

The COWI Group

Interim report, January – June 2010



Lars-Peter Søbye, President and CEO of COWI reviews:

At the beginning of 2010 we saw continued high demand for our services on our international markets, notably in the public sector, including the field of infrastructure. Global demand has, however, been somewhat tentative in the private sector, notably in industry, as a result of uncertainty about the economic trends. Against this background, H1 2010 performance is satisfactory. Compared with H1 2009, our turnover and earnings are increasing. We strive to adapt our focus and resources to market areas with growth potential in both the short and long term. As mentioned in the annual report for 2009, the economic trends mean that a degree of uncertainty attaches to COWI's financial development in 2010 as a whole. Based on the 2010 first half year results COWI forecasts moderate organic growth in turnover and earnings for 2010 on the previous year.

- Net turnover up from DKK 1,934 million to DKK 2,270 million (up 17 per cent).
- Operating profit up from DKK 100 million to DKK 105 million (up 5 per cent).
- Operating margin down from 5.2 to 4.6 per cent.
- Pre-tax profit up from 112 million to DKK 117 million (up 4 per cent).
- COWI's share of profit for the period up from DKK 77 million to DKK 79 million (up 2 per cent).

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Profit and loss account	H1 2010	H1 2009	Year
Amounts in mDKK	(unaudited)	(unaudited)	2009
Net turnover	2,269.9	1,933.8	3,993.4
Project expenses	(338.4)	(352.8)	(726.2)
Own production	1,931.5	1,581.0	3,267.2
External expenses	(295.6)	(242.2)	(519.9)
Staff expenses	(1,473.8)	(1,192.4)	(2,451.0)
Other operating expenses/income	1.0	4.3	1.4
Operating profit before interest, tax, amortisation, depreciation and impairment losses (EBITDA)	163.0	150.6	297.7
Amortisation, depreciation and impairment losses	(58.4)	(51.0)	(107.9)
Operating profit (EBIT)	104.6	99.7	189.8
Profit after tax in associates	0.3	0.3	0.8
Financial income	31.0	28.6	52.5
Financial expenses	(18.9)	(16.3)	(28.0)
Profit before tax	117.0	112.3	215.1
Tax on profit for the period	(37.7)	(34.6)	(62.2)
Profit after tax	79.3	77.7	152.9
Profit/loss from subsidiaries attributable to minority shareholders	(0.3)	(0.3)	(0.4)
COWI's share of profit for the period	79.0	77.3	152.5
EBITDA margin (net turnover)	7.2%	7.8%	7.5%
EBIT margin (net turnover)	4.6%	5.2%	4.8%
EBIT margin (own production)	5.4%	6.3%	5.8%
Number of employees, average	5,586	4,698	5,436
Number of employees, end of period	6,038	5,134	6,000

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Consolidated cash flow statement	H1 2010	H1 2009	Year
Amounts in mDKK	(unaudited)	(unaudited)	2009
Cash flow from operating activities	(105.2)	29.8	333.2
Investing activities	(56.8)	(15.3)	(367.7)
Free cash flow	(162.0)	14.5	(34.4)
Financing activities	60.9	38.9	78.2
Cash flow for the period	(101.2)	53.4	43.7
Cash and cash equivalents, end-of-period	492.1	602.9	593.3

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Consolidated balance sheet

Amounts in mDKK	at 30 June 2010 (unaudited)	at 31 Dec. 2009
Group goodwill	579.6	560.6
Other fixed assets	238.9	239.5
Accounts receivables, services	845.0	761.9
Contract work in progress	580.3	452.9
Other current assets	193.8	146.4
Current asset investments	239.0	235.8
Cash at bank and in hand	236.9	357.5
Total assets	2,913.4	2,754.6
Equity	863.8	916.0
Minority interests	3.5	2.9
Provisions	445.8	415.3
Long-term debt	195.4	62.3
Short-term debt to credit institutions	187.4	51.9
Amounts invoiced in advance, services	358.5	456.7
Other short-term debt	859.0	849.7
Total liabilities and equity	2,913.4	2,754.6
Equity ratio	29.6%	33.3%
Return on equity	9.2%	18.1%
Return on invested capital	10.4%	22.9%

The COWI Group

Statement of changes in equity

Amounts in mDKK	at 30 June 2010 (unaudited)	at 31 Dec. 2009
Opening balance	916.0	769.9
<i>Change in accounting policies</i>	0.0	(18.0)
Profit for the period	79.0	153.4
Distributed dividend	(9.0)	(11.8)
Change in reserve for own shares	(193.5)	0.6
Change in estimates/pension plan changes	0.0	1.7
Deferred tax concerning changed estimates	0.0	(0.5)
Value adjustment of hedging instruments	7.4	3.0
Exchange adjustments	63.8	17.7
Closing balance	863.8	916.0

Review of interim results

Growth in turnover

During H1 2010, COWI's net turnover increased by DKK 336 million to DKK 2,270 million, corresponding to 17 per cent growth. Excluding exchange rate movements and the acquisition of the Swedish consultancy firm Flygfältsbyrå (FB) in September 2009, turnover in 2010 is in line with 2009.

Growth in operating profit

Operating profit is up from DKK 100 million to DKK 105 million (up 5 per cent). Earnings have risen particularly within infrastructure, but have fallen off within buildings and industry.

Net financials in line with H1 2009

The Group's net financials of DKK 12 million, which are in line with H1 2009, are attributable primarily to exchange gains on holdings in foreign currencies.

Increase in pre-tax profit

Profit before tax increased by DKK 5 million to DKK 117 million, up 4 per cent. Profit after tax for the period and minority shareholders increased by DKK 2 million to DKK 79 million, corresponding to 2 per cent.

Equity

COWI's equity stood at DKK 864 million at the end of the period as against DKK 916 million at the end of 2009. Changes in equity for the period are attributable primarily to the repurchase of own shares and the H1 profit and changes in foreign exchange rates.

Negative cash flow

Cash flow from operating activities was negative at DKK 105 million. The free cash flow was negative at DKK 162 million, which is primarily attributable to increased funds being tied up in work in progress and amounts outstanding in accounts receivable. The Group's cash and cash equivalents comprising cash and securities amounted to DKK 492 million. With the addition of committed but undrawn credit facilities, the Group's financial resources at 30 June 2010 amounted to DKK 624 million.

Increased headcount

At the end of H1 2010, the COWI Group had 6,034 employees compared with 5,134 employees at the end of H1 2009. This increase is due primarily to the acquisition of the Swedish consultancy firm Flygfältsbyrå (FB) with its staff of 750 in Sweden and Norway. During H1 2010, the COWI Group's headcount rose by 34 employees, due mainly to more modest acquisitions in Sweden and Norway.

Outlook

As mentioned in the annual report for 2009, the economic trends mean that a degree of uncertainty attaches to COWI's financial development for 2010 as a whole. For the rest of 2010, COWI's turnover and earnings will be affected by trends in private sector investments and by the adjustments currently being made in Europe to public sector expenditure and investments. The uncertainty about economic trends means that COWI forecasts modest organic growth in turnover and earnings in 2010 compared with 2009.

Applied accounting policies

The COWI Group 2010 interim report (unaudited) has been prepared in accordance with the provisions of the Danish Financial Statements Act for a large class C enterprise with the adoption of IAS 19 'Employee Benefits'.

Applied accounting policies remain unchanged from the annual report for 2009.

Market and business conditions

COWI Denmark

COWI Denmark's operations involve the provision of consultancy services to the Danish and international markets. The international market includes exporting consultancy services from Denmark to our international customers as well as providing consultancy services via COWI Denmark's international subsidiaries.

The first quarter of 2010 was difficult for COWI Denmark's operations, with commissions scarce in the opening months of the year and tough competition on both the domestic and international markets. In the first quarter, the municipal market was at something of a standstill following the municipal elections in the autumn of 2009, in addition to which competition has generally been tough and subject to severe pressure on prices. The private market has been relatively stable, albeit with perceptible restraint as far as investment is concerned in the Danish industrial sector.

Prices are also under pressure at international level. Some of our foreign competitors having been hard hit by the economic crisis, competition to win commissions for projects has naturally become stiffer.

The spring months have seen a gradual improvement in the market situation, and our order book has, on the whole, grown steadily since the beginning of the year. There has been increased demand for our services in the business units Economics, Management and Planning; Water and Environment; Geographical Information and IT as well as Industry and Energy.

COWI Denmark's business unit for buildings, however, is still feeling the effects of exceptionally challenging conditions in terms of the market and competition, both in and outside Denmark. Nevertheless, the unit still manages to secure commissions by virtue of its success in integrating sustainability as a core feature of its builds.

Improved market opportunities and the growing order book kept all our business units busy in the second quarter. Competition on prices has not abated, but with competitive strength as a starting point, the second quarter has proved to be extremely satisfactory.

Demand for services in infrastructure remains high

COWI Denmark's business units within infrastructure – railways, roads, bridges and tunnels – continue to enjoy good, steady demand for their services both in and outside Denmark. The overall level of activity has been high, with the business units delivering solid results despite ever keener competition. High levels of activity have also been achieved by COWI Denmark's international subsidiaries working on bridges and marine structures in Great Britain and North America.

The international market

On the international market, levels of activity remain steady and high, notably within our services for bridges, tunnels and marine structures, and in the last two quarters we have won a number of major road design projects in Africa.

International focus on sustainability and climate issues has also opened up new avenues for interdisciplinary collaboration and capitalisation on the whole range of COWI's services palette, for example by drawing in environmental and planning services as contributors to major infrastructure assignments outside Denmark.

Attractive workplace

COWI enjoys an excellent image amongst students and engineers. In 2010, 7,000 students from 14 of Denmark's largest further education institutions voted COWI into third place on the annual list, drawn up by the analysis company Universum, of Danish students' preferred engineering companies. In addi-

tion, this year COWI achieved second place in the Danish engineering magazine Ingeniøren's annual image rankings of engineers' preferred workplaces amongst major Danish companies. This ranking is attributable to how well known COWI is and how well COWI performs in a number of key areas including such parameters as career opportunities, management, corporate culture, professional development, influence, innovation and R&D, and corporate social responsibility. This high ranking means that employment with COWI is perceived to be desirable, which provides an excellent basis for recruitment in the future.

COWI Norway

The year began with a couple of challenging months of low turnover and low earnings. However, the trend in the last two months of the second quarter has been upwards.

The markets within our areas of activity vary from excellent to challenging. The market for construction services benefits to a modest but steady degree from public sector investment in the building stock. The private market remains under pressure and exceptionally competitive.

The market within transport and infrastructure remains, and is expected to remain, good, but the industrial market remains extremely muted. The mapping market in Norway is extremely exacting, with prices at very low levels albeit that levels of activity are relatively stable.

Strong position in the hospital sector

In January our outstanding position in the hospitals market in Norway was confirmed with an unusually comprehensive planning and design contract combining all the engineering disciplines for the Nytt Østfold Hospital. Our other major current projects include Terminal 2 at Oslo Airport Gardermoen, Nordlands Hospital and Haukeland Hospital in Bergen.

COWI Norway has grown by 65 employees. This is due mainly to our new companies, FB Engineering AS and Sørlandskonsult AS, but we have also grown organically.

COWI Sweden

The first six months of 2010 were dominated by the fallout from the global economic crisis, with hesitant markets and sustained pressure on prices. However, we have identified signs of stabilisation and believe that the light at the end of the tunnel is brightening and that profitability will rise in the second half of the year. We are seeing clear signs of progress in the three metropolitan regions of Stockholm, Gothenburg and Malmö.

Opportunities to increase our market share and thereby grow organically have been improved by the collaboration with specialists within the COWI Group. In the first half of the year we boosted our activities within hydrogeology with our acquisition of Aqualog AB, and within electrical/installation engineering with the acquisition of Elinvent AB.

High demand for environmental services

Demand for environment-related services remains high, notably within sustainable building, maintenance and energy. Our activities in the harbour area have increased, with several harbours being further developed and enlarged.

The situation in the industrial sector remains challenging, with customers continuing to postpone new investments. Nevertheless, there is discernible progress as far as the manufacture of paper and pulp is concerned, with a number of new projects having been launched both in Sweden and at international level. Energy is an expanding market, but so far only a small number of substantial projects have come to fruition. Specialising in maintenance services, we are developing our activities in the fields of refinery/petrochemicals/chemicals.

In the fields of construction and property administration, progress towards stability continues at a slow pace but is expected to accelerate noticeably later in the year. The property market is rallying slowly. With its range of CAD software, training and consultancy services, our subsidiary AEC has great potential for increasing its market share as far as work for local authorities and medium-size businesses is concerned. Trends remain encouraging.

Greater recognition of our brand

We have invested significantly in improving recognition of the COWI brand in Sweden by means of a combined profiling and recruitment drive and a successful sponsorship agreement with the tennis player Robin Söderling.

COWI Gulf

In spite of the economic crisis, which is still making itself felt, COWI Gulf has been able to maintain a healthy order book and increase its staff numbers to 666.

Success with sustainable solutions

The buildings business area, which includes engineering, architectural and master planning as well as landscaping architecture services, has provided a showcase for our green and sustainable solutions. The services which we offer within master planning and urban planning in particular have been exceptionally successful. The Salman Bay Master Plan and Jeddah Affordable Housing are two flagship projects which COWI Gulf is currently delivering. Our team is also well placed as far as bids for a number of other high-profile projects are concerned.

New seawater system

We offer a wide range of services which generate growth in interdisciplinary infrastructure projects in the oil and gas sector, as well as the industrial sector in the region, particularly in Abu Dhabi. Our current commitments include Upper Zakum PMC, where COWI is to assist ADNOC with the expansion of the oil production potential in the United Arab Emirates' largest offshore field, and GASCO 4th NGL Train, for which COWI is the consultant on an EPC project for a new seawater system.

We are also active on a range of infrastructure projects for utilities such as water, sewer and drainage systems. Examples include environmental investigations in Al-Hasa, Saudi Arabia, and design review and supervision of drainage installation projects in Musaimmer and Ain Khalid in Qatar.

Focus is also on roads and bridges, including the 140-kilometre Ibra-Sur Road Dualisation project in Oman. We have entered the healthcare and sustainable local residential building market while at the same time maintaining our profile within the hotel and commercial sectors. COWI Gulf has sole responsibility for the design of the first green five star hotel in Saudi Arabia, Al Aqeeq. This exemplifies the combined deployment of our skills within architecture and engineering.

COWI Central & Eastern Europe

The first half of 2010 proved to be particularly challenging for COWI Central & Eastern Europe and its staff of some 420. The markets have yet to recover from the economic crisis, with the building sector in particular still reeling. The infrastructure market, by comparison, is stable despite falling prices. Several of our companies are currently in the process of consolidating, and while the order book is satisfactory, earnings are down.

With results in our companies in Lithuania, whose activities are mainly in the building sector, remaining unsatisfactory, we have been obliged to make cuts in our personnel in the buildings unit. We expect improvements in the second half of the year as we have won a couple of substantial projects, including the SMELTE project in Klaipeda Harbour. Our recovery plan in Latvia met with success, and in Poland we have started work on a major contract for NATO, which will provide the platform for our new offices in Bielsko-Biala.

Our Russian company continues to grow, and we have started the process of building up our position in the transport market. The company has set up an office in Kazakhstan and has just signed a contract for a major water project in St. Petersburg. COWI Hungary has delivered excellent interim results, but we have yet to achieve our targets in Serbia. We have been awarded a couple of exciting project management contracts in Belgrade, but meanwhile a major contract was cancelled in the absence of funding. COWI Turkey, having been hit by problems with completing two major water projects, will post unsatisfactory earnings.

The companies in the region and the rest of COWI are joining forces to an increasing extent. Together, we are endeavouring to strengthen our position in the CIS countries and have in fact won a couple of contracts. We have also maintained our focus on developing management skills.

COWI Africa

The positive financial developments in 2009 continued in 2010. Public sector investment in our priority sectors – water, roads and social development – has provided a firm foundation from which to keep our momentum going. Western aid to Africa has not suffered despite pressure on public sector budgets within the donor nations. Equally, there has been no deviation from the strategy of giving support directly to the national administrative bodies.

Local and regional customers account for an ever-growing share of our overall portfolio, in addition to which we have secured commissions for private customers who operate in the local markets. In the first half of 2010 we have built up an order book which represents a sound springboard for continued positive developments.

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Frontispiece photo:

Via Tripod Wind Energy, COWI has helped to develop wind turbine projects all over the world – including the first in South East Asia: the Bangui Bay Wind Power project in the Philippines, comprising 20 turbines with total output of 33 MW. COWI and Tripod Wind Energy provided consultancy services to North-Wind and Danida on the project.

Photo: NWPDC