Engineering Success

Interim Results Presentation
21 August 2014

Engineering Success

- A strong performance in the first half of the year
- Strategically well positioned
- Good pipeline of opportunities
- Accelerating the growth of the Company

Financial Review
Tony Bickerstaff, Finance Director

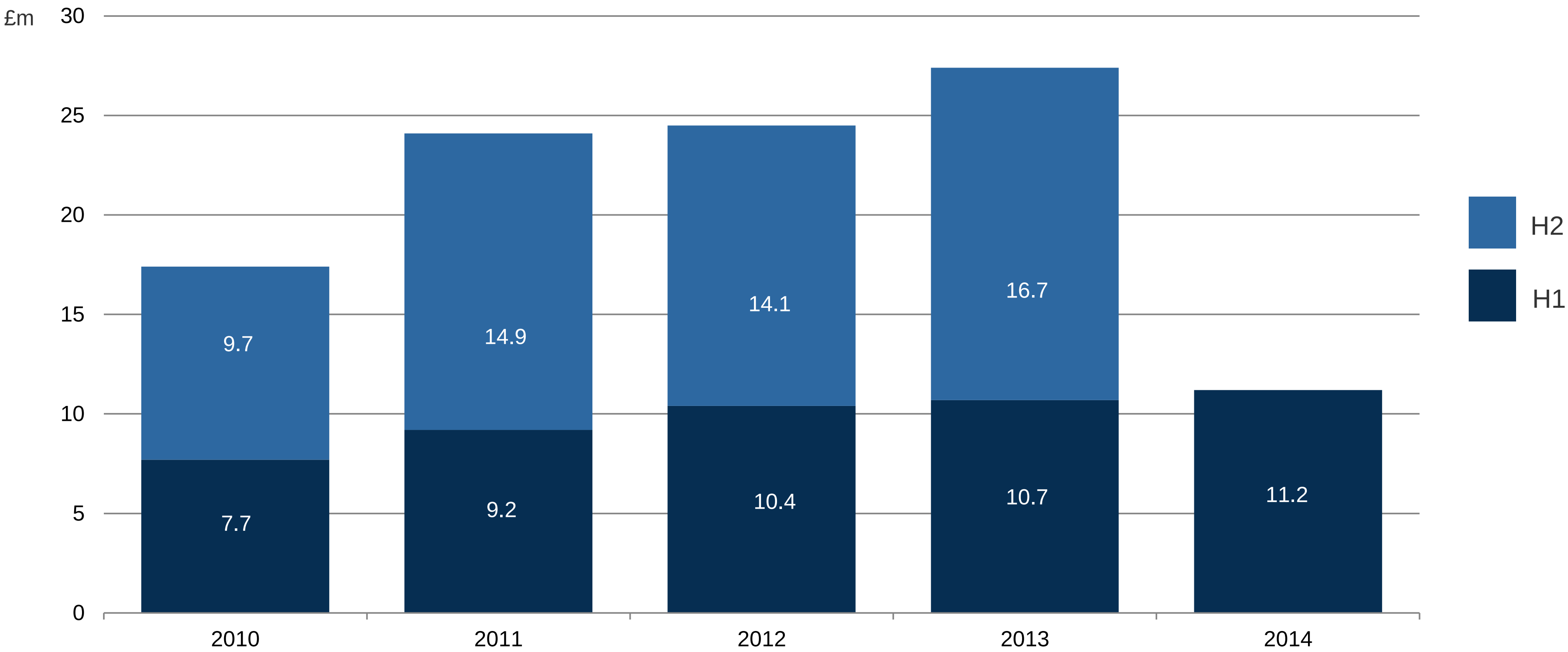
A strong performance in the first half of the year

- Revenue[1] up 14 % to £529.1 million (2013: £462.9 million)
- Underlying operating profit[2] up 5% to £11.2 million (2013: £10.7 million)
- Adjusted profit before tax[3] increased 8% to £9.1 million (2013: £8.4 million)
- Adjusted basic earnings per share[4,5] of 9.2 pence (2013: 9.8 pence[5])
- Successful capital raise of £70.3 million (net of expenses)
- Net cash balance as at 30 June 2014 £133.8 million (30 June 2013: £64.3 million)
- Record order book up 10% to £3.2 billion (30 June 2013: £2.9 billion)
- Interim dividend of 3.25[4] pence on enlarged capital base (2013: 3.75 pence)

1. Including share of joint ventures and associates
2. Underlying operating profit before Other items; amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc.
3. Results stated before other items; amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc and in full year non-cash impairment of £9.8m on carrying value of assets in non-core Land Development activity in Spain
4. On an enlarged capital base following the capital raise completed in March 2014
5. Restated for [bonus element only of] capital raise completed in March 2014.

Track record of increasing earnings

Group underlying operating profit*



***Underlying operating profit before Other items; amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc. 2012 excludes the £2.8m one off costs resulting from pension scheme liability actions.**

Segmental income statement

	6 Months to 30 June 2014			6 Months to 30 June 2013			Full Year 2013		
	Revenue[1]	**Underlying Operating Profit[2]**		Revenue[1]	Underlying Operating Profit[2]		Revenue[1]	Underlying Operating Profit[2]	
	£m	***£m***	***Margin***	*£m*	*£m*	*Margin*	*£m*	*£m*	*Margin*
Infrastructure	**358.7**	**16.9**	***4.7%***	262.8	14.4	*5.5%*	560.6	31.4	*5.6%*
Natural Resources	**169.4**	**(2.6)**	**-**	199.2	(0.1)	-	397.6	3.1	*0.8%*
Central Costs		**(3.1)**			(3.6)			(7.1)	
Underlying Operating Profit[2]	**528.1**	**11.2**	**2.1%**	462.0	10.7	2.3%	958.2	27.4	2.9%
Land Development	**1.0**	**(0.5)**		0.9	(0.7)		1.8	(2.1)	
Other Jvs								0.6	
Profit from sale of investments								9.1	
Adjusted Profit from operations[3]		**10.7**			10.0			35.0	
Adjusted net interest expense		**(1.6)**			(1.6)			(4.0)	
Adjusted Profit before tax[4]		**9.1**			8.4			31.0	
Adjusted Basic Earnings per share[4]		**9.2p**			9.8p[5]			41.0p[5]	

NB: For notes see slide 3

Strong cash position

	June 2014 £m	June 2013 £m	Full Year 2013 £m
Net Cash at beginning of period	57.7	105.7	105.7
Cash flow (used by)/from operating activities*	19.3	(33.3)	(35.5)
Cash flow used by investing activities	(8.9)	(3.5)	(6.6)
Dividends / financing	65.7	(4.5)	(5.9)
Effect of foreign exchange rate changes		(0.1)	
Net cash at end of period	133.8	64.3	57.7
Net Cash Reconciliation:			
Cash and cash equivalents at end of period	134.9	75.3	84.3
Less: Bank Overdrafts/borrowings	(1.1)	(11.0)	(26.6)
Reported Net Cash	133.8	64.3	57.7

Net cash movements due to:

- > *Continued transition to target cost, reimbursable, collaborative forms of contract*
- > *Reduced benefits of significant advanced payments*
- > *Improved Group risk profile and provides increased visibility over long term margins*
- > *Benefit of strong contract flows at period end*
- > *Year end cash balance will continue lower in line with current guidance*

* Post interest and tax

Balance sheet & banking facilities

COSTAIN

		30th June 2014 £m		30th June 2013 £m		31 December 2013 £m
Assets						
Non current assets (excluding pension deficit deferred tax)		**98.3**		94.6		97.0
Trade and other receivables	**214.0**		193.5		192.2	
Cash	**134.9**		75.3		84.3	
Current assets		**348.9**		268.8		276.5
Total assets		**447.2**		363.4		373.5
Current liabilities		**(302.4)**		(293.3)		(296.1)
Total Assets less current liabilities		**144.8**		70.1		77.4
Non Current liabilities (excluding net pension liability)		**(5.7)**		(3.0)		(4.7)
Pension liability net of deferred tax		**(40.7)**		(31.6)		(29.4)
Total Equity		**98.4**		35.5		43.3

- Total banking & bonding facilities of £495 million
- Maturity date of 30 June 2017
- Flexible financing in place to support growth

Pension

- In the period, agreed full actuarial valuation as at 31 March 2013 and updated recovery plan
- Contributions at £7m per annum plus a top-up for total contributions to match annual dividend payments
- Increase in accounting net deficit due to reduction in discount rate used to calculate liabilities

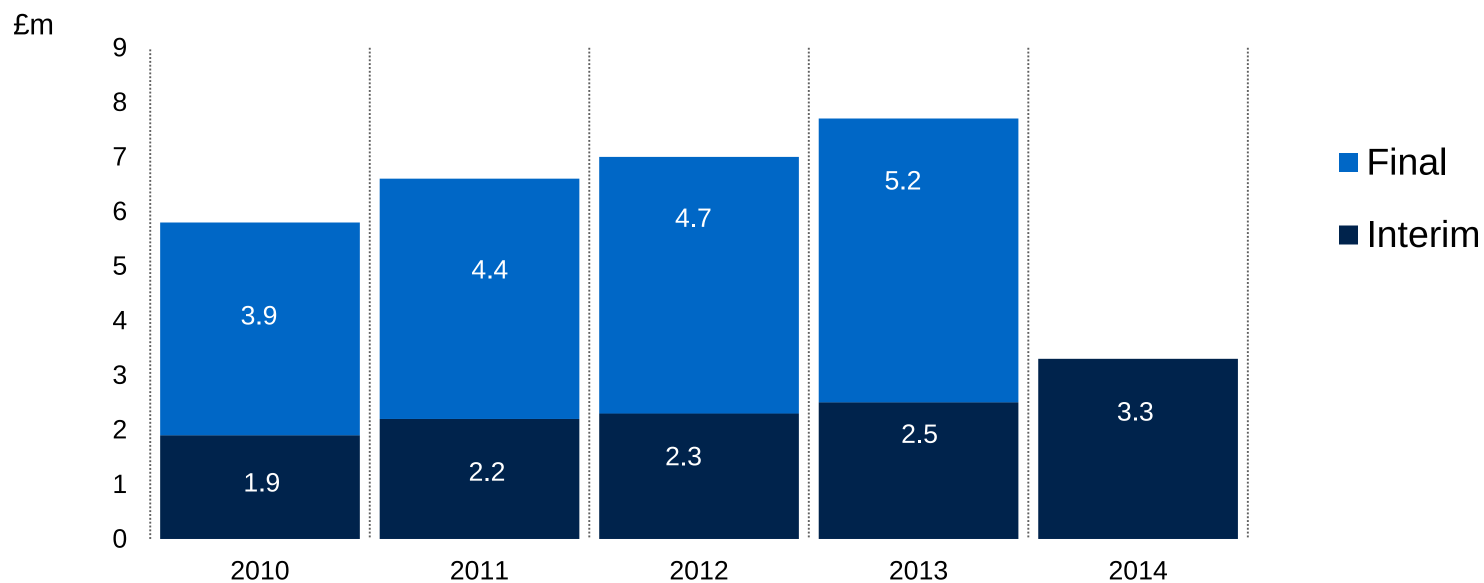
	30 June 2014	31 December 2013	30 June 2013
Fair value of scheme assets	599.8	592.5	580.7
Present value of defined benefit obligations	(650.7)	(629.7)	(621.8)
Recognised liability for defined benefit obligations	(50.9)	(37.2)	(41.1)
Deferred tax	10.2	7.8	9.5
Net pension deficit	(40.7)	(29.4)	(31.6)

- Legacy defined benefit scheme; closed to new entrants in 2005 and closed fully to future accrual in 2009
- All employees on defined contribution arrangements only
- Actions taken to manage obligation including asset transfers & liability reductions

Implementing new dividend policy

- As set out at the time of the capital raise, progressive dividend policy, targeting ongoing dividend cover of c. 2 x underlying earnings.
- Interim dividend declared of 3.25 pence per share on the enlarged share capital base of the Group (2013: 3.75 pence per share).
- Increase of 32% in the total amount of dividend paid to shareholders
- The dividend will be paid on 24 October 2014 to shareholders on the register as at the close of business on 19 September 2014

Total dividend pay-out (£m)



Group Strategy
Andrew Wyllie, Chief Executive

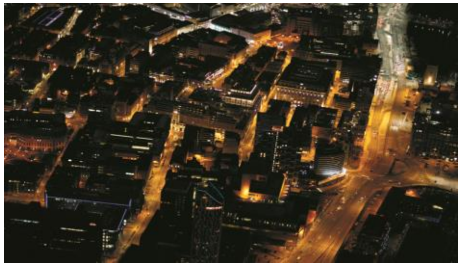
COSTAIN

Engineering Tomorrow:
Unique and well-positioned strategy

Working with customers to meet essential national needs

- Costain is the UK's engineering solutions provider with a unique focus on the major customers meeting national needs in energy, water and transportation.
- Our customers are large organisations that need solutions to their complex business challenges
- We are a trusted delivery partner that collaborates strategically at all levels with our customers in long-term relationships
- We use our customer understanding to create and deliver innovative engineering and technology led integrated services across the full life cycle of an asset
- Strategy driven both organically and by acquisition

Ensuring the lights stay on…



…maintaining a safe and secure water supply…

…improving transport infrastructure.

Generating and delivering innovative, value-driven solutions

Significant investment providing opportunities in targeted sectors

Sector

Priority area for the government to stimulate economic growth and to meet future demands for an additional 225 million passengers and 355,000 more trains per year.

UK road networks are under significant pressure, with longer average delays and a 19% increase in road traffic forecast from 2015-2025 (Source DfT).

Securing the UK's future energy needs while meeting carbon reduction commitments and coping with an ageing infrastructure.

Investment

Estimated investment per annum

£17.5bn

Network Rail CP5 (2014-19)

£38bn

Estimated cost of HS2

£43bn

Estimated investment per annum

£6.3bn

Investment in enhancements and maintenance of national and local roads

£28bn

Estimated investment per annum

£3.9bn

New energy infrastructure by 2020

£110bn

Sector

Significant activity in UK upstream market driven by investment in offshore deep drilling and optimisation of mature assets in the North Sea.

Committed spend continues in the UK water market as a result of rising environmental standards and continued threat of water scarcity.

Government is committed to safely decommissioning and cleaning up civil nuclear sites in the UK.

Investment

Estimated investment per annum

£27bn

UKCS: New field development and brown field projects (per annum)

£13bn

Estimated investment per annum

£11bn

Implementation of AMP6 (2015-20) (based on AMP5)

£21bn

Thames Tideway (2016-2022)

£4.2bn

Estimated investment per annum

£6bn

Estimated cost to address the UK's nuclear waste legacy

£50bn

Focussed on requirements of major customers

COSTAIN

Simple business model to deliver innovative integrated solutions

- Unique focus on major customers
- Customer aligned divisional structure
- Central resource allocation to prioritise and optimise asset deployment
- Target longer-term, larger contracts and extensions, incorporating a broader range of services

Infrastructure

Natural Resources

Over 90% repeat orders

COSTAIN

RESOURCE ALLOCATION

BUSINESS DEVELOPMENT

PERFORMANCE MANAGEMENT

Essential capabilities and attributes

- Range of innovative services
- Skills and experience of team
- Financial strength
- Track record of reliable, safe service delivery
- Values and brand reputation

Advisory & Design | Programme Delivery | Operations & Maintenance

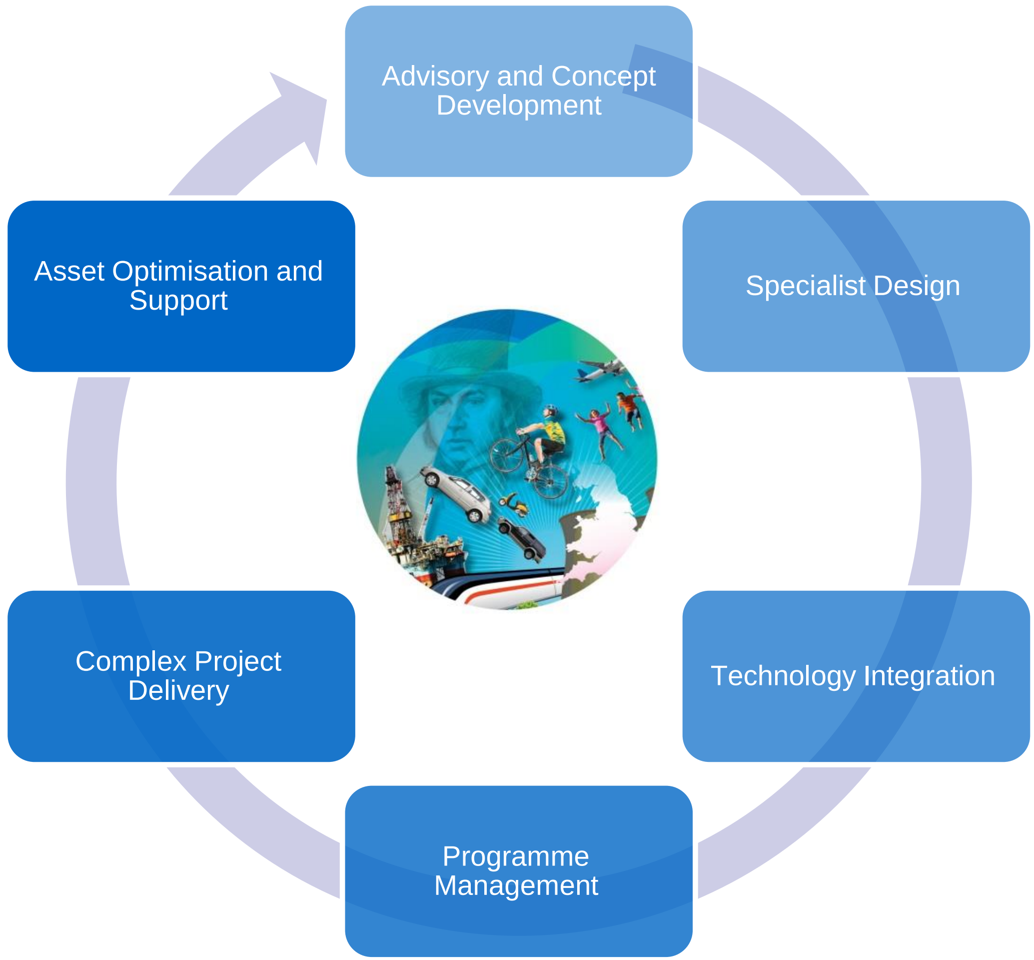
Meeting customers' demands by delivering a range of integrated services


Smart motorways


Managing Mobicloud to improve site efficiency


The refurbished Reading railway station includes a new transfer deck over the tracks and escalators down to the platforms


The Costain MWH framework team working on the Minworth Sewage Works with Severn Trent Water




Advising clients on asset enhancement


Cutting the cost of carbon capture


Advising on HS2

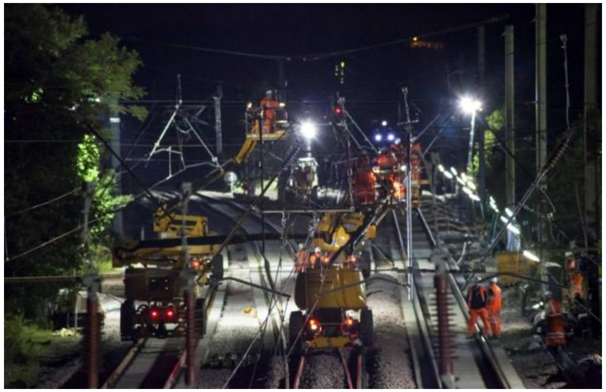
Commuters arrive on to the newly re-opened platforms 14 and 15 at London Bridge Station

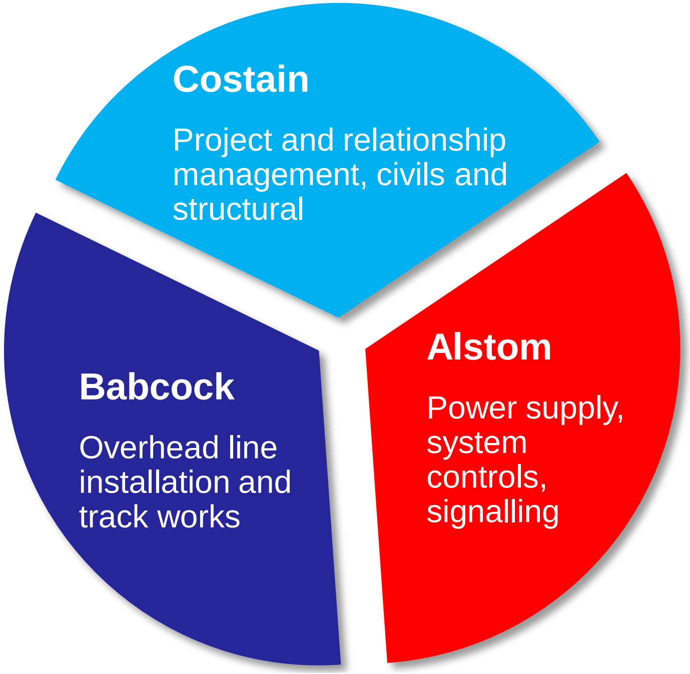
Strategy in action:
Delivery of £4.5 billion rail electrification programme

Network Rail required by the Regulator to deliver £4.5 billion programme over next five years.

> Long term successful relationship with Network Rail
> ABC joint venture formed to deliver the integrated service requirements of the customer
> ABC to deliver c 3,000 km of electrification
> Collaborative, target cost, cost reimbursable based contract
> ABC is an equal partnership with each party achieving the same margin

Contract	Value to ABC
West Coast Power Supply Upgrade	£90m
Edinburgh-Glasgow Implementation Programme	£75m
Valley Lines Electrification	£450m
London North West (South)	£450m
Total	**£1,065m** Costain's share £355 million





Strategy in action:
Growth in Oil & Gas

COSTAIN

- Further projects secured in upstream, midstream and downstream activities
- Upstream consulting contract extension worth £12 million with Premier Oil for North Sea assets
- £30 million integrated services contract for Freon Replacement project at Dimlington awarded by Perenco
- Integrated services contract for the Barrow Gas Terminals Project, part of Centrica's £84 million investment in this asset
- Appointment to National Grid Framework for front end engineering to gas transmission framework
- Extension to asset support contract for OPA's strategic fuel distribution network

centrica OPA The Oil and Pipelines Agency PremierOil PERENCO nationalgrid

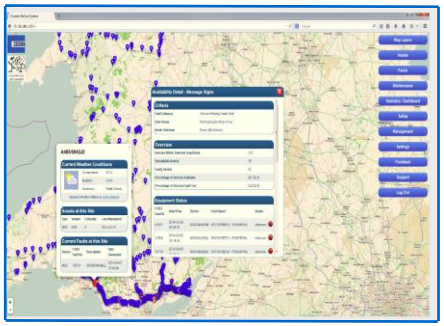
Strategy in action:
Driving innovation and technology throughout our services

COSTAIN

MARIO

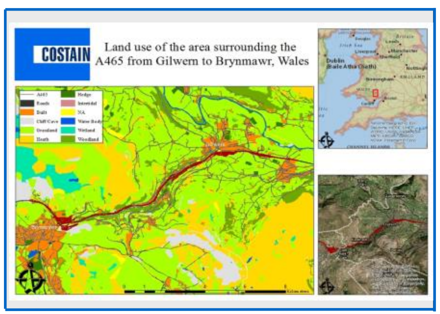
TaKaDu


Carbon Capture RECAP Absorber Column Design

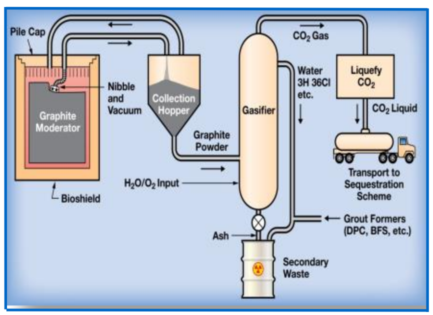

COamp Asset Management Platform

Building Information Modelling

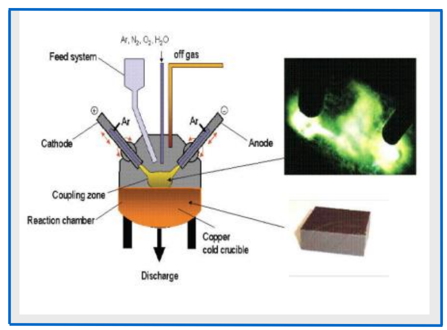

Wireless Monitoring



Geographical Information Systems



Nuclear waste management graphite gasification

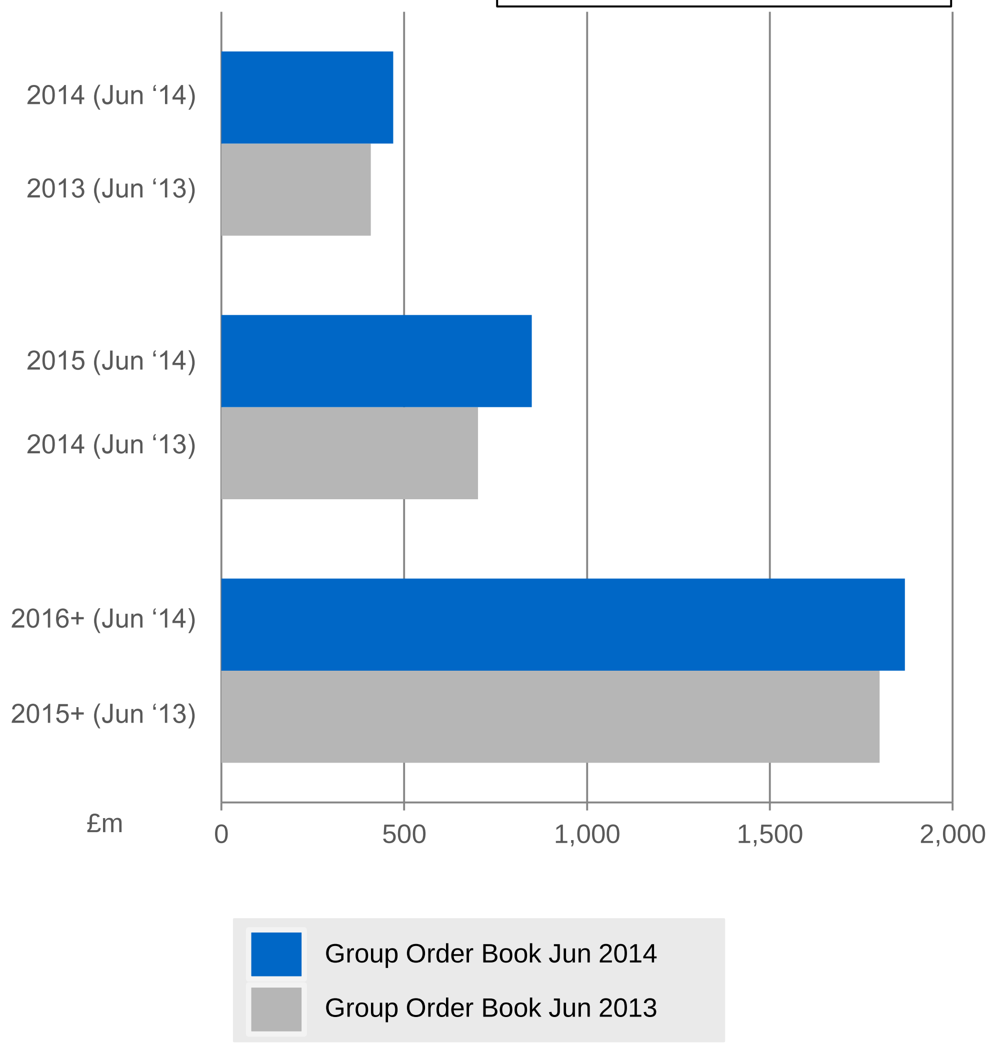


Plasma Waste Vitrification

ESDAL – Electronic Delivery Service For Abnormal Loads

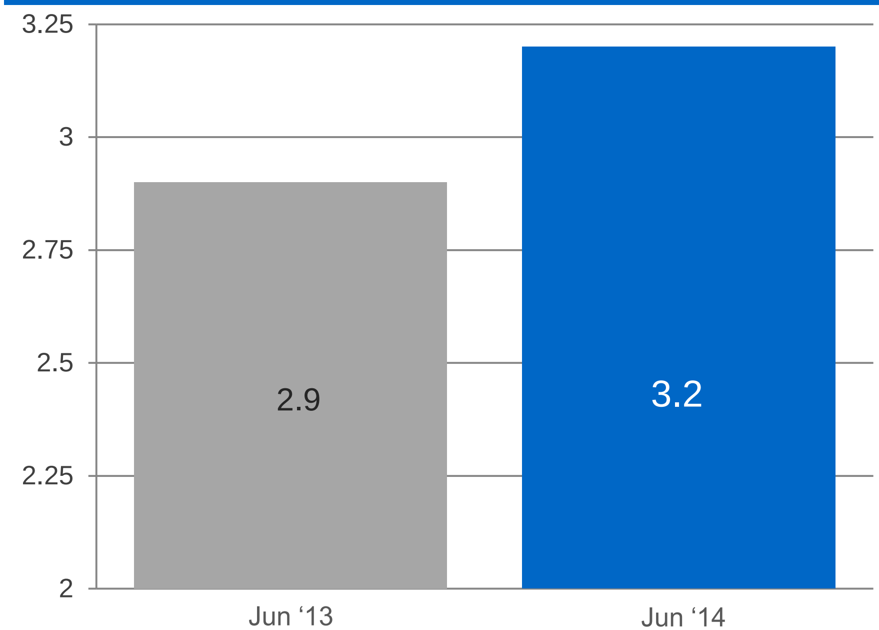
Record order book and increased visibility

Total order book: £3.2 bn



- Forward order book up 10% to £3.2bn (June 2013: £2.9bn),
- Over £950m of work secured for 2014 vs over £850m for 2013 in Jun 2013
- Over 90% repeat orders, over 90% collaborative target cost based contracts
- Collaboration and customer focus key contributory factors

Record, high quality order book (£bn)



Summary

- Strong first half performance
- Unique and well-positioned strategy
- Focussed on accelerating growth through delivering integrated services to major customers
- On course to deliver a result for the year in line with the Board's expectations

Engineering Tomorrow... today

Appendix

Other items and tax

Other Items

- Amortisation of acquired intangible assets - H1 2014: £1.6m (H1 2013: £0.6m, FY 2013: £1.8m)
  - Amortised from date of acquisitions (ClerkMaxwell - April 2011, Promanex - August 2011, EPC Offshore - August 2013, Serco JV - January 2014)
- Employment related and other deferred consideration - H1 2014: £1.3m (H1 2013: £1.0m, FY 2013: £2.8m)
  - New Accounting Standard requires any consideration related to employment to be expensed over the required service period
  - Promanex - 2 years from acquisition date
  - ClerkMaxwell - Annual earn out basis for 2012/2013/2014
  - EPC Offshore - Annual earn out basis for 2014/2015/2016

Tax

- H1 2014 tax rate at 11% on adjusted profit
- First half includes benefit on positive timing differences and deferred tax impact from corporation tax reduction
- Full Year anticipated to continue to benefit from these items
- Normalised rate expected to be 23% - 25% on non JV profit

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