



COSTAIN

Costain Group PLC

MEETING NATIONAL NEEDS

Results for year ended 31 December 2014

3 March 2015



Another successful year for Costain



- Good trading performance
- Enhanced balance sheet with a strong net cash position
- Unique customer focussed strategy generating record order book
- Positive outlook and confidence in the future

MEETING NATIONAL NEEDS

Financial Review
Tony Bickerstaff, Finance Director



Another good trading performance



- Revenue¹ of £1,122.5m (2013: £960.0m)
- Underlying² operating profit up 5% to £28.7m (2013: £27.4m)
- Adjusted³ profit before tax of £28.5m (2013: £31.0m)
- Adjusted^{3,4} basic earnings per share of 27.8p (2013: 41.0p⁵)
- Successful capital raise of £70.3m (net of expenses) completed March 2014
- £148.5m year-end net cash balance (2013: £57.7m)
- Recommended total dividend for the year of 9.5p on enlarged capital base (2013: 11.5p)

Notes:

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 a non-cash impairment of £9.8m on carrying value of assets in non-core Land Development activity in Spain.

4. On the enlarged capital base following the capital raise completed in March 2014

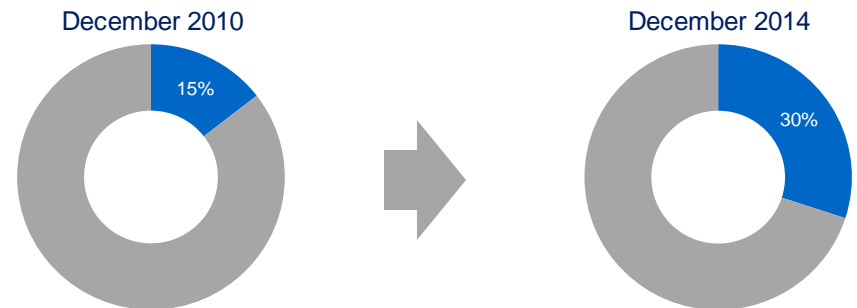
5. Restated for the bonus element only of the capital raise completed in March 2014

Costain has a unique market position

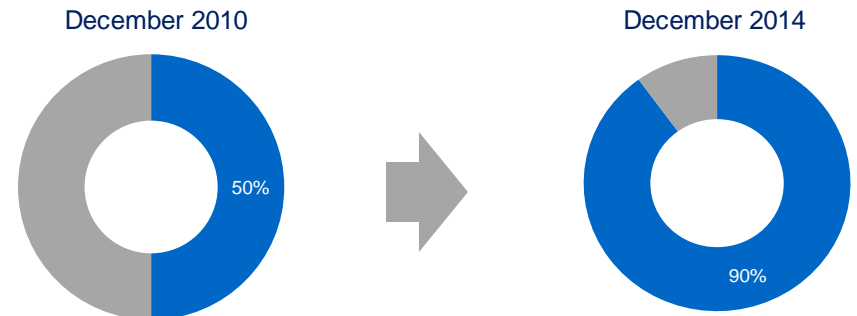


- Focus on blue chip customers through long-term strategic relationships
- Qualitative as well as quantitative selection process
- Ability to deliver a broad range of integrated services
- Clear trend to target cost based contracts
 - longer term, sustainable margin
 - lower risk, more collaborative
 - increased working capital requirements
- Customers require flexibility, driving better value for money

Revenue – 30% Support services related revenue for 2014



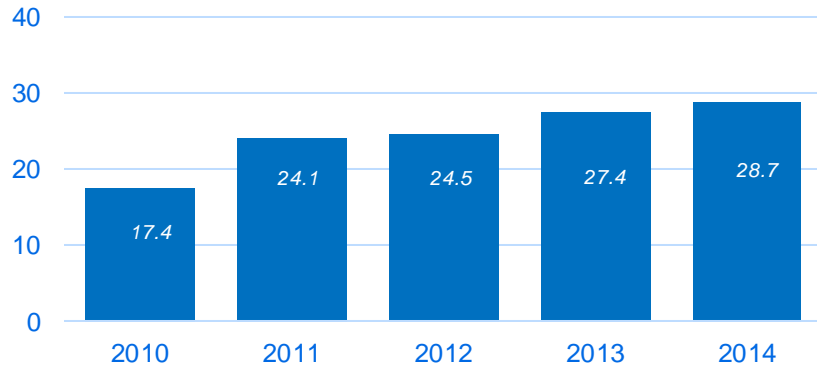
Order Book – 90% Target cost based contracts



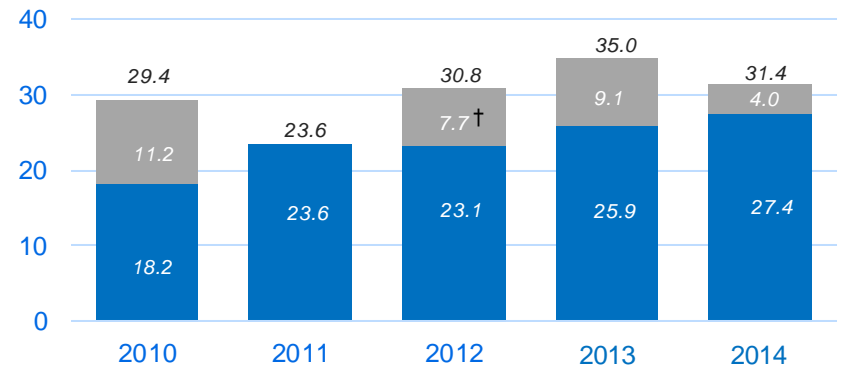
Increasing profitability



Group underlying operating profit (£m)²

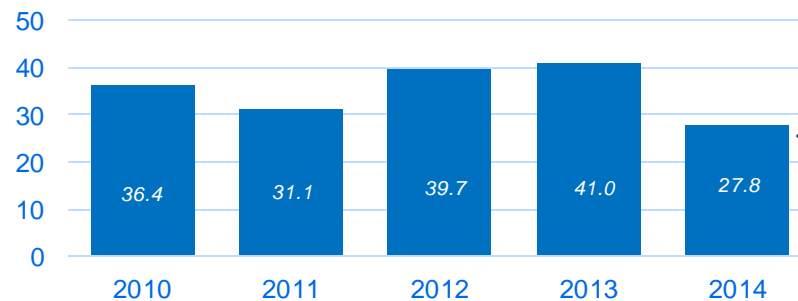


Group adjusted profit from operations (£m)³



PFI & Investments Sales
 † Net of one-off costs resulting from pension scheme liability management actions

Adjusted EPS (p)



2014 based on enlarged capital base

N.B. For notes see slide 4

Segmental income statement



	2014			2013		
	Revenue ¹ £m	Underlying Operating Profit £m	Margin	Revenue ¹ £m	Underlying Operating Profit £m	Margin
Infrastructure	785.2	38.3	4.9%	560.6	31.4	5.6%
Natural Resources	335.0	(3.5)	(1.0)%	397.6	3.1	0.8%
Central Costs		(6.1)	-		(7.1)	
Underlying Operating Profit²	1,120.2	28.7	2.6%	958.2	27.4	2.9%
Land Development	2.3	(1.3)		1.8	(2.1)	
Other JVs		-			0.6	
Profit from PFI Transfer to pension scheme		4.0			-	
Profit from sale of investments		-			9.1	
Adjusted Profit from operations³		31.4			35.0	
Net interest expense		(2.9)			(4.0)	
Adjusted profit before tax³		28.5			31.0	
Adjusted Basic Earnings per share ^{3,4}		27.8p			41.0p ⁵	

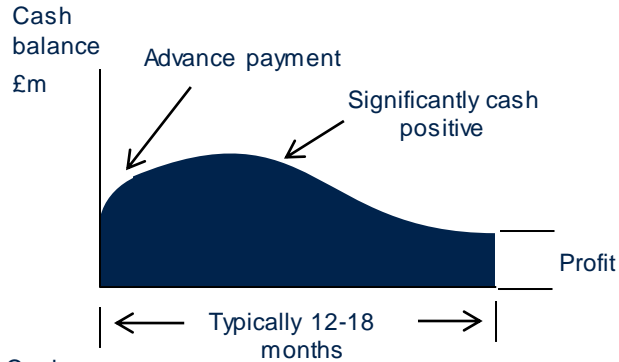
N.B. For notes see slide 4

Consolidated income statement



	2014			2013		
	Before other items	Other items	Total	Before other items	Other items	Total
	£m	£m	£m	£m	£m	£m
Revenue	1,122.5	-	1,122.5	960.0	-	960.0
Underlying operating profit	28.7	-	28.7	27.4	-	27.4
Exceptional transaction costs	-	-	-	-	(3.7)	(3.7)
Amortisation of acquired intangible assets	-	(3.0)	(3.0)	-	(1.8)	(1.8)
Employment related and other deferred consideration	-	(2.2)	(2.2)	-	(2.8)	(2.8)
Group operating profit	28.7	(5.2)	23.5	27.4	(8.3)	19.1
Profit on sales of interests in JVs and associates	4.0	-	4.0	9.1	-	9.1
Share of results of JVs and associates	(1.3)	-	(1.3)	(1.5)	(9.8)	(11.3)
Profit from operations	31.4	(5.2)	26.2	35.0	(18.1)	16.9
Net finance expense	(2.9)	(0.7)	(3.6)	(4.0)	-	(4.0)
Profit before tax	28.5	(5.9)	22.6	31.0	(18.1)	12.9
Income tax	(2.2)	0.6	(1.6)	(1.8)	1.4	(0.4)
Net profit for the year	26.3	(5.3)	21.0	29.2	(16.7)	12.5
Earnings per share - Basic	27.8	(5.6p)	22.2p	41.0p	(23.4)p	17.6p
- Diluted	27.2	(5.5p)	21.7p	39.4p	(22.5)p	16.9p

Transitioned to lower risk target cost based contracts



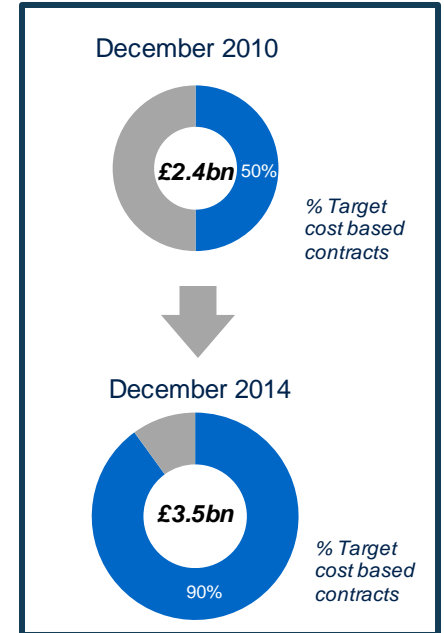
Fixed price, lump sum contracts

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



Target cost, cost reimbursable contracts

- Suitable for complex, long term relationships
- Lower risk, more collaborative



Opportunity for gain share paid at end of contract

Strong cash position



	2014 £m	2013 £m
Net cash at beginning of period	57.7	105.7
Cash used by operating activities*	40.6	(35.5)
Cash used by investing activities	(12.7)	(6.6)
Dividends / financing	62.9	(5.9)
Net cash at end of period	148.5	57.7
Net cash reconciliation		
Cash and cash equivalents at end of period	148.5	84.3
Less: Bank overdrafts/ borrowings	-	(26.6)
Reported net cash	148.5	57.7

Average month-end net cash balance - £95.6m (2013: £50.7m)

* Post interest and tax

Net cash movements 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
- Positive year-end timing
- Wider industry trends:
 - Project bank accounts
 - Supplier payment charters
- Net period end cash balance will be lower in line with current guidance
- Average month-end net cash balance anticipated to increase slightly going forward

Enhanced balance sheet



	31 December 2014	31 December 2013
	£m	£m
Assets		
Non current assets (excluding pension deficit deferred tax)	101.2	97.0
Trade and other receivables	198.4	192.2
Cash	148.5	84.3
Current assets	346.9	276.5
Total assets	448.1	373.5
Current liabilities	(299.3)	(296.1)
Total assets less current liabilities	148.8	77.4
Non current liabilities (excluding net pension liability)	(4.6)	(4.7)
Pension liability net of deferred tax	(33.4)	(29.4)
Total equity	110.8	43.3

- Banking and bonding facilities of £495m, maturity date of 30 June 2017

Legacy pension obligation

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- In the year, 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, offset by reduction in inflation, asset value increase and company contributions
- PFI transfer additional contribution to reduce the deficit

	31 Dec 2014	31 Dec 2013
	£m	£m
Fair value of scheme assets	659.3	592.5
Present value of defined benefit obligations	(701.0)	(629.7)
Recognised liability for defined benefit obligations	(41.7)	(37.2)
Deferred tax	8.3	7.8
Net pension deficit	(33.4)	(29.4)

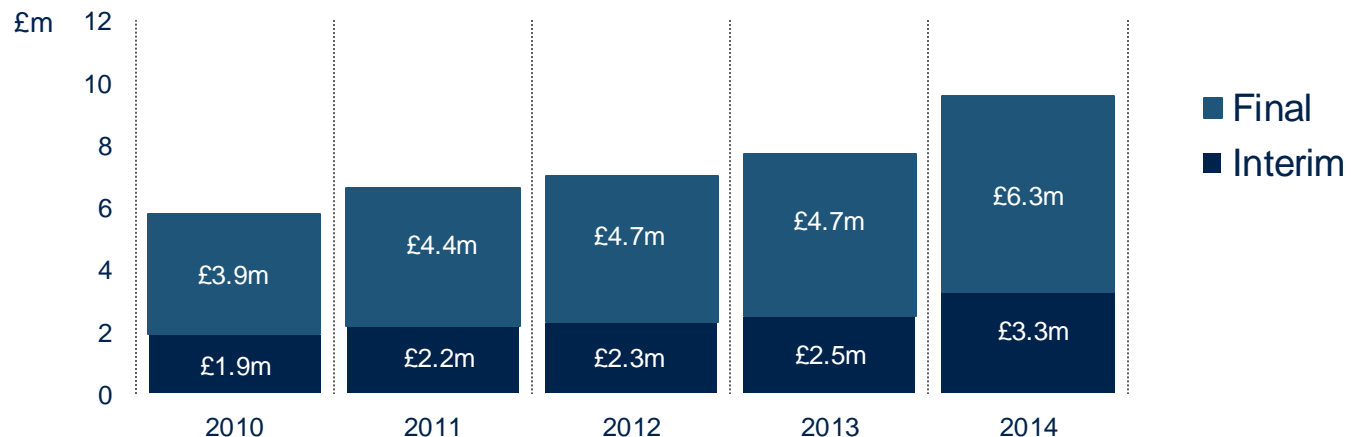
- Legacy defined benefit scheme; closed to new entrants in 2005 and closed fully to future accrual in 2009
- All current employees on defined contribution arrangements only
- Actions taken to manage obligation including asset transfers & liability reductions

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
- Final dividend recommended of 6.25 pence per share on the enlarged share capital base of the Group (2013: 7.75 pence per share)
- Total dividend for year of 9.5 pence per share (2013: 11.5 pence per share)
- Increase of 25% in the total amount of dividend paid to shareholders

Total value of dividend pay-out (£ million)





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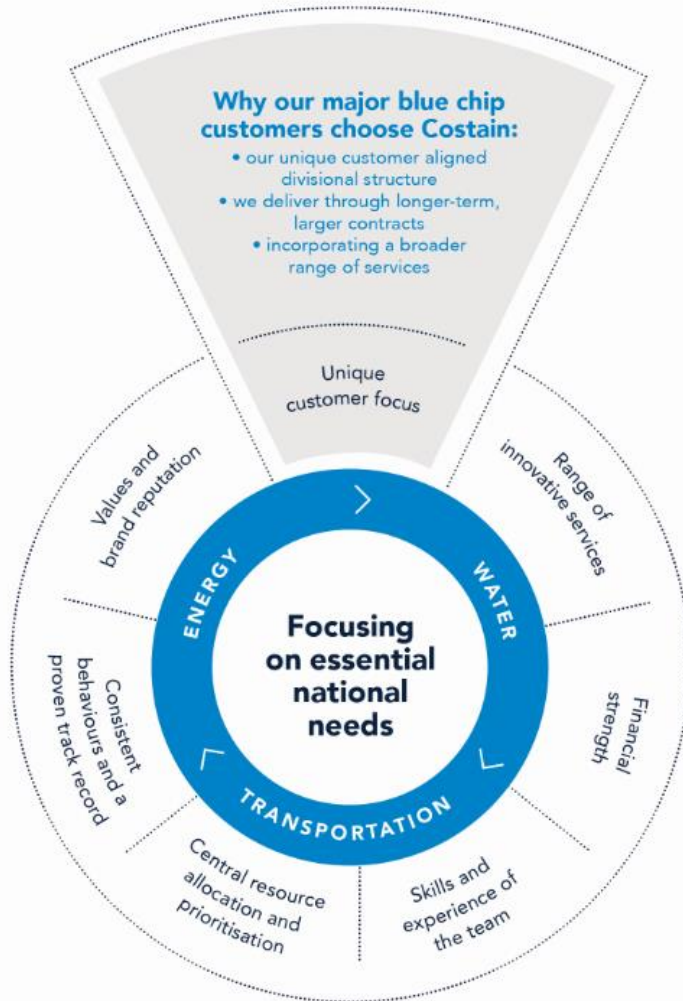
MEETING NATIONAL NEEDS

Unique strategy and accelerating growth

Andrew Wyllie, Chief Executive



'Engineering Tomorrow': Unique strategy delivering results



Securing a future energy supply...

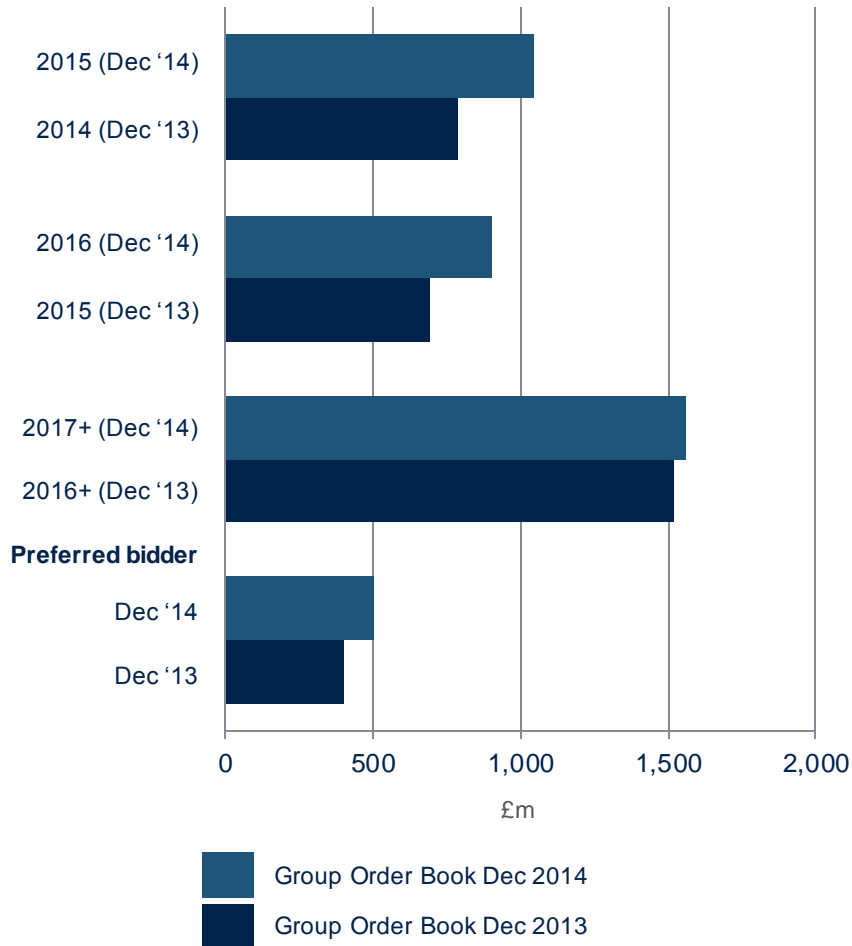


...maintaining a safe and reliable water supply



...upgrading the transport infrastructure

Record order book and increased visibility



- Forward order book up 17% to £3.5bn (December 2013: £3.0bn), in excess of 90% from repeat orders
- Over £1.5bn of new contracts and extensions secured in 2014
- Over £1.0bn of work already secured for 2015
- Benefitting from ability to focus the Group's resources where demand is highest



Order book of £3.5 billion underpinning growth



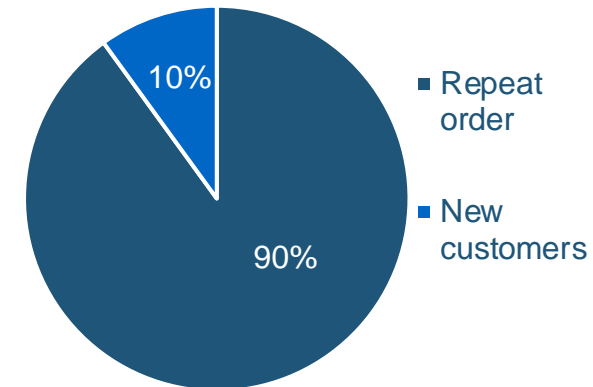
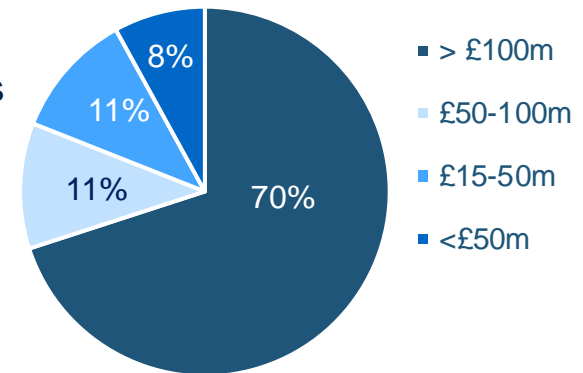
Customers require long-term strategic relationships

- Larger, longer term contracts – average contract duration over 4 years
- Incorporating broad range of integrated services
- Need to demonstrate scale and capability
- Driving sector consolidation

Over 90% repeat orders demonstrates strength of customer relationships

- Trusted partner, collaborating strategically
- Creating innovative, technology-led solutions
- Reputation for outstanding delivery

Order book by value remaining



Delivering a broad range of integrated services



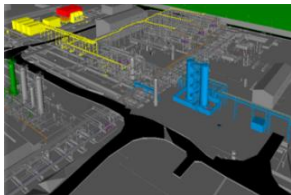
Smart motorways



Managing Mobicloud to improve site efficiency



London Bridge Station



Perenco Dimlington



Advising clients on asset enhancement



Cutting the cost of carbon capture



Advising on HS2



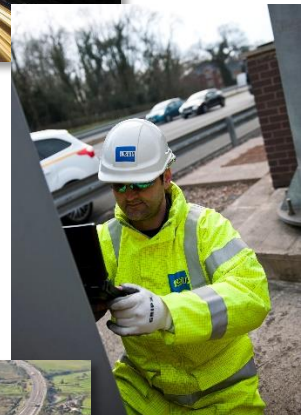
Centrica Barrow

Strategy in action:

Delivery of £5 billion collaborative delivery framework



- Largest ever framework for the improvement of England's motorways and major A roads
- Costain awarded one of five places on Lot 3b for major projects between £100m and £400m
- Total value of Lot 3b is £3bn within the £5bn 5-year framework
- Design, procurement, installation and commissioning of intelligent transport systems and software solutions
- Technology that enables asset management systems to deliver savings

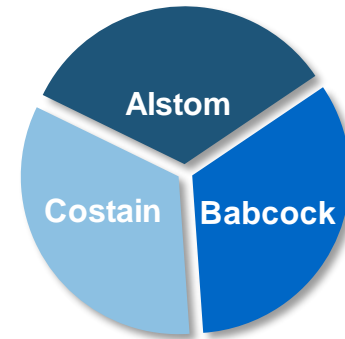


Strategy in action:

Delivery of £4.5 billion rail electrification programme

- 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 over 5-7 years
- Collaborative, target cost, cost reimbursable based contract
- ABC is an equal partnership with each party achieving the same margin
- Over £1bn value to JV
- Providing:
 - Project and relationship management, civils and structural
 - Overhead line installation and track works
 - Power supply, system controls, signalling

ABC Joint Venture



Strategy in action:

Delivery of £2.2 billion AMP 6 programme



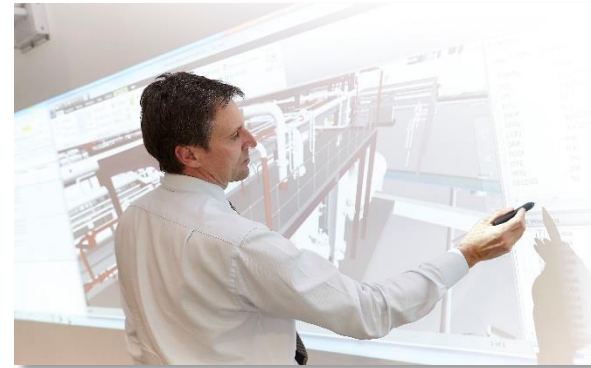
- Thames Water Alliance, eight₂0
- A fully integrated, collaborative alliance with Thames Water
- Using innovation and technology to deliver efficiency challenge set by regulator
- Award represents largest ever UK water contract
- Delivery contracts now signed
- Costain share estimated at c. £400m
- Potential for further 5 years – into AMP7



Technology-led innovation delivering value



- Engineering, technology and innovation are in the Costain DNA
- Ability to develop and offer innovative solutions is a fundamental differentiator
- Moved 400 people into our new engineering centre in Manchester



ESDAL – Electronic Delivery Service For Abnormal Loads



Carbon Capture RECAP Absorber Column Design



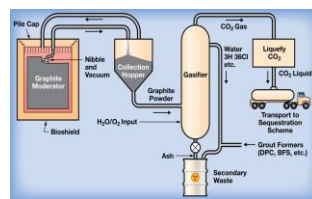
Building Information Modelling



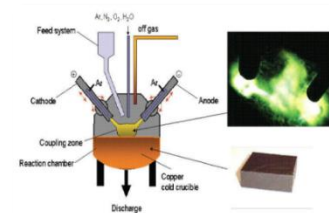
Wireless Monitoring



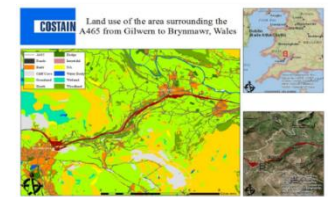
COamp Asset Management Platform



Nuclear waste management graphite gasification



Plasma Waste Vitrification

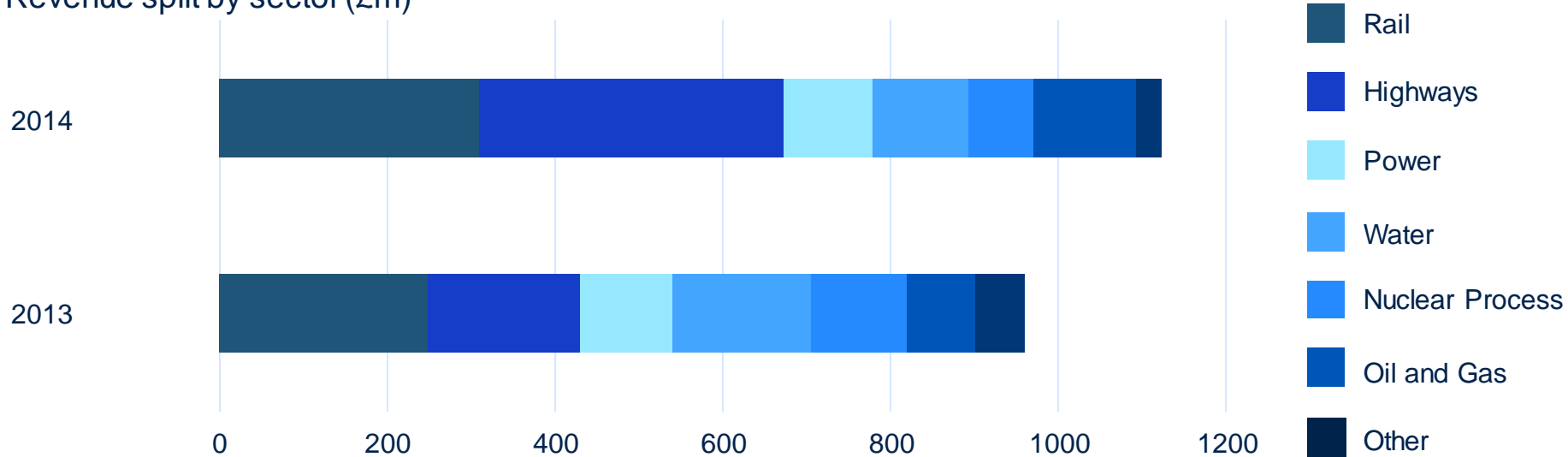


Geographical Information Systems

Accelerating growth through strong market positions



Revenue split by sector (£m)



And, looking forward...

- Over £1bn of revenue already secured for 2015
- Preferred bidder increased to over £500m (2013: over £400m)
- Circa 50% of new orders come from increases in scope to long-term contracts

Good opportunities across targeted sectors



- Total spend in target sectors of circa £80bn per annum
- Addressable market of circa £20bn in 2015, driven by regulation, legislation and addressing essential national needs
- Level of tender activity remains very high
- Tender success rate better than 1:3
- Market share providing opportunity for further growth



Securing a future energy supply...



...maintaining a safe and reliable water supply



...upgrading the transport infrastructure



- Another strong performance
- Unique strategy
- Good market position
- Enhanced balance sheet
- Record forward order book
- Look forward to reporting on further progress

Engineering
Tomorrow... today

MEETING NATIONAL NEEDS

APPENDIX



Costain financial overview



Key historic financial information (£m)

Year end December, £m	FY10	FY11	FY12*	FY13	FY14
Revenue	1,022.5	986.3	934.5	960.0	1,122.5
EBITA	17.4	24.1	21.7**	27.4	28.7
<i>EBITA margin</i>	1.7%	2.4%	2.3%	2.9%	2.6%
Adjusted profit from operations	29.4	23.6	30.8	35.0	31.4
Profit before tax (Reported)	27.9	23.9	24.7	12.9	22.6
Cash generated/(used by) operations***	31.4	34.7	(22.3)	(32.9)	36.1
Free cash flow	34.1	31.9	(22.6)	(35.2)	30.6
Cash and cash equivalents	146.0	141.7	107.4	84.3	148.5
Net cash	144.3	140.1	105.7	57.7	148.5

Source Costain company reports

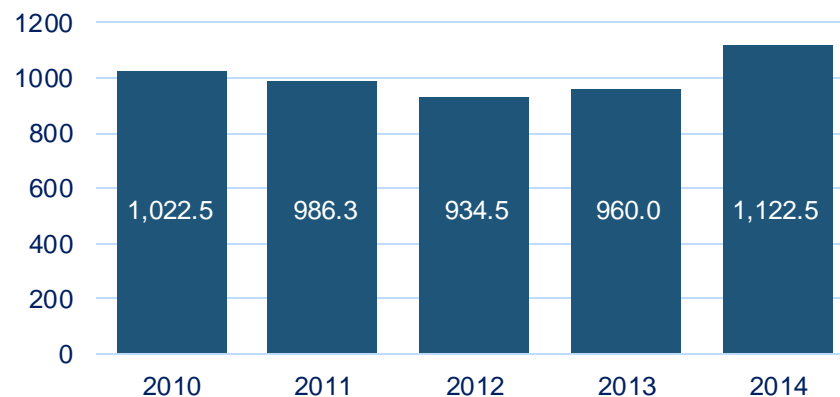
Notes: 1. Includes share of joint ventures and associates

* FY 12 Restated for revised IAS 19 Employee benefit accounting standard

** Includes £2.8m pension liability pension cost

*** Pre-interest and tax

Revenue (£m)



Other Items

- Amortisation of acquired intangible assets – £3.0m (2013: £1.8m)
 - Amortised from date of acquisition (ClerkMaxwell - April 2011, Promanex - August 2011 & EPC - August 2013, Serco JV – January 2014)
- Employment related and other deferred consideration – £2.2m (2013: £2.8m)
 - Accounting standards require any consideration related to employment to be expensed over the required service period and any changes to other deferred consideration to be recognised in the income statement
 - 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

- 2014 tax rate at 7.7% on adjusted profit before tax
- Includes one-off benefits of positive timing differences, tax free sale of investments and deferred tax impact from corporation tax rate change
- Normalised rate expected to be c.20% on non JV profit