million)
- > Underlying operating profit¹ up 4% to £25.1 million (2011: £24.1 million)
- > Adjusted profit before tax² increased 16% to £29.5 million (2011: £25.5million)
- > Adjusted basic earnings per share² up 33% to 41.4 pence (2011: 31.1 pence), reflecting increased profits and a non-recurring tax timing benefit
- > £105.7 million year-end net cash balance (2011: £140.4 million) and average month-end cash balance of £103.4 million (2011: £130.4 million)
- > Recommended increase in total dividend for the year to 10.75p, up 7.5% on previous year

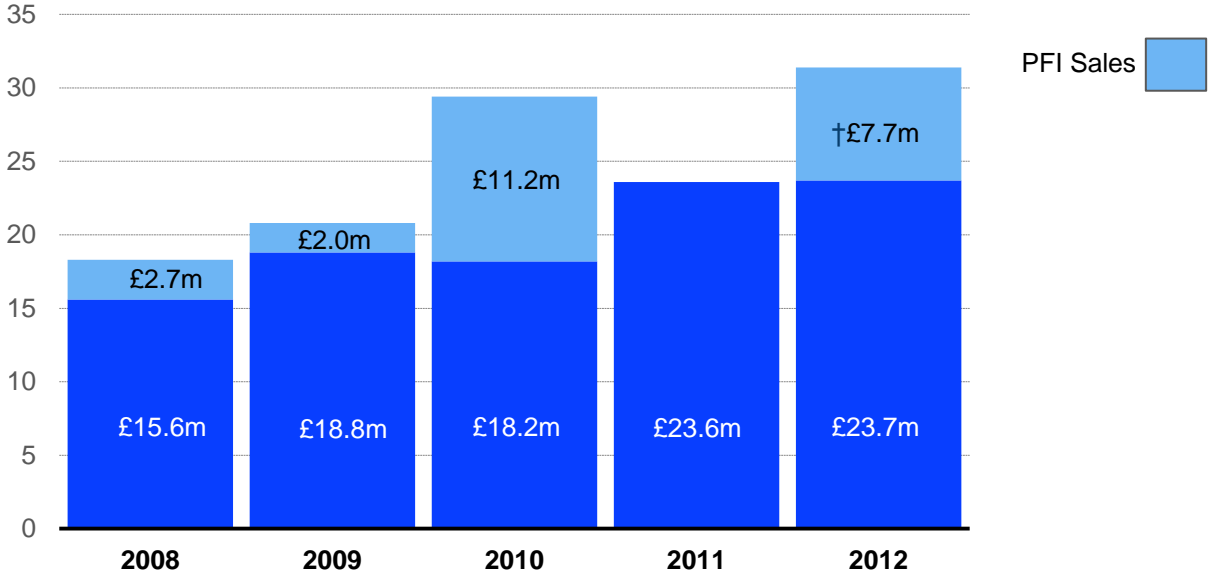
¹ Before amortisation of acquired intangible assets & employment related acquisition consideration and excludes the one-off costs resulting from pension scheme liability actions

² Before amortisation of acquired intangible assets & employment related acquisition consideration and after £10.5m profit arising from transfer of PFI assets into Group pension scheme and £2.8m one-off pension scheme liability costs

Increased earnings

- > Profit growth reflecting successful implementation of strategy focused on major customers
- > Transition to c. 90% of order book value from target cost based contracts with better risk profile and incentive mechanisms...in line with major customer requirements
- > Support-service related activities accounting for 29% of 2012 revenues
- > Underlying operating margin increased to 2.7% (2011: 2.4%)

Group adj. profit from operations*



* Results stated before amortisation of acquired intangible assets and employment related acquisition consideration and after £10.5m profit arising from transfer of PFI assets into Group pension scheme and £2.7m one-off costs resulting from pension scheme liability actions

† Net of one-off costs resulting from pension scheme liability management actions

Segmental income statement

Year ended 31 December 2012



	2012					2011				
	Revenue ¹	Underlying operating profit	JVs/investment sales	Profit/(loss) before other items ²	Margin	Revenue ¹	Operating profit	JVs/investment sales	Profit/(loss) before other items ²	Margin
	£m	£m	£m	£m		£m	£m	£m	£m	
Infrastructure	562.3	26.1		26.1	4.6%	466.0	10.2		10.2	2.2%
Environment	232.6	3.6	0.9	4.5	1.9%	375.4	16.1	1.4	17.5	4.7%
<i>Profit from PFI Transfer</i>			10.5	10.5						
Energy & Process	137.7	2.5		2.5	1.8%	143.4	4.6	0.1	4.7	3.3%
Land Development	1.9	-	(2.3)	(2.3)		1.5	-	(2.0)	(2.0)	
Central costs		(7.1)		(7.1)			(6.8)		(6.8)	
<i>Pension scheme liability costs</i>		-	(2.8)	(2.8)			-		-	
Adjusted profit from operations	934.5	25.1	6.3	31.4		986.3	24.1	(0.5)	23.6	
Net interest (expense)/income				(1.9)					1.9	
Adjusted profit before tax				29.5					25.5	
Adjusted basic earnings per share				41.4p					31.1p	

1 Including share of joint ventures & associates

2 Other items - Amortisation of acquired intangibles & employment related deferred consideration

Net finance (expense)/income

	2012	2011
	£m	£m
Net bank deposit/loan interest/fees	(0.8)	0.1
IAS19 pension scheme interest:		
Expected return on scheme assets	26.3	32.3
Interest cost on present value of obligations	(27.4)	(30.5)
IAS19 pension scheme net interest	(1.1)	1.8
Net finance (expense)/income	(1.9)	1.9

Other items and tax

Other Items

- > Amortisation of acquired intangible assets - £1.7 million (2011: £0.9 million)
- > Employment related deferred consideration - £1.7 million (2011: £0.7 million)
 - > Accounting standard requires any consideration related to employment to be expensed over the required service period
 - > Promanex – 2 years from acquisition date (August 2011)
 - > ClerkMaxwell – Annual earn-out basis for 2012/2013/2014

Tax

- > 2012 effective tax rate at 7.3% (2011: 21.8%)
 - > Profit on PFI equity transfer to pension scheme tax free
 - > Added benefit of R&D tax credit and positive timing differences
- > Normalised effective tax rate expected to be 22% - 24%

Cash position

	2012 £m	2011 £m
Net cash at beginning of period	140.1	144.3
Cash from operating activities	(23.1)	34.8
Cash used by investing activities	(5.1)	(34.8)
Dividends / financing	(6.2)	(4.3)
Effect of foreign exchange rate changes		0.1
Reported net cash	105.7	140.1
Net cash reconciliation:		
Cash and cash equivalents at end of period	107.4	141.7
Less: bank overdrafts	(1.7)	(1.6)
Reported net cash	105.7	140.1

Impact on net cash due to....

- Changing profile of business
 - Increased level of support services activities
 - c. 90% of order book value from target cost based contracts
 - Reduction in advance payments
- Changing industry cash flow trends
- Timing on one particular project completion

Average net cash position to trend lower but will remain strong

Average month-end cash balance - £103.4m (2011: £130.4m)

Actions to manage pension obligation

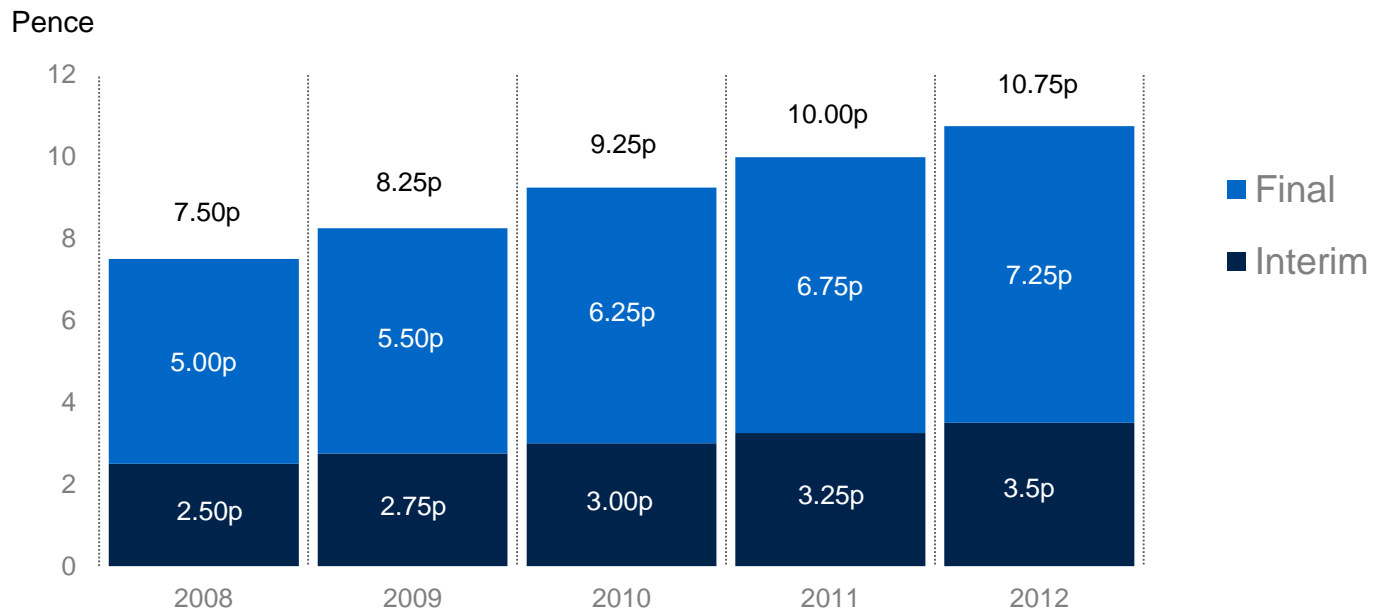
- > Actions announced in February 2012:
 - > Transfer of interest in two PFI investments into the Costain Pension Scheme ('CPS') at agreed value of £20.3 million - completed on 22 February 2012
 - > Resulted in accounting profit on the transfer of £10.5 million
 - > Implementation of Enhanced Transfer Value ('ETV') and Pension Increase Exchange ('PIE') offers to the members of the CPS
 - > ETV and PIE exercises have resulted in a reduction in the scheme liabilities and assets of approximately £35 million and have resulted in a one-off accounting cost of £2.8 million expensed in 2012

- > Another full actuarial valuation of the CPS will be carried out as at 31 March 2013.

	31 December 2012	31 December 2011
	£m	£m
Fair value of scheme assets	558.8	547.9
Present value of defined benefit obligations	(610.7)	(600.8)
Recognised liability for defined benefit obligations	(51.9)	(52.9)
Deferred tax	11.9	13.2
Net pension deficit	(40.0)	(39.7)

Increased dividend

- > Recommended final dividend for sixth successive year
- > Taking total for the year to 10.75p, a 7.5% increase on the prior year
- > Payment on 24 May 2013 to shareholders on the register as at 19 April 2013
- > Option to take shares in lieu





Business Review

Andrew Wyllie, Chief Executive



Costain today



Costain's business model

Our strategy is focused on major customers addressing national needs
Sector 'unique' customer aligned divisional structure

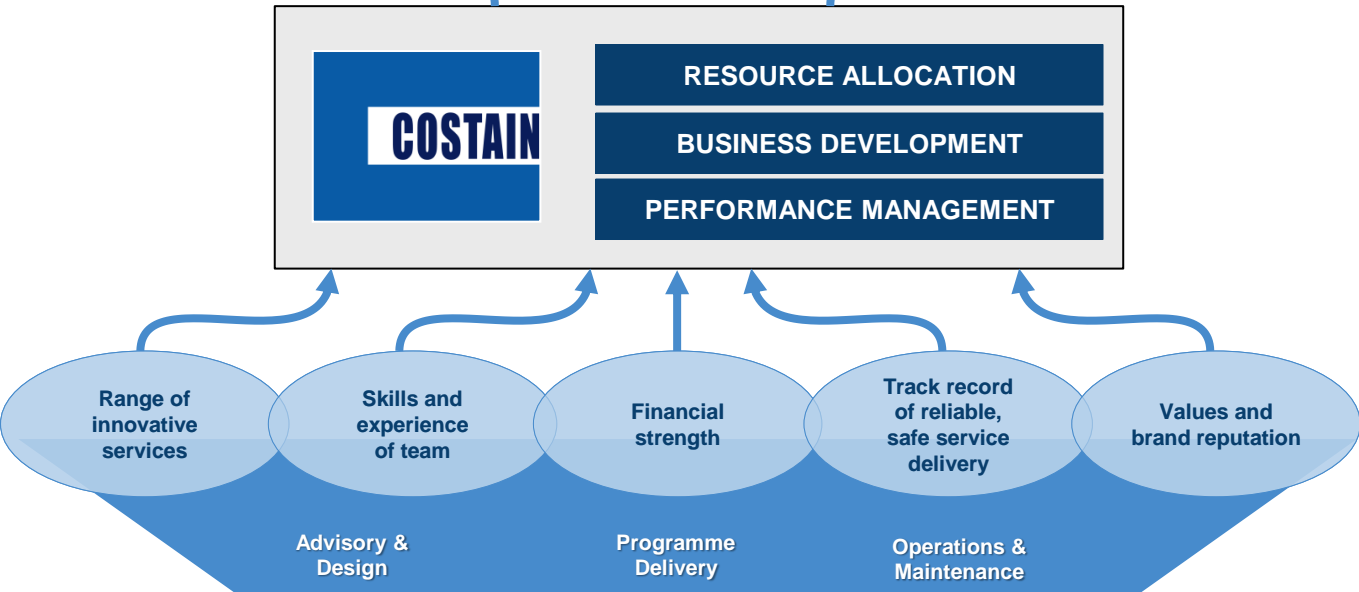
Delivered though longer-term, larger contracts and extensions, incorporating a broader range of services

Costain: Tier One provider of Engineering Solutions

Essential capabilities and attributes



Over 90% repeat orders



New divisional structure

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 leading 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








Engineering *Tomorrow*









“Customers are demanding increasingly innovative solutions.

‘Engineering Tomorrow’ is the Costain commitment to identifying, developing and implementing innovative solutions to major national needs.”

‘Engineering *Tomorrow*’ in action

<p>Innovative technology</p>		<p>‘Mario’ asset management tool – developed as part of the Costain Start-up initiative and now being sold commercially to customers</p>
<p>Delivering technology solutions</p>		<p>First technology contract for Welsh Government for the maintenance of Road Network Communications and Tunnel Systems across Wales</p>
<p>Addressing the nuclear legacy</p>		<p>Undertaking R&D into Plasma Vitrification and Graphite Gasification technologies as potential solutions for addressing the treatment and storage of intermediate level nuclear waste</p>
<p>Asset enhancement</p>		<p>Complex design and management for Centrica for the delivery of its gas plant at Easington to serve the York field in the North Sea</p>
<p>Managing a complex live environment</p>		<p>Providing integrated services at London Bridge Station including design, construction, logistical and environmental operations whilst ensuring the station remains operational throughout</p>
<p>Strategic asset management</p>		<p>Appointed by the Oil & Pipelines Agency on a 3-year operations and maintenance contract that now covers the whole of their estate</p>
<p>Consolidation of services</p>		<p>Awarded the Magnox Framework contract for the delivery of construction, infrastructure and maintenance projects across all ten of its sites</p>

‘Engineering *Tomorrow*’ in action

<p>Developing skills and creating employment</p>		<p>Involvement with The Prince’s Trust, now taking on more apprentices, working with young offenders, offering a sought-after graduate programme, developing and running skills academies</p>
<p>Good citizenship</p>		<p>Corporate and Social Responsibility – ‘Costain Cares’ – embodies our core values; recognised by our Business in the Community Award.</p>
<p>Repeat orders</p>		<p>Recently secured seventh contract from Crossrail</p>
<p>Enhancing key resources</p>		<p>Working on the AMP5 framework contracts with Northumbrian Water, Severn Trent, Southern Water, United Utilities and Welsh Water.</p>
<p>Creating a sustainable environment</p>		<p>Undertaking R&D on behalf of the Energy Technology Institute to develop a prototype process for carbon capture</p>
<p>Value for money</p>		<p>Deliver of Junctions 10-13 of the M1 in Bedfordshire nearly four months ahead of schedule</p>

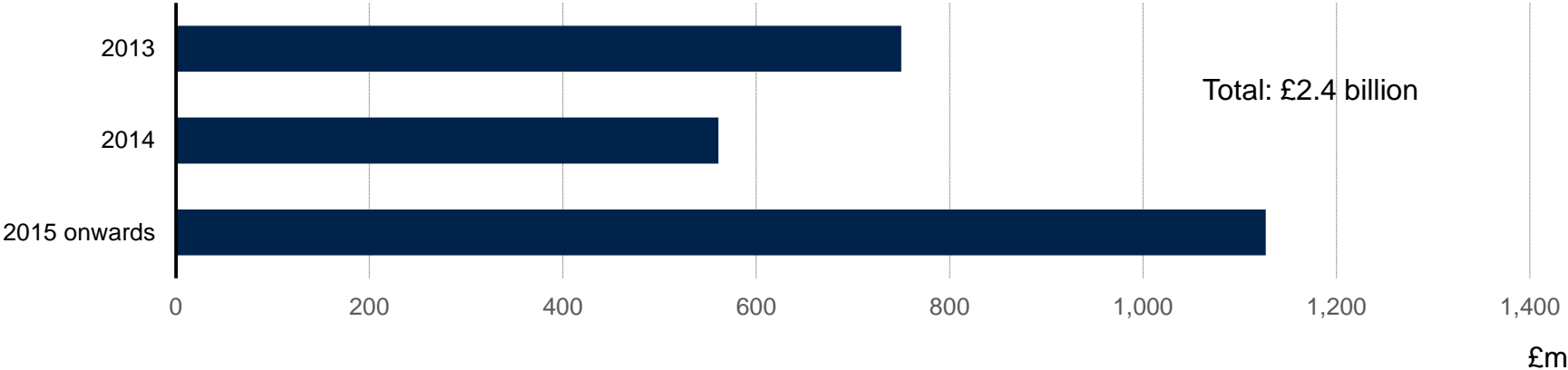
....leading to high quality order book

- > Order book of £2.4 billion (2011: £2.5 billion)
- > £900 million new contracts and extensions secured during the year
- > In excess of 90% from repeat orders
- > Target cost based contracts now circa 90% of order book value
- > In addition, preferred bidder positions of over £400 million

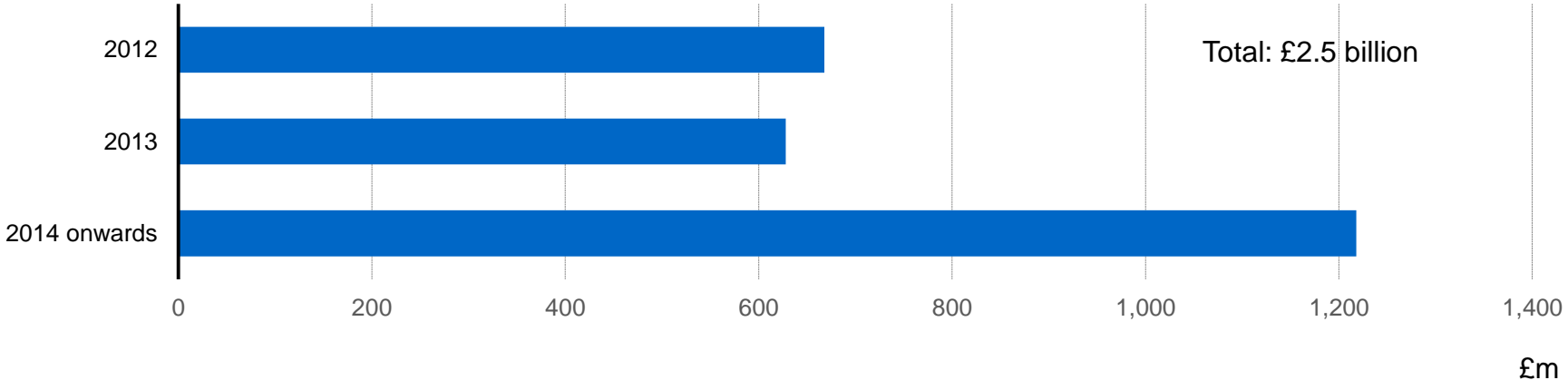
- > Major customers continuing to invest billions in capital, operations and maintenance contracts to meet essential national needs
- > Ability to focus Group wide resources where demand is highest
- > Bidding activity remains high

Good visibility

Group order book 31 December 2012



Group order book 31 December 2011



Summary

- > Another strong performance in 2012
- > Driven by continued focus on providing integrated services to meet the complex requirements of customers
- > Major customers continuing to invest £ billions to meet essential national needs
- > 'Engineering Tomorrow' to enhance and broaden our range of innovative services
- > Confidence is reflected in recommendation to increase the dividend for sixth successive year



Engineering *Tomorrow*

Results for the year ended 31 December 2012

6 March 2013





Appendix

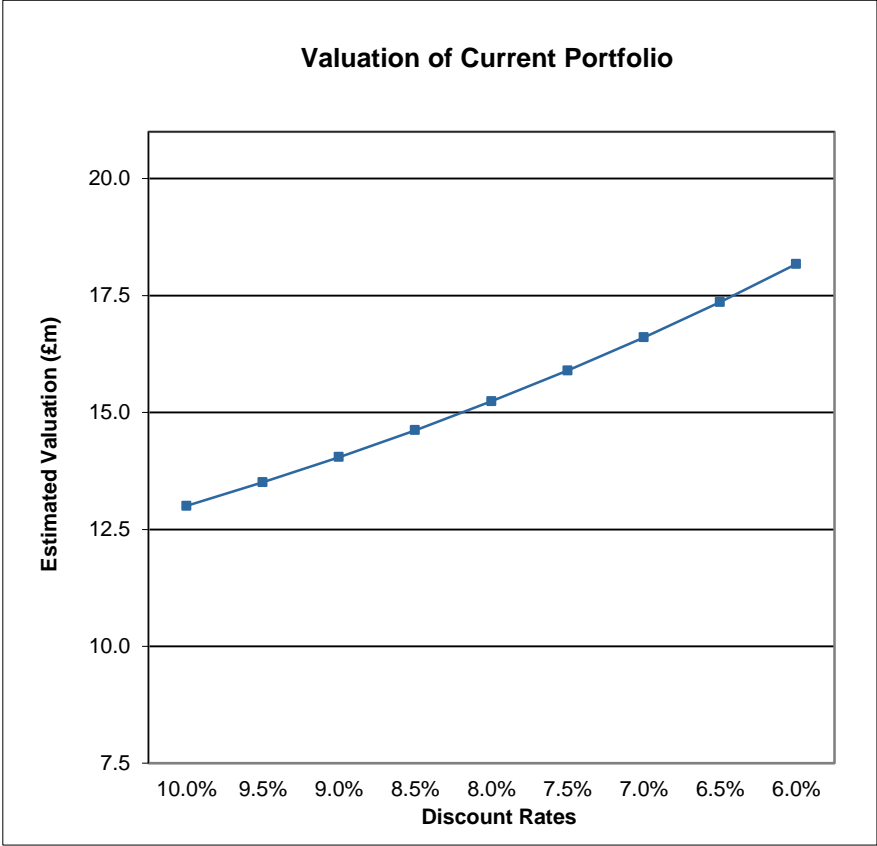


Balance sheet

31 December	2012	2011
	£m	£m
Assets		
Non current assets (excluding pension deficit deferred tax)	91.2	95.2
Trade and other receivables	183.2	190.3
Cash	107.4	141.7
Current assets	<u>290.6</u>	<u>332.0</u>
Total assets	381.8	427.2
Current liabilities	<u>(303.1)</u>	<u>(348.3)</u>
Total Assets less current liabilities	78.7	78.9
Non Current liabilities (excluding net pension liability)	(6.9)	(8.4)
Pension liability net of deferred tax	(40.0)	(39.7)
Total Equity	<u>31.8</u>	<u>30.8</u>

PFI equity portfolio – estimated valuation

	Status	Invested Capital	Committed Capital	Director's Valuation
Bridgend	Sold			
Kings	Sold			
Sirhowy	Sold			
Kent Schools	Sold			
Ealing Schools	Sold			
Shropshire	Sold			
Kent Elderly	Sold			
Kingston				
3 Shires - Lincolnshire	Trfd to Pension Fund 2010			
3 Shires - Leicester				
3 Shires - Derby				
Bradford BSF I	Trfd to Pension Fund 2012			
Lewisham BSF I				
Bradford BSF II				
Lewisham BSF II				
Aquatrine *	Operations	1.0	-	9.4
Lewisham BSF III	Operations	1.3	-	2.2
Lewisham BSF IV	Construction	-	2.2	3.4
TOTALS		2.3	2.2	15.1



*The value of the restructured business following the formation of Severn Trent Costain



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