Engineering *Tomorrow*

Results for the half-year ended 30 June 2013

22 August 2013

COSTAIN

Introduction and welcome

> An encouraging start to the year

> Increase in underlying operating profit

> 20% increase in order book to £2.9 billion

> Key to continuing success is provision of innovative integrated service solutions

> Increase in interim dividend

Financial Review

Tony Bickerstaff, Finance Director

Key financials

- Revenue[1] £462.9m (H1 2012: £477.9m)
- Underlying[3] operating profit up 3% to £10.7m (H1 2012[2]: £10.4m)
- Adjusted[4] profit before tax £8.4m (H1 2012[2]: £16.3m)
- Adjusted[4] basic earnings per share 10.6p (H1 2012[2]: 22.2p)
- Net cash balance £64.3m (H1 2012: £131.5m)
- Forward order book up over 20% to £2.9 bn (June 2012: £2.4 bn)
- Interim dividend increased by 7% to 3.75p (June 2012: 3.50p)

[1] Including share of joint ventures and associates

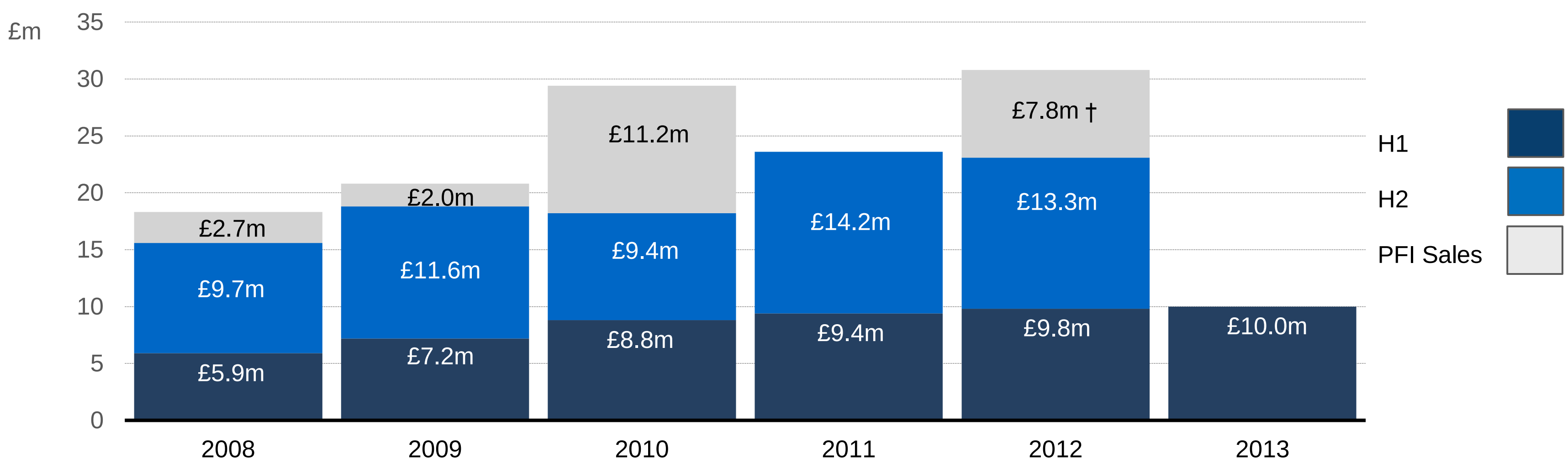
[2] Re-stated for revised IAS19 Employee benefit accounting standard

[3] Underlying operating profit (before amortisation of acquired intangible assets and employment related acquisition consideration) in 2013 excludes £3.7m one-off costs associated with the offer for May Gurney and in 2012 excludes the £2.8m one-off costs resulting from pension scheme liability actions

[4] Results stated before amortisation of acquired intangible assets and employment related acquisition consideration and in 2013 before £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc. 2012 includes £10.5m profit arising from transfer of PFI assets into the Group's pension scheme and £2.8m one-off costs resulting from pension scheme liability actions.

Increasing earnings

Group adj. profit from operations*



* Results stated before amortisation of acquired intangible assets and employment related acquisition consideration and in 2013 before £3.7m one-off costs associated with the offer for May Gurney Integrated Services plc. 2012 includes £10.5m profit arising from transfer of PFI assets into the Group's pension scheme and £2.8m one-off costs resulting from pension scheme liability actions.

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

Segmental income statement

	6 Months to 30 June 2013			6 Months to June 2012			Full Year 2012		
	Revenue*	**Underlying Operating Profit**		Revenue*	Underlying Operating Profit		Revenue*	Underlying Operating Profit	
	£m	***£m***	***Margin***	*£m*	*£m*	*Margin*	*£m*	*£m*	*Margin*
Infrastructure	**262.8**	**14.4**	*5.5%*	246.2	9.6	3.9%	494.9	23.5	4.7%
Natural Resources	**199.2**	**(0.1)**	-	230.9	4.6	2.0%	437.7	8.1	1.9%
Central Costs		**(3.6)**			*(3.8)*			*(7.1)*	
Underlying Operating Profit	**462.0**	**10.7**	*2.3%*	477.1	*10.4*	2.2%	932.6	*24.5*	2.6%
Land Development	**0.9**	**(0.7)**		0.8	(1.0)		1.9	(2.3)	
Other JVs					0.4			0.9	
Profit from PFI Transfer to pension scheme					10.5			10.5	
Pension scheme liability costs					(2.7)			(2.8)	
Adjusted Profit from operations*		**10.0**			17.6			30.8	
Net interest expense		**(1.6)**			(1.3)			(2.7)	
Adjusted profit before tax**		**8.4**			16.3			28.1	
Adjusted Basic Earnings per share**		**10.6p**			22.2p			39.7p	

* Including share of joint ventures and associates

** Before other items: Amortisation of acquired intangibles & employment related deferred consideration - H1 2013 £1.6m: H1 2012 £1.6m; FY 2012 £3.4m
One-off transaction costs associated with the May Gurney offer – H1 2013 £3.7m

Net finance expense

	H1 2013 £m	H1 2012 Restated £m	FY 2012 Restated £m
Net bank deposit/loan interest/bank fees	**(0.5)**	(0.5)	(0.8)
IAS19 Pension Scheme Interest	**(1.1)**	(0.8)	(1.9)
Net finance expense	**(1.6)**	(1.3)	(2.7)

Change to 2012 of accounting for revised IAS19 Employee benefits

	H1 2012 £m	FY 2012 £m
Operating profit	(0.3)	(0.6)
Finance expense	(0.4)	(0.8)
Profit before tax	(0.7)	(1.4)

Net cash position

COSTAIN

	June '13 £m	June '12 £m	FY 2012 £m
Net cash at beginning of period	**105.7**	140.1	140.1
Cash used by operating activities	**(33.3)**	(2.5)	(23.1)
Cash used by investing activities	**(3.5)**	(1.9)	(5.1)
Dividends / financing	**(4.5)**	(4.2)	(6.2)
Effects of foreign exchange rate changes	**(0.1)**	-	-
Cash and cash equivalents at end of period	**64.3**	131.5	105.7
Net cash reconciliation			
Cash and cash equivalents at end of period	**75.3**	133.2	107.4
Less: Bank overdrafts/ borrowings	**(11.0)**	(1.7)	(1.7)
Reported net cash	**64.3**	131.5	105.7

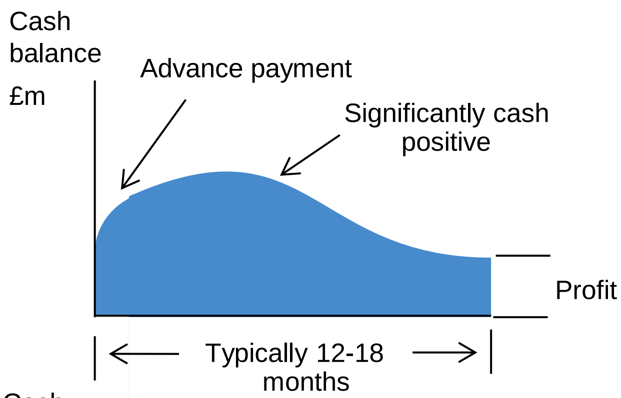
Average month-end cash balance - £65.6m (June 2012: £120.0m; FY 2012: £103.4m)

Impact on net cash due to….

- Changing profile of business
  - Increased level of support services activities
  - c. 90% of customers now use target cost based, cost reimbursable contracts
  - Reduction in advance payments
- Delayed contract completion
- Wider industry trends:
  - Project bank accounts
  - Supplier payment charters

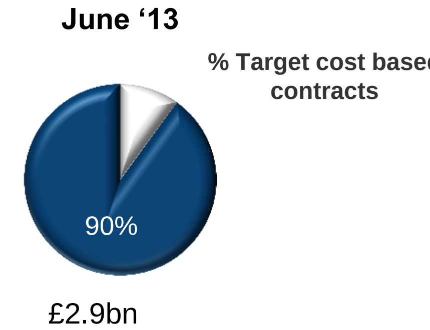
Increased working capital requirements will mean net cash balance likely to continue lower

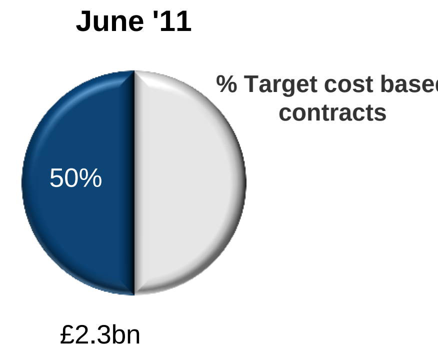
Transition to target cost based contracts



Fixed price, lump sum contracts

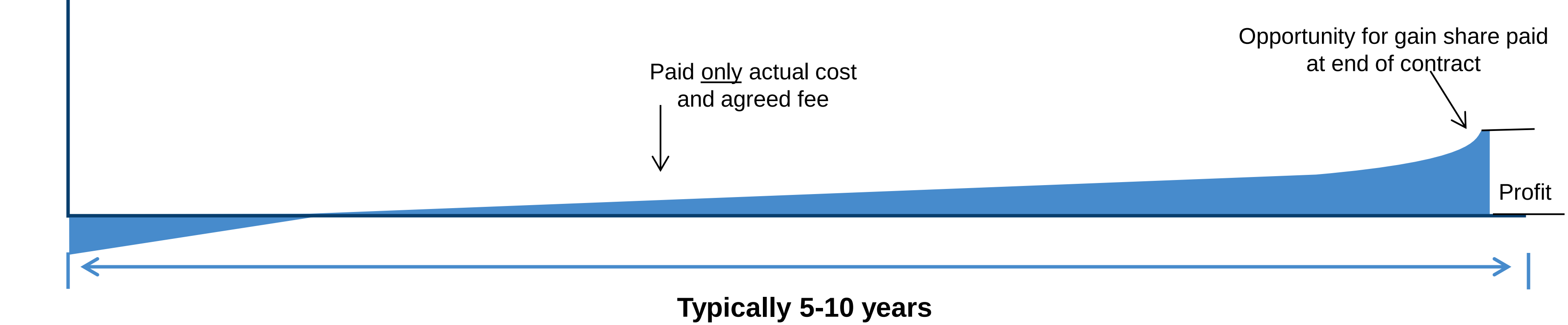
- Suitable for well defined low complexity projects, eg PFI schools, offices
- Higher risk, can lead to confrontation





Target cost, cost reimbursable contracts

- Suitable for complex, long term relationships. Scope not well defined
- Lower risk, more collaborative

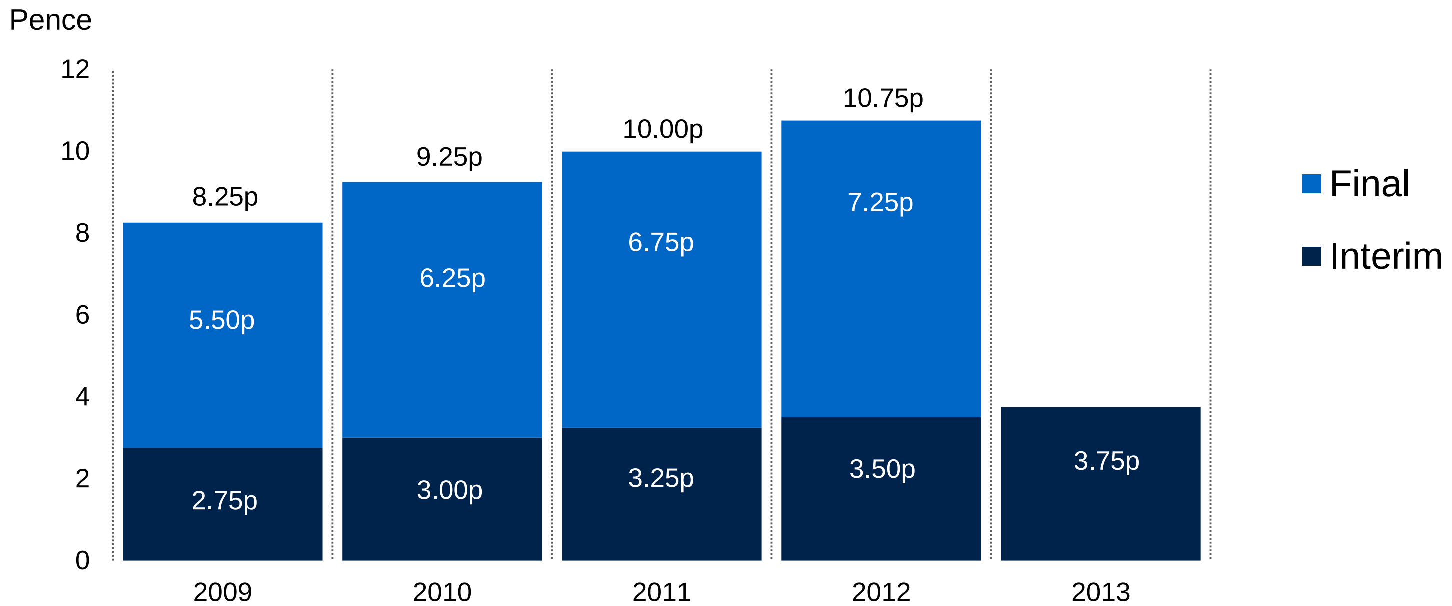


Increased banking and bonding facilities

> Banking and bonding facilities increased to £495m
> Including increase in debt facility from £45m to £95m
> Extended maturity date to 30 June 2017

Increased dividend

- 7% increase in interim dividend to 3.75p per share
- Sixth successive year of increase
- Payment on 25 October 2013 to shareholders on the register as at 20 September 2013
- Option to take shares in lieu



Business Review

Andrew Wyllie, Chief Executive

Engineering
Tomorrow

"Customers are demanding increasingly innovative solutions.

"Through our 'Engineering Tomorrow' strategy, Costain is generating and delivering innovative, value-driven solutions to meet major national needs."

Costain's business model

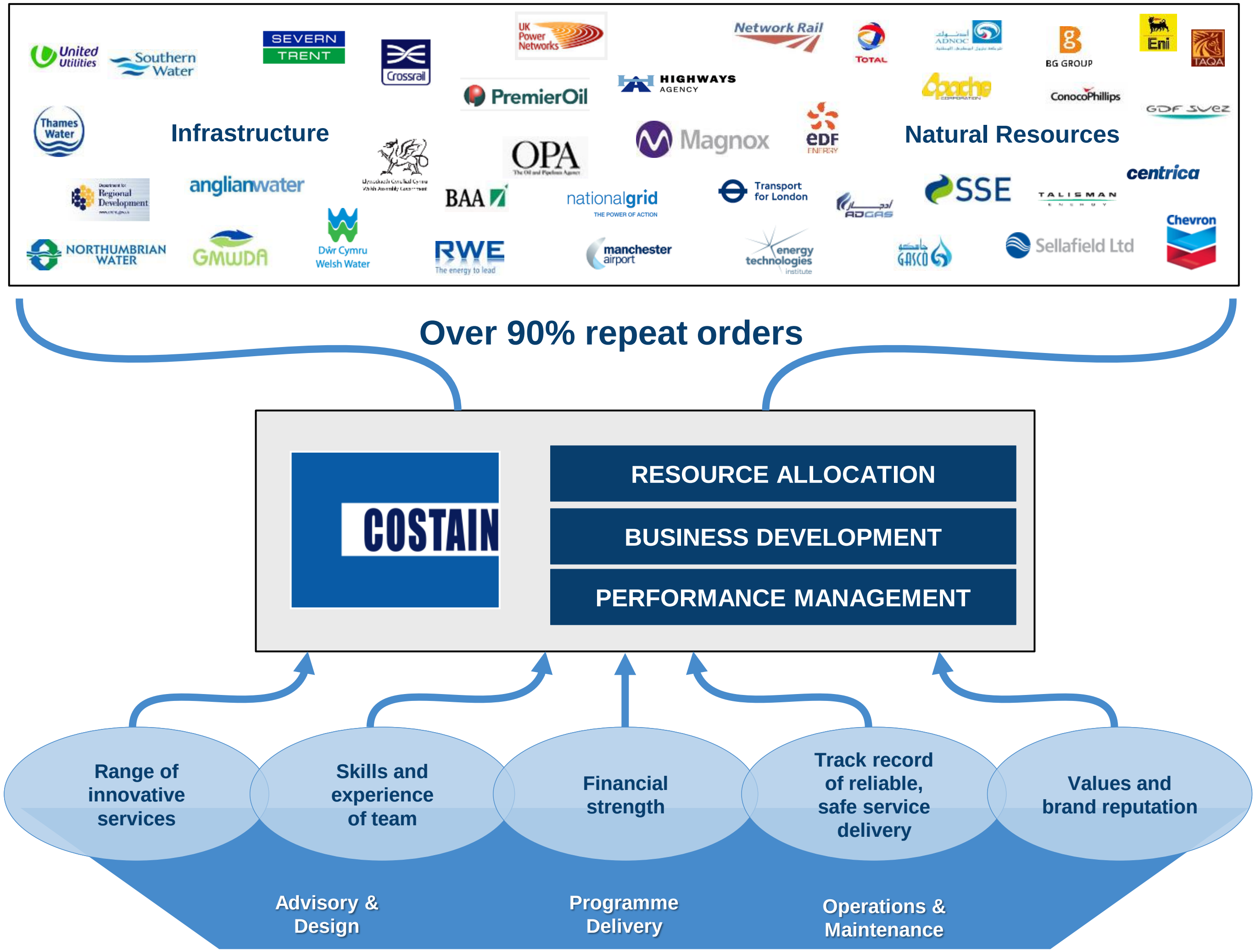
Our strategy is focused on major customers addressing national needs

Sector 'unique' customer aligned divisional structure

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

Costain: Tier One provider of Engineering Solutions

<u>Essential</u> capabilities and attributes



One Costain

Providing a range of integrated services across the whole asset life cycle

Advisory & Design	Programme Delivery	Operations & Maintenance
Pre-investment advisory Complex programme advisory Operational excellence advisory Sustainability and energy advisory	Programme leadership Sustainable delivery Partnering and Collaboration	Infrastructure network management Asset management and maintenance Facilities management Safety first and compliance culture

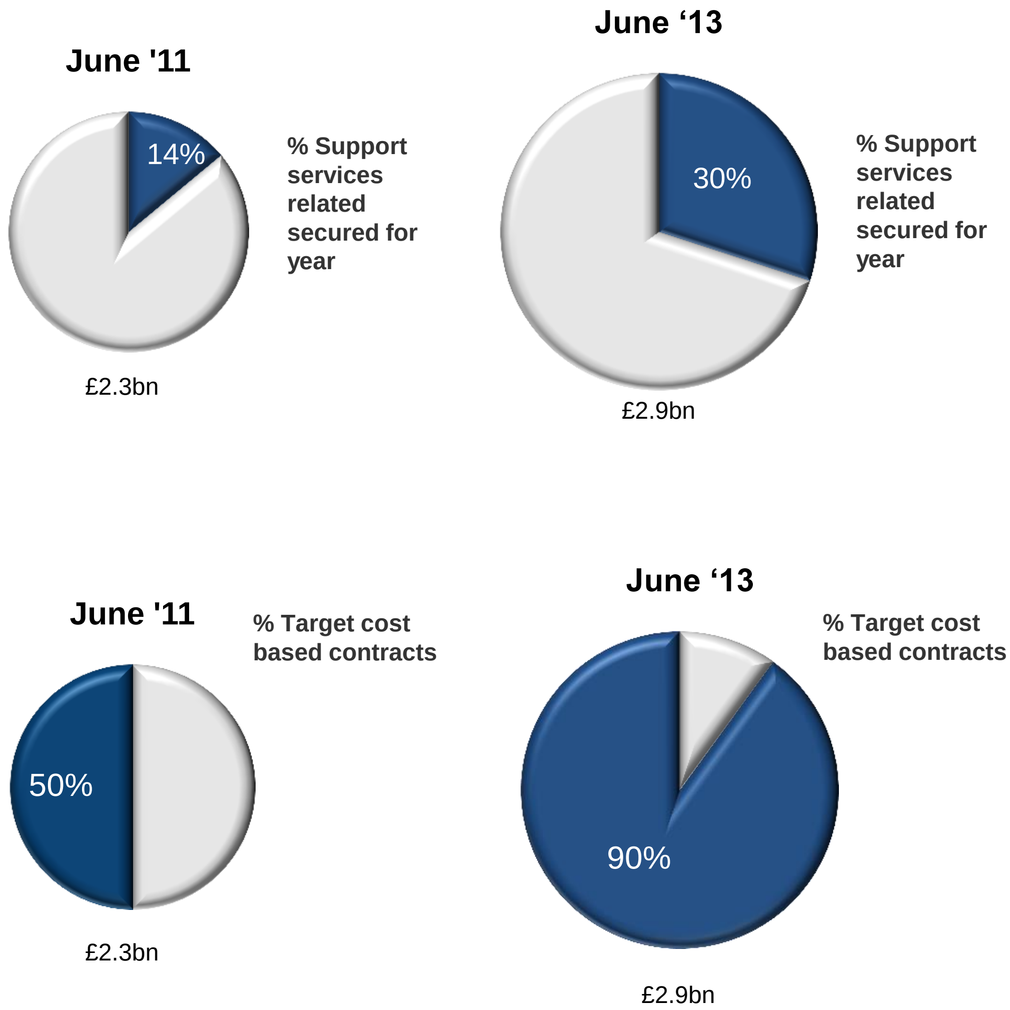
Developing both organically and by acquisition

Natural Resources	&	Infrastructure
Water		Highways
Waste		Rail
Hydrocarbons and chemicals		Power
Nuclear Process		Airports

Order book £2.9bn, 30% support services….and growing

Collaboration key to success

- Our blue chip customers demand long-term strategic relationships
- We provide a range of innovative services across life cycle of asset
- Demonstrating responsibility, reliability, and sharing of values
- Qualitative as well as quantitative selection process
- Customer secures flexibility leading to better value for money



'Engineering Tomorrow' delivering record order book

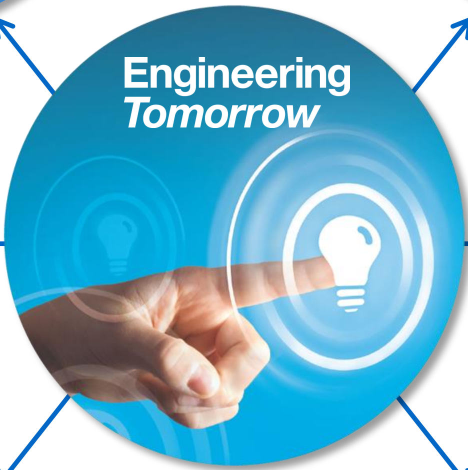
COSTAIN

- Forward order book up over 20% to £2.9 billion (June 2012: £2.4 billion)
- In excess of 90% from repeat orders
- £900 million new contracts and extensions secured in the first half
- Over £850m of revenue secured for FY 2013 as at 30 June 2013
  - Comprising 30% support services related activities
- Excellent long term visibility
- In addition, preferred bidder positions of over £500 million (30 June 2012: £400 million)
- Target cost up to 90%
- 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

£900m of new work secured, including:

Oil and Gas market
- Doubled size of ClerkMaxwell
- Follow-on work for Centrica; FEED for Barrow

A leading supplier in Highways
- Area 7 MAC contract extended
- Hammersmith Flyover



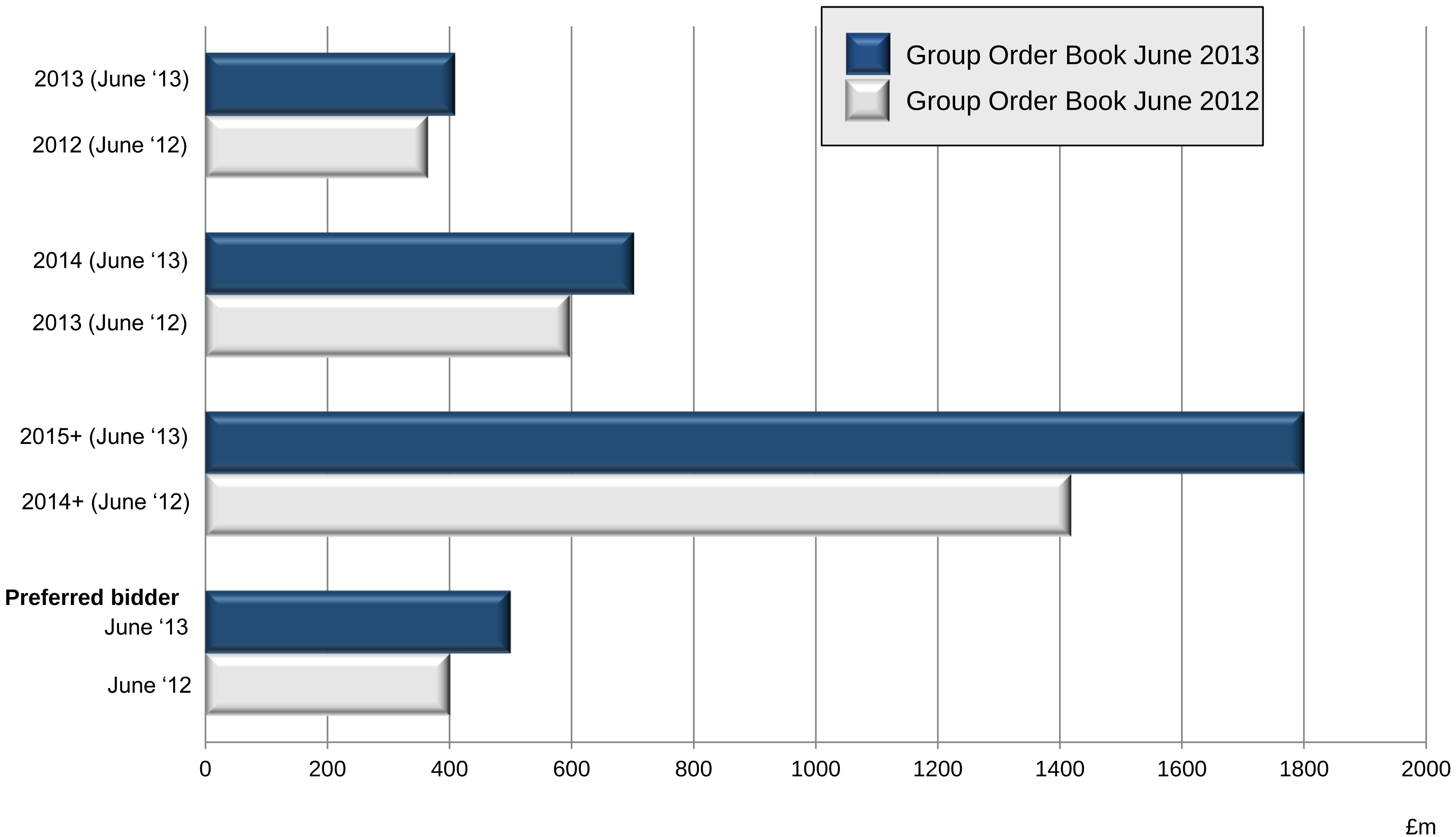
Broadening services for Network Rail
- First electrification project on West Coast Mainline

UK Power Networks
- Awarded first framework contract with new customer

Strong position in Water
- Landmark AMP6 contract from Thames Water

Strong position at Crossrail
- Further contracts including design, installation and commissioning of railway systems

Increased visibility



Acquisition of EPC Offshore

- EPC Offshore: specialist oil & gas project management services company
  - 75 professional staff
  - field development and project management specialist with programme management expertise
- Acquisition expected to be earnings enhancing in first full year

- Formation of Costain Upstream will combine capabilities of ClerkMaxwell with EPC Offshore to provide services across the life-cycle of upstream offshore oil and gas assets in the c. £13 billion p.a. North Sea upstream market
- Based in Aberdeen with operating and support units in Maidenhead, Teesside, Manchester and Abu Dhabi

Summary

- An encouraging start to the year
  - 20% increase in order book to £2.9 billion
  - Increase in underlying operating profit
- Costain continuing to secure major contracts through provision of innovative integrated service solutions
- On course to deliver results for the year in line with expectations
- Increase in interim dividend

Appendix

Balance sheet

	30 June 2013		30 June 2012		31 December 2012	
	£m		£m		£m	
Assets						
Non current assets (excluding pension deficit deferred tax)		**94.6**		101.2		91.2
Trade and other receivables	**193.5**		184.7		183.2	
Cash	**75.3**		133.2		107.4	
Current assets		**268.8**		317.9		290.6
Total assets		**363.4**		419.1		381.8
Current liabilities		**(293.3)**		(343.4)		(303.1)
Total assets less current liabilities		**70.1**		75.7		78.7
Non current liabilities (excluding net pension liability)		**(3.0)**		(9.6)		(6.9)
Pension liability net of deferred tax		**(31.6)**		(29.6)		(40.0)
Total equity		**35.5**		36.5		31.8

Other items and tax

Other Items

- **Amortisation of acquired intangible assets – H1 2013: £0.6m (H1 2012: £0.7m, FY 2012: £1.7m)**
  - Amortised from date of acquisition (ClerkMaxwell - April 2011 & Promanex - August 2011)
- **Employment related deferred consideration – H1 2013: £1.0m (H1 2012: £0.9m, FY 2012: £1.7m)**
  - 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

Tax

- H1 2013 tax rate at 16% on adjusted profit
- First half includes benefit on positive timing differences and deferred tax impact from corporation tax charge
- Full year anticipated to continue to benefit from these items
- Normalised rate expected to be 23% - 25% on non JV profit

Legacy pension obligation

- Reduced pension deficit as a result of company contributions and improved financial returns

- Legacy defined benefit scheme
- Closed to new entrants in 2005
- Closed fully to future accrual in 2009, all employees on defined contributions only
- Actions taken to manage obligation including asset transfers & liability reductions
- A full actuarial valuation of the Costain pension scheme is being carried out as at 31 March 2013
- Current annual contributions based on dividend matching only until April 2014

	30 June 2013	31 Dec 2012	30 June 2012
	£m	£m	£m
Fair value of scheme assets	**580.7**	558.8	542.8
Present value of defined benefit obligations	**(621.8)**	(610.7)	(581.8)
Recognised liability for defined benefit obligations	**(41.1)**	(51.9)	(39.0)
Deferred tax	**9.5**	11.9	9.4
Net pension deficit	**(31.6)**	(40.0)	(29.6)

Engineering *Tomorrow*

Results for the half-year ended 30 June 2013

22 August 2013