

Engineering tomorrow

Results for the half-year ended 30 June 2017

COSTAIN



Welcome

Dr Paul Golby CBE
Chairman



Summary and outlook

- Continued strong performance
- Focused and unique strategy delivering results
- Transforming into the UK's leading smart infrastructure solutions company
- On course to deliver results for the year in line with the Board's expectations

Smart thinking, improving lives



Financial Review

Tony Bickerstaff
Chief Financial Officer



Continued strong performance in H1 2017

Revenue – including share of joint ventures and associates

£874.5m

(HY2016: £791.4m)

Underlying¹ operating profit

£21.2m

(HY2016: £15.8m)

Underlying¹ profit before tax

£18.3m

(HY2016: £14.1m)

Underlying¹ basic earnings per share

14.4p

(HY2016: 11.9p)

Net cash position²

£87.5m

(HY2016: £69.2m)

Interim dividend

4.75p

(HY2016: 4.3p)

Order book of **£3.7bn** and preferred bidder position of over **£400m**

Note:

1. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration
2. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings

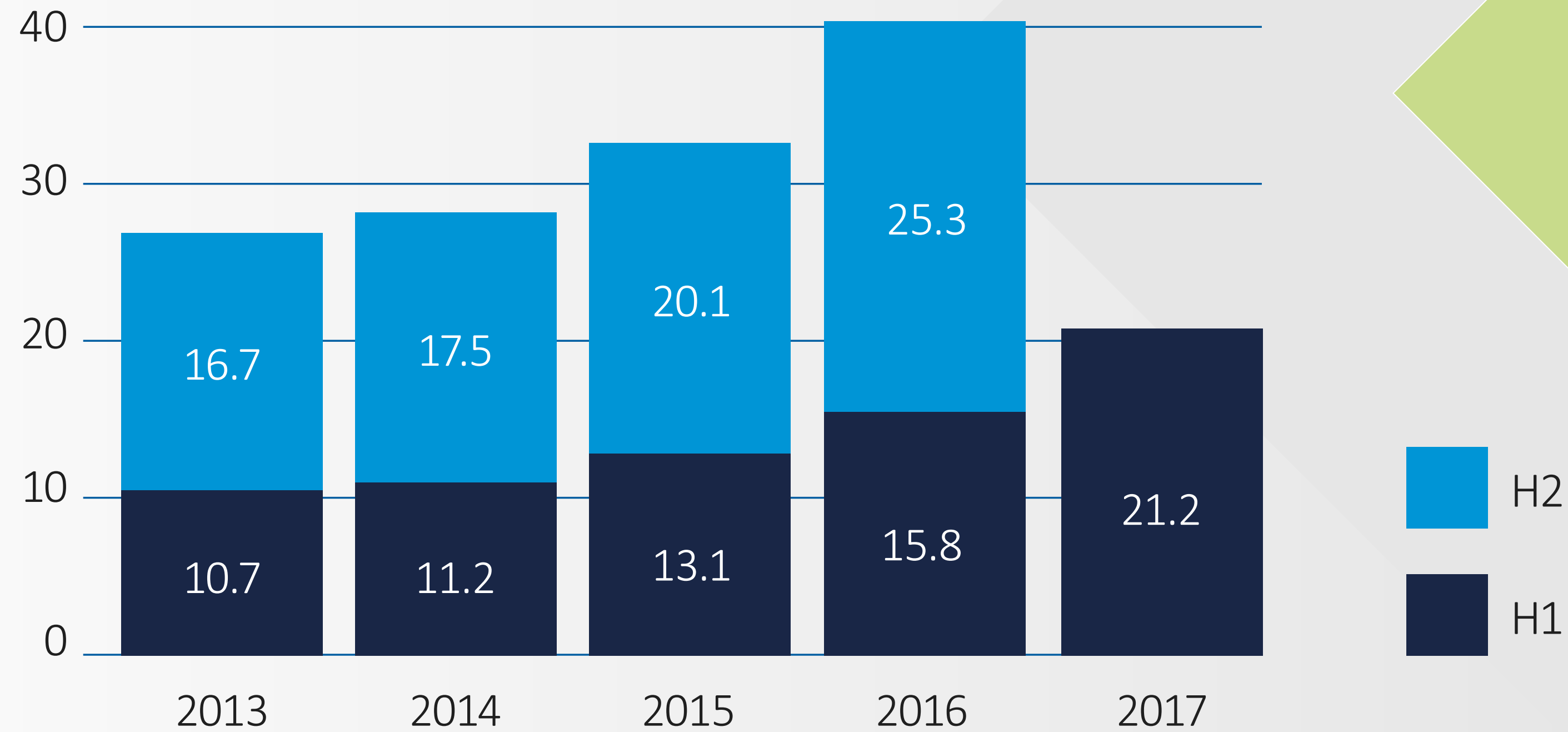


Focused strategy and robust business management system delivering results



Track record of increasing profitability

Group underlying operating profit (£m)¹

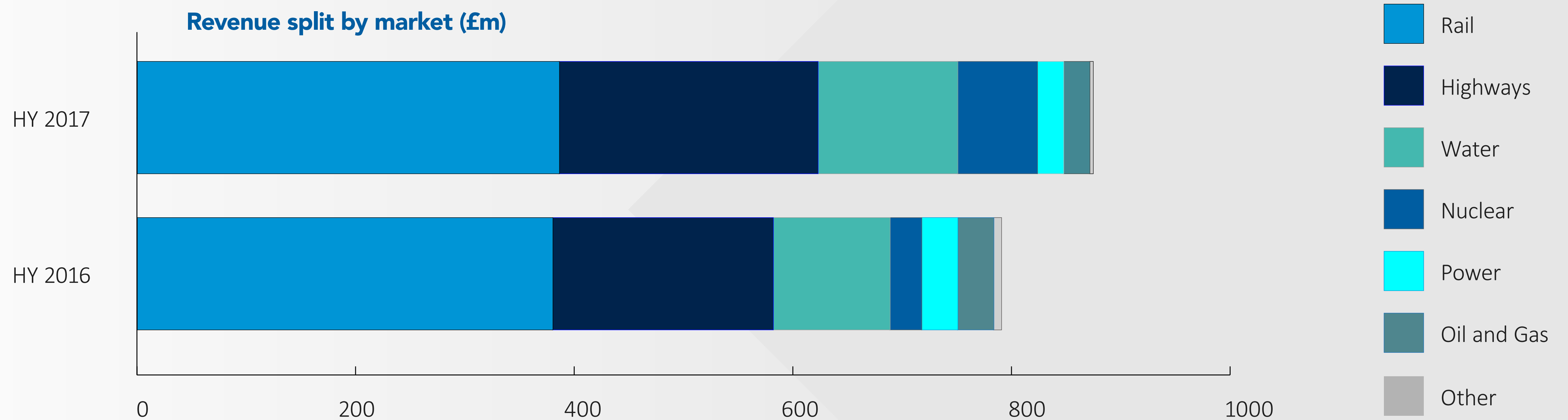


Note:

1. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration



Revenue growth reflects 'One Costain' philosophy



'One Costain' philosophy ensures resource focused on most attractive opportunities

- In Highways, progressing programmes to increase capacity, reduce delays and enhance safety across the road network
- In Water, improving water quality standards, ensuring resilience of supply and meeting anticipated demographic shifts



Segmental income statement reflects targeted resource allocation

	HY 2017			HY 2016			FY 2016		
	Revenue ¹ £m	Underlying Operating Profit £m	Margin	Revenue ¹ £m	Underlying Operating Profit £m	Margin	Revenue ¹ £m	Underlying Operating Profit £m	Margin
Infrastructure	694.1	24.8	3.6%	613.2	27.4	4.5%	1,276.1	56.6	4.4%
Natural Resources	177.7	0.2	0.1%	175.7	(8.5)	-4.8%	377.3	(8.6)	-2.3%
Alcaidesa (From 1/7/15)	2.7	(0.5)		2.5	(0.2)		4.6	(0.7)	
Central costs		(3.3)			(2.9)			(6.2)	
Underlying Operating Profit ²	874.5	21.2		791.4	15.8		1,658.0	41.1	
Other JVs		0.1			0.1			0.2	
Underlying profit from operations ²		21.3			15.9			41.3	
Net interest expense		(3.0)			(1.8)			(3.8)	
Underlying profit before tax ²		18.3			14.1			37.5	
Underlying basic earnings per share ²		14.4p			11.9p			31.5p	

Note:

1. Including share of joint ventures and associates

2. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration

Update on post 30 June 2017 events

Order book changes

- Addition of HS2 main works contracts (£600m)
- Cessation of involvement in Hinkley Point C marine works as we were unable to agree terms and conditions for the completion of the contract (£350m)

Manchester Waste PFI contract

- Discussions are ongoing with the various parties, progress is being made
- Further announcements will be made as appropriate

Strong net cash position

	HY 2017 £m	HY 2016 £m	FY 2016 £m
Net cash at beginning of period	140.2	108.2	108.2
Cash from operations	23.7	17.8	49.6
Changes in working capital (excluding pension deficit contributions)	(57.9)	(38.2)	36.4
Pension deficit contributions	(7.2)	(7.6)	(14.7)
Acquisition consideration	(0.9)	(0.3)	(18.3)
Dividends	(7.0)	(7.1)	(11.0)
Share Capital, Interest, Tax, Fixed Assets, Investments & Currency	(3.4)	(3.6)	(10.0)
Net cash at end of period	87.5	69.2	140.2
Net cash reconciliation:			
Cash and cash equivalents at end of period	167.8	128.8	210.2
Less: bank borrowings	(80.3)	(59.6)	(70.0)
Reported net cash	87.5	69.2	140.2

- Reversal of £60m year-end positive timing
- Further growth in target cost, cost reimbursable contracts
- Good operating cash generation over the last 12 months
- Average month-end cash balance of £97.3m (June 2016: £79.4m)
- In H2, underlying average month-end cash balance expected to be similar to the prior year

Increased financial strength

Balance sheet

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Assets			
Non current assets (excluding pension deficit deferred tax)	113.0	104.6	119.3
Trade and other receivables	347.5	350.5	302.7
Cash and cash equivalents	167.8	128.8	210.2
Current assets	515.3	479.3	512.9
Total assets	628.3	583.9	632.2
Current liabilities	(437.2)	(404.2)	(441.6)
Total assets less current liabilities	191.1	179.7	190.6
Non current liabilities (excluding net pension liability)	(31.2)	(32.3)	(31.5)
Pension liability net of deferred tax	(35.2)	(46.5)	(59.5)
Total equity	124.7	100.9	99.6

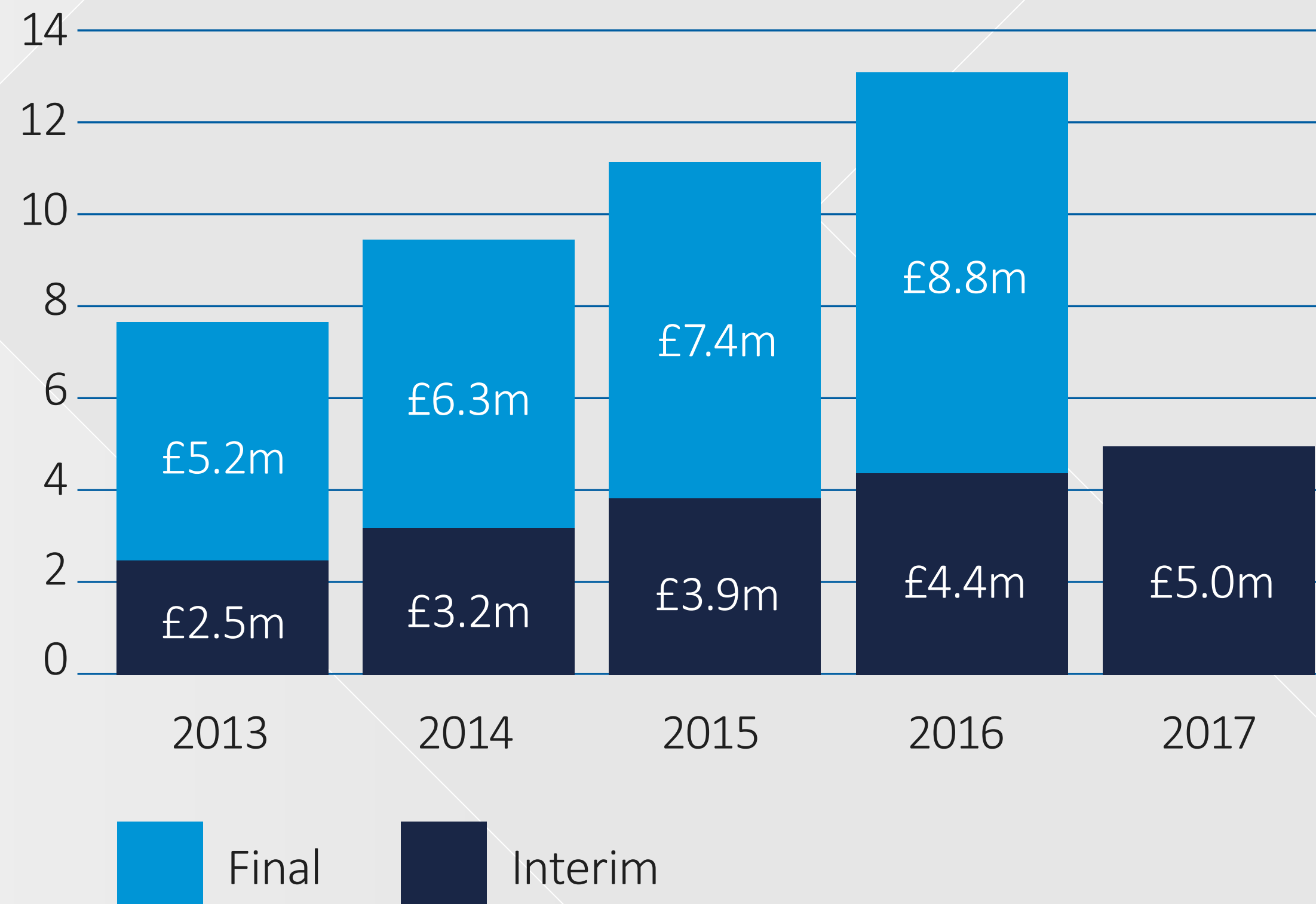

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– Banking facilities of £155m – Bonding facilities of £400m – Maturity date of 30 June 2021

10% increase in interim dividend

- Progressive dividend policy, targeting ongoing dividend cover of around 2 x underlying earnings
- Interim dividend of 4.75 pence per share (HY2016: 4.3 pence per share)
- Dividend will be paid on 20 October 2017 to shareholders on the register as at 15 September 2017

Total value of dividend pay-out (£ million)



Transforming into the UK's leading smart infrastructure solutions company

Andrew Wyllie CBE
Chief Executive



COSTAIN

Our unique strategy is transforming Costain into the UK's leading smart infrastructure solutions company



Our purpose is to improve people's lives by enhancing the UK's energy, water and transportation infrastructures

Rapid move towards smart infrastructure

Increase capacity of existing networks



Improve consumer service



Ensure security of supply

No **extra** money

These imperatives are driven by legislation and regulation

Resulting in radical change in nature of multi £billion spend

– Our clients are spending circa £20 billion per annum

However, the way they are spending is changing:

- Revolution in the use of technology
- Consolidation of supply chain
- Larger, long-term contracts
- Requirement for integrated service delivery
- Increased focus on asset optimisation



Transforming our integrated service offering



Integrated contract examples:

National Grid: Peterborough and Huntingdon

High Speed 2: Multiple contracts

Highways England: Smart Motorways Programme

East Sussex: Highways services

Network Rail: Kent Multi Functional Framework

Thames Water: eight₂O alliance

Enhancing every element of our business model




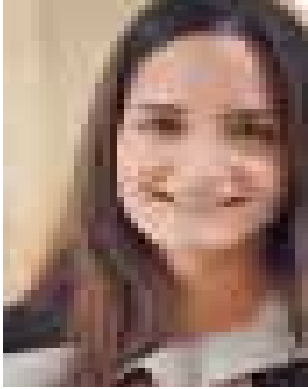













- Over 90% repeat business
- Now over 25% of our employees are chartered professionals
- Full integration of SSL
- Data analytics to monitor and enhance asset performance
- 25% increase in balance sheet net asset value
- Largest supplier to Network Rail, 14 contracts on Crossrail
- Costain Cares: over 150 STEM Ambassadors, over 10,000 volunteering hours

Smart thinking delivering smart solutions

- Headcount of over 4,000 people, 16% growth in last three years
- Now over 1,300 in consultancy and technology roles, up 300% in three years
- 19% of senior managers are female, up from 10% in 2014
- Currently sponsoring 15 PhDs at leading universities
- Over 400 employees on formal education programmes (apprentices, graduates, MBAs)
- Over 47,000 training days in the last 12 months (employees and supply chain)



<p>Reading</p>  <p>Katie McCausland GIS: biodiversity</p>	<p>Cardiff</p>  <p>Oliver Teall Advanced materials</p>	<p>Sheffield</p>  <p>Ibrahim Al-Ghraify Asset maintenance</p>	<p>Cambridge</p>  <p>Ioanna Papanikolaou Future infrastructure</p>	<p>Loughborough</p>  <p>Harrison O'Hara Field BIM</p>
<p>Reading</p>  <p>Patrick Agese Energy systems</p>	<p>Edinburgh</p>  <p>Chris Mower Robotics and automation</p>	<p>Edinburgh</p>  <p>Henrietta Baker Forensic engineering</p>	<p>UCL</p>  <p>Adam Golden Engineering business models</p>	<p>Cambridge</p>  <p>James Heaton Asset optimisation and digital delivery</p>
<p>Cambridge</p>  <p>Joseph Osborn Energy markets, energy generation</p>	<p>Edinburgh</p>  <p>David Jackson Carbon markets, water, high speed rail</p>	<p>Warwick</p>  <p>Aleksandar Nikolov Data visualisation HE, Water</p>	<p>Swansea</p>  <p>Matt Hall Mathematical models Engineering services</p>	<p>City</p>  <p>Kostas Kalfas Complex engineering</p>



Strategy delivering high quality new business

New work secured in H1

+£600m

Collaborative, target cost contracts

90%+

Work delivered and secured for 2017

£1.5bn+

Work secured for 2018

£0.9bn+

Order book

£3.7bn

Tendering levels

High

Order book providing good visibility for the Group's future performance



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Appendix



Alcaidesa

- From July 2015, terminated land development JV with Santander in Spain
- Assets split equally between the parties by mutual consent
- Costain has 100% ownership of leisure-based assets with significantly reduced exposure to land development
- Costain's assets are now:
 - Two golf courses and associated parcel of land
 - 600 berth marina concession
- Net book value £26.6m (currency risk hedged)
- Assets regarded as non-core



Managing legacy pension obligation

- Reduction in net deficit primarily due to positive asset returns, favourable experience against assumptions & company contributions
- Contributions at £9.6m per annum (increasing with inflation) plus a top-up to match annual dividend payments
- Latest actuarial valuation as at 31 March 2016 agreed

	30 June 2017 £m	31 Dec 2016 £m	30 June 2016 £m
Fair value of scheme assets	762.4	754.0	704.9
Present value of defined benefit obligations	(805.9)	(827.5)	(762.3)
Recognised liability for defined benefit obligations	(43.5)	(73.5)	(57.4)
Deferred tax	8.3	14.0	10.9
Net pension deficit	(35.2)	(59.5)	(46.5)

Notes:

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

Order book breakdown

