



Costain Group PLC

ENGINEERING TOMORROW...TODAY

Results for the six months ended 30 June 2015

20 August 2015



A strong first half performance



- Another strong trading performance
- Unique customer focussed strategy generating record order book
- Leveraging opportunity to accelerate growth both organically and by acquisition
- Positive outlook for FY2015 and confidence in the future



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Financial Review
Tony Bickerstaff, Finance Director



Another strong trading performance



- Unique strategy and market position delivered another strong performance
- 17% increase in revenue¹ to £621.1m
- 17% increase in underlying² operating profit to £13.1m
- Adjusted² profit before tax increased to £11.4m
- Adjusted² basic earnings per share increased to 9.6p
- £126.8m net cash balance
- £3.7bn record forward order book
- 15% increase in dividend

Notes:

1. Including share of joint ventures and associates

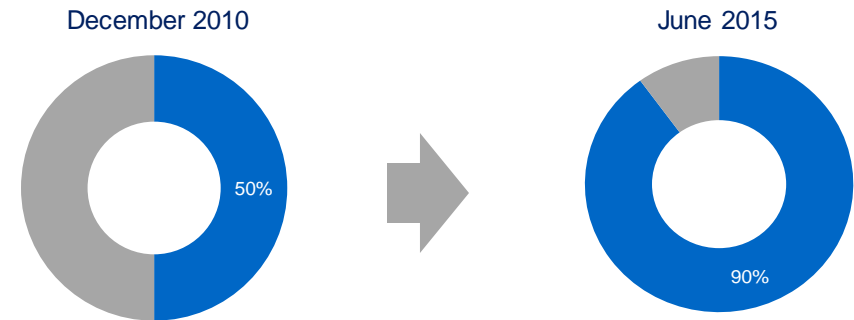
2. Before other items, amortisation of acquired intangible assets and employment related and other deferred consideration

Costain has a unique market position



- Unique focus on blue chip customers
- Target customers require innovation and agility to drive better value for money
- Ability to deliver the necessary broad range of integrated services
- Over 90% target cost based contracts
 - longer term, sustainable margin
 - lower risk, more collaborative
- Over 90% of order book comprises repeat orders

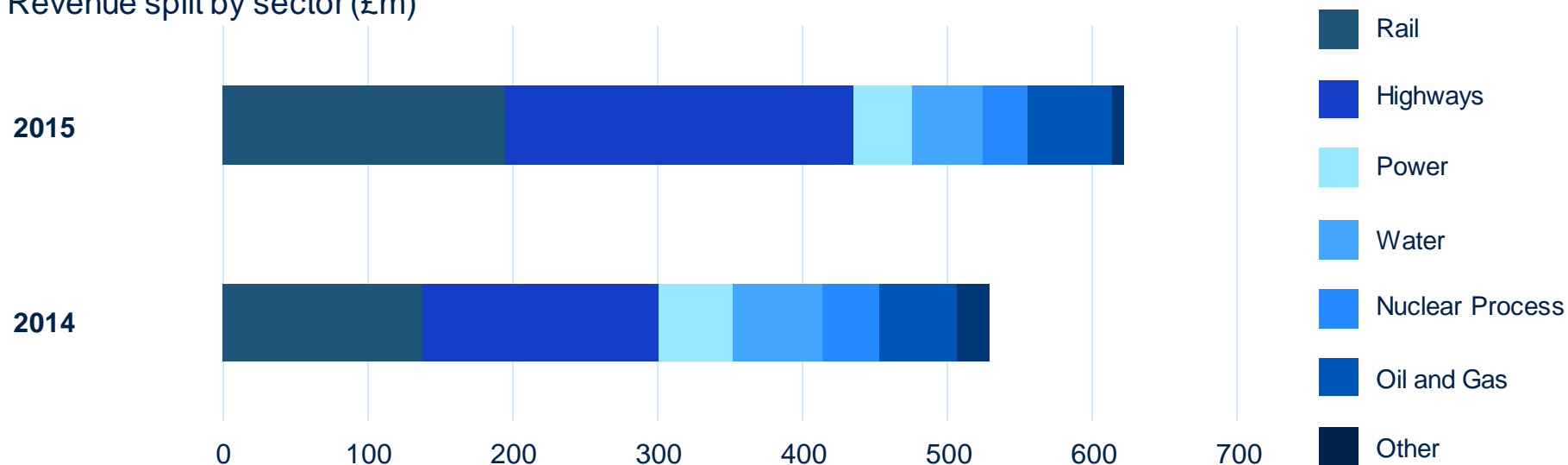
Order Book – 90% Target cost based contracts



17% growth in revenue

COSTAIN

Revenue split by sector (£m)

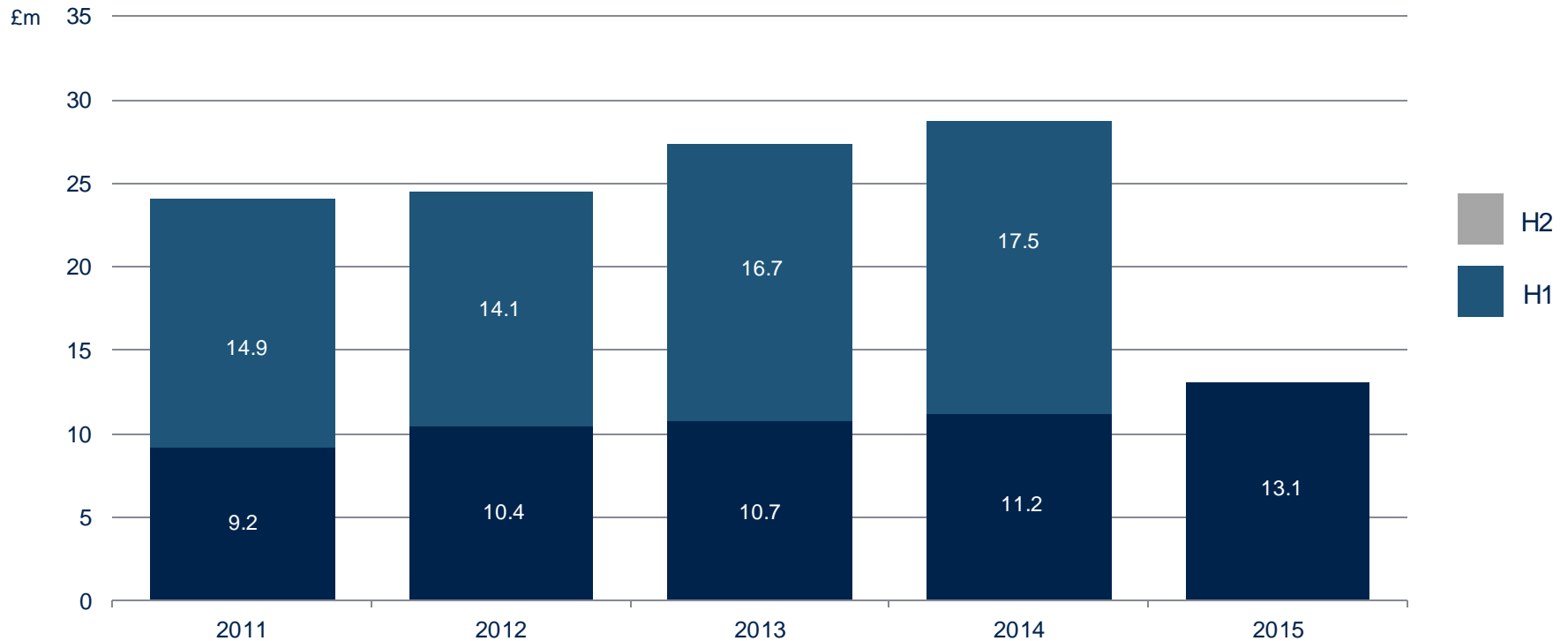


- Growth reflects targeting of Group resources to most attractive opportunities
 - Significant growth in Rail and Highways through long-term frameworks
 - Water reflects transition from AMP5 to AMP6, with growth in revenues anticipated from H2 2015 in to FY2016

Track record of increasing earnings



Group underlying operating profit*



* Before other items, amortisation of acquired intangible assets and employment related and other deferred consideration

Segmental income statement



6 Months to 30 June 2015

	Revenue ¹	Underlying Operating Profit ²	Margin
	£m	£m	
Infrastructure	475.2	23.6	5.0%
Natural Resources	145.0	(7.5)	
Central Costs		(3.0)	
Underlying Operating Profit	620.2	13.1	2.1%

6 Months to 30 June 2014

	Revenue ¹	Underlying Operating Profit ²	Margin
	£m	£m	
Infrastructure	358.7	16.9	4.7%
Natural Resources	169.4	(2.6)	
Central Costs		(3.1)	
Underlying Operating Profit	528.1	11.2	2.1%

Full Year 2014

	Revenue ¹	Underlying Operating Profit ²	Margin
	£m	£m	
Infrastructure	785.2	38.3	4.9%
Natural Resources	335.0	(3.5)	
Central Costs		(6.1)	
Underlying Operating Profit	1,120.2	28.7	2.6%

Land Development	0.9	(0.5)
Profit from PFI transfer to pension scheme		-
Other JVs		0.1
Adjusted Profit from operations		12.7
Adjusted net interest expense		(1.3)
Adjusted Profit before tax		11.4
Adjusted Basic Earnings per share⁴	9.6p	

Land Development	1.0	(0.5)
Profit from PFI transfer to pension scheme		-
Other JVs		
Adjusted Profit from operations		10.7
Adjusted net interest expense		(1.6)
Adjusted Profit before tax		9.1
Adjusted Basic Earnings per share⁴	9.2p	

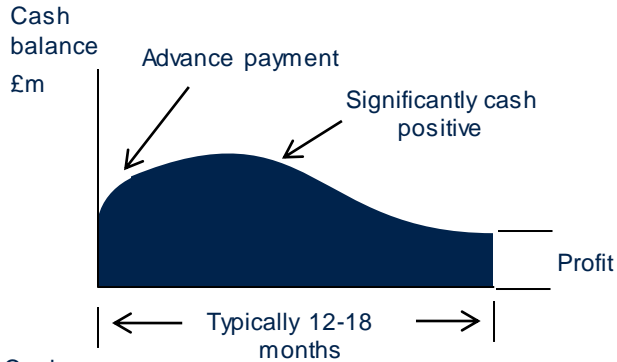
Land Development	2.3	(1.3)
Profit from PFI transfer to pension scheme		4.0
Other JVs		
Adjusted Profit from operations		31.4
Adjusted net interest expense		(2.9)
Adjusted Profit before tax		28.5
Adjusted Basic Earnings per share⁴	27.8p	

Notes:

1. Including share of joint ventures and associates

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

Uniquely, over 90% target cost based contracts



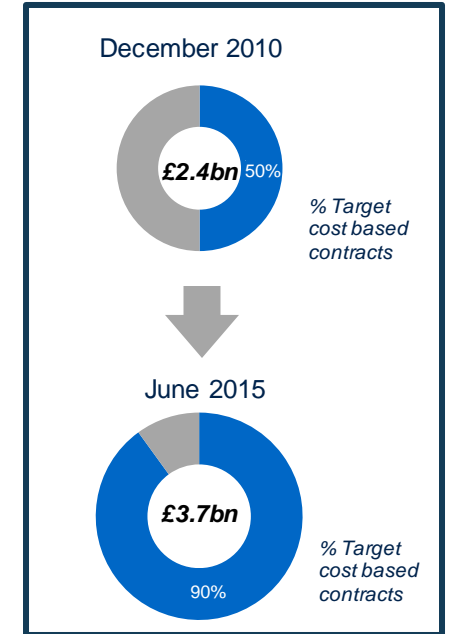
Fixed price, lump sum contracts

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

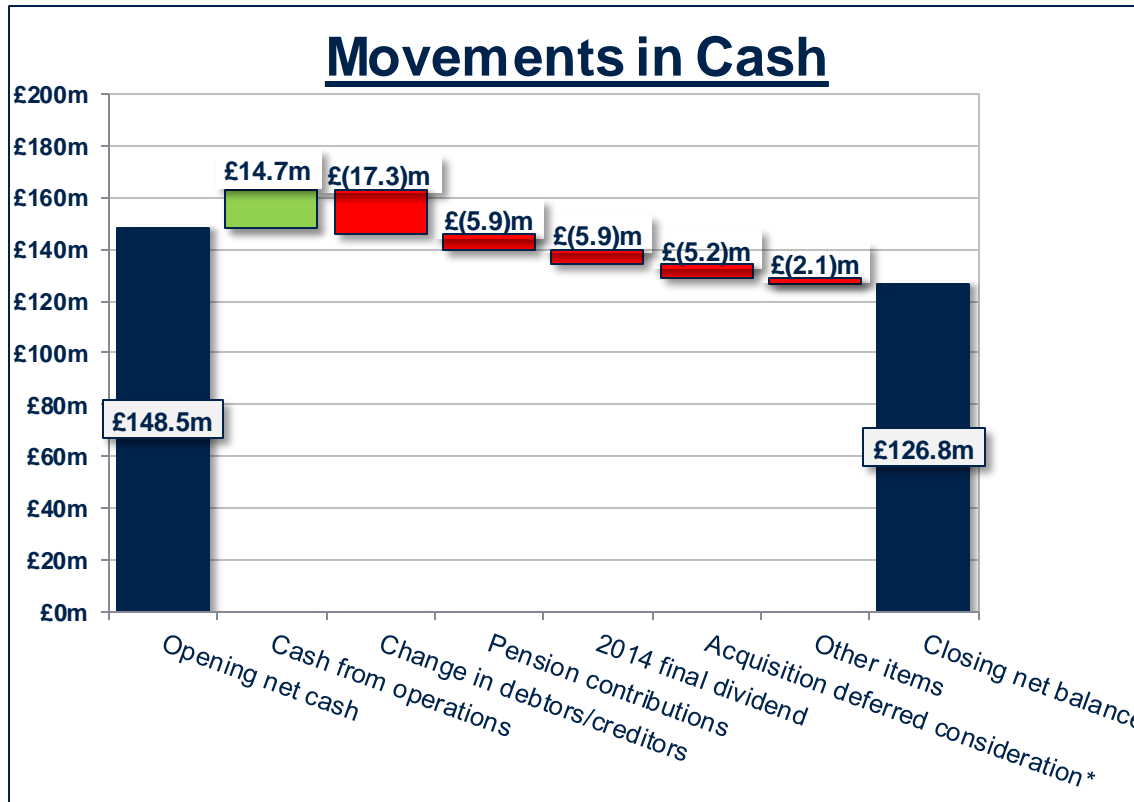


Target cost, cost reimbursable contracts

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



Strong cash position



As expected change in working capital due to:

- Continued increase in target cost contracts
- Reversal from positive year-end timing

2015 H2 items:

- Year-end net cash expected to be lower in line with previous guidance
- Rhead acquisition consideration
- Incorporation of Spanish debt (previously JV share)

Average month end net cash balance: £131.7m (2014: £82.0m)

*ClerkMaxwell & EPC

Strong balance sheet and increased banking facilities



	30 June 2015	30 June 2014	31 December 2014
	£m	£m	£m
Assets			
Non current assets (excluding pension deficit deferred tax)	97.1	98.3	101.2
Trade and other receivables	230.5	214.0	198.4
Cash	126.8	134.9	148.5
Current assets	357.3	348.9	346.9
Total assets	454.4	447.2	448.1
Current liabilities	(311.2)	(302.4)	(299.3)
Total assets less current liabilities	143.2	144.8	148.8
Non current liabilities (excluding net pension liability)	(3.0)	(5.7)	(4.6)
Pension liability net of deferred tax	(29.6)	(40.7)	(33.4)
Total equity	110.6	98.4	110.8

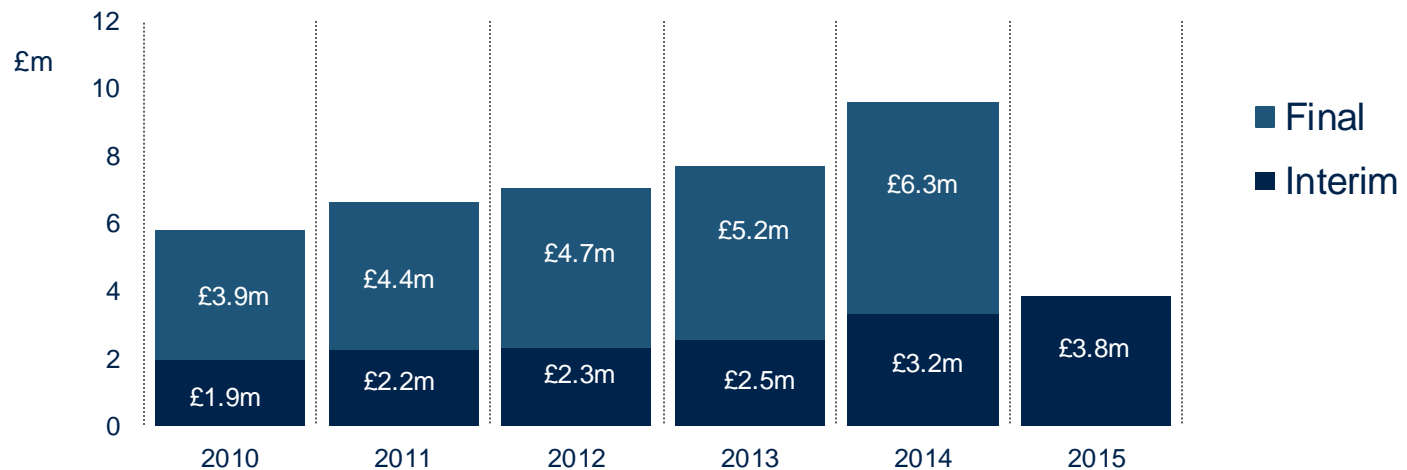
- Banking and bonding facilities increased to £525m (including £125m debt facility)
- Maturity date extended to 30 June 2020

15% increase in dividend



- Progressive dividend policy, targeting ongoing dividend cover of c. 2 x underlying earnings
- Interim dividend of 3.75 pence per share (2014: 3.25 pence per share)
- Increase of 15% in the interim dividend
- Dividend will be paid on 23 October 2015 to shareholders on the register as at 18 September 2015

Total value of dividend pay-out (£ million)





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Unique strategy and accelerating growth

Andrew Wyllie CBE, Chief Executive

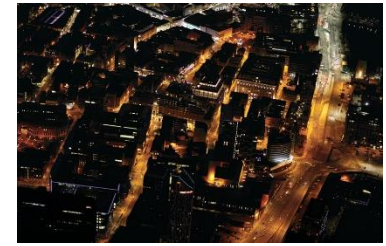


Strategic goals being achieved



- Accelerating growth, both organically and by acquisition
- Strong trading performance generated by unique customer focused strategy
- Developing skills and capabilities
- Investing in innovation and technology
- Acquisition of Rhead Group, further enhancing integrated service offering

Unique strategy delivering results



Securing a future energy supply...

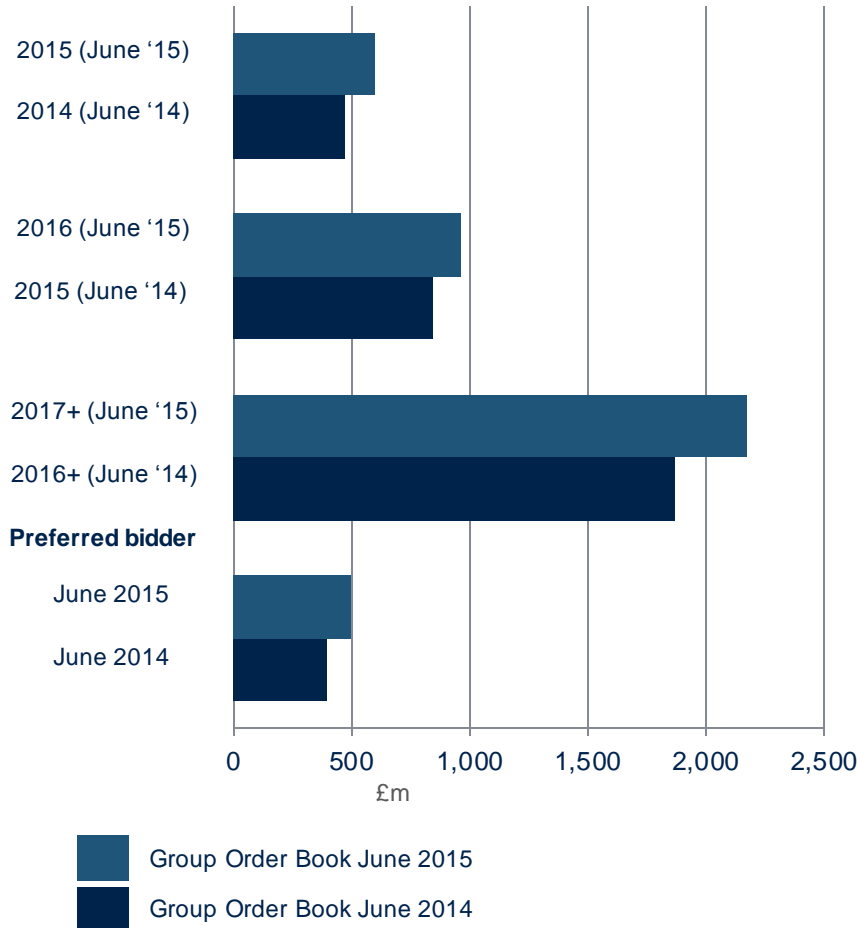


...maintaining a safe and reliable water supply

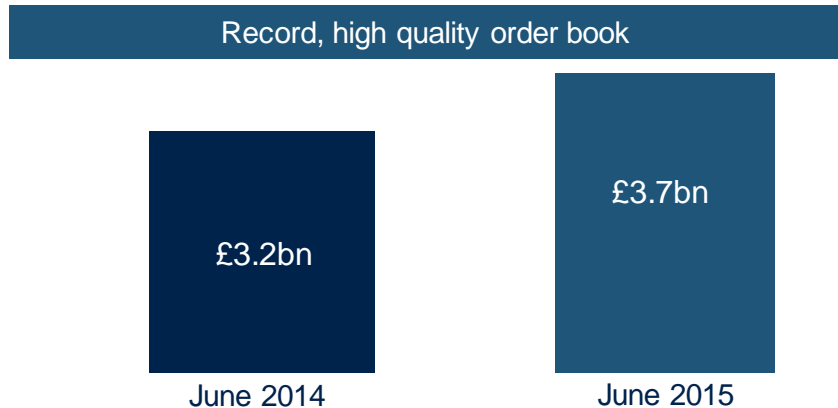


...upgrading the transport infrastructure

Record order book and increased visibility



- Forward order book up 17% to £3.7bn (June 2014: £3.2bn)
- Over £1.2bn of work secured for 2015 (June 2014: over £950m for 2014)
- Over £950m of work secured for 2016 (June 2014: over £800m for 2015)
- Benefitting from ability to focus the Group's resources to the most attractive opportunities



£3.7 billion order book underpinning growth

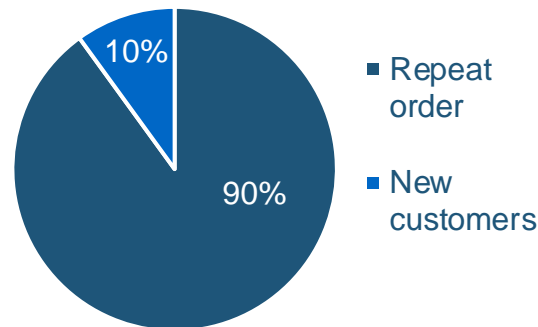
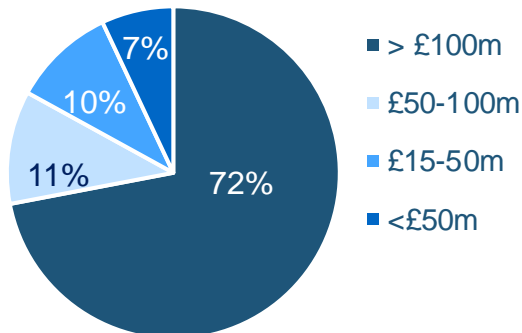


- Advisory and concept development
- Specialist design
- Programme management
- Complex project delivery
- Technology integration
- Asset optimisation and support

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

Order book by value remaining



Developing a team of talented and award winning people



Graduate Innovation and 'Business Ideas' Forum, July 2015



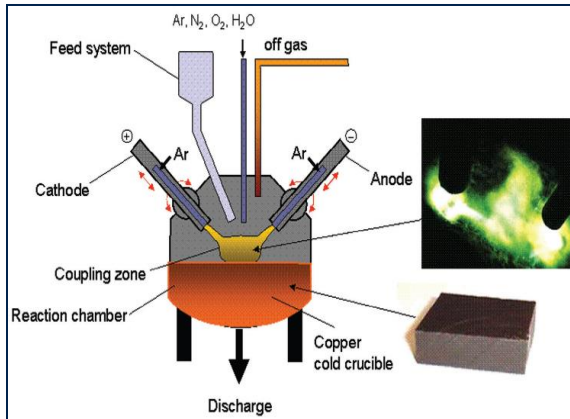
Business Briefing, London Stock Exchange, June 2015

- 44% growth in total headcount to over 5,000 in the last 2 years
- 1,000+ people in consulting, advisory and design roles
- 450+ engineers and designers in new engineering centre in Manchester
- 200+ graduates on award winning programme
- Growing number of apprentices, now over 100

Constantly driving new technology and innovation across the business



Plasma Waste Vitrification



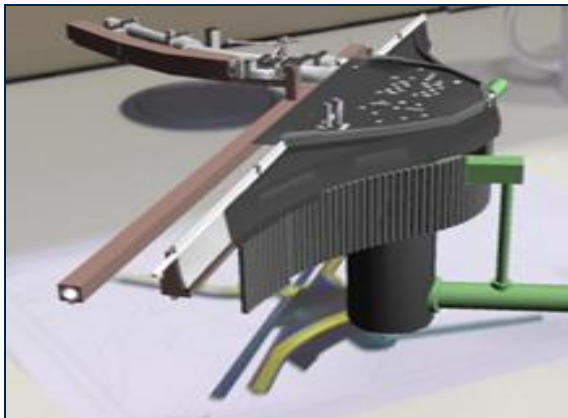
Dimlington Terminal Upgrade



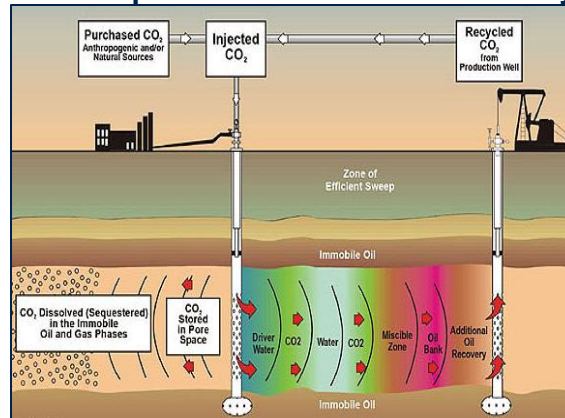
Design for manufacture and assembly



Augmented Reality



CO₂ capture for enhanced oil recovery



Innovative collaboration partnership



Acquisition of Rhead Group



- Acquisition of professional services consultancy for £36m
- Rhead Group, with over 550 people, has an established reputation for providing a range of solutions across the lifecycle of infrastructure, construction and asset management programmes
- Blue chip customer base including National Grid, Wales & West Utilities and BAE Systems
- Further enhances Costain's programme management and advisory capability across all the Group's operations
- Acquisition will be fully integrated by end FY 2015
- Earnings enhancing in FY 2016



Good opportunities across targeted sectors



- Total spend in target sectors of circa £80bn per annum
- Addressable market remains at circa £20bn, driven by regulation, legislation and addressing essential national needs
- Government supporting investment through National Infrastructure Plan
- Level of tender activity remains very high
- Tender success rate better than 1:3
- Market consolidation expected to continue
- Opportunity to grow market share both organically and by acquisition



Securing a future energy supply...



...maintaining a safe and reliable water supply



...upgrading the transport infrastructure

Summary and outlook



- Unique strategy and market position delivered another strong performance
- 17% increase in revenue and operating profit
- 15% increase in dividend
- £3.7bn record forward order book
- Acquisition of professional services consultancy Rhead Group
- On course to deliver a result for the year at the upper end of the Board's expectations

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APPENDIX



Re-organisation of Alcaidesa joint venture



- Reorganised land development JV with Santander in Spain
- Assets split equally between the parties by mutual consent
- From July, 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 £23.4m
- Assets regarded as non-core



Delivering a broad range of integrated services



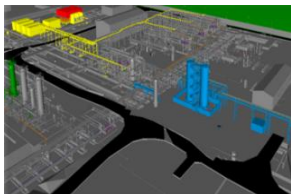
Smart motorways



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

Cash position



	June 2015 £m	June 2014 £m	Full Year 2014 £m
Net Cash at beginning of period	148.5	82.7	82.7
Cash flow (used by)/from operating activities*	(8.8)	19.3	40.6
Cash flow used by investing activities	(7.0)	(8.9)	(12.7)
Dividends / financing	(5.9)	40.7	37.9
Net cash at end of period	126.8	133.8	148.5

Net Cash Reconciliation:			
Cash and cash equivalents at end of period	126.8	134.9	148.5
Less: Bank Overdrafts/borrowings	-	(1.1)	-
Reported Net Cash	126.8	133.8	148.5

Average month end net cash balance: £131.7m (2014: £82.0m)

* Post interest and tax



Other Items

- Amortisation of acquired intangible assets – £1.2m (H1 2014: £1.6m; FY 2014: £3.0m)
 - Amortised from date of acquisition (ClerkMaxwell - April 2011, Promanex - August 2011, EPC - August 2013, Serco JV – January 2014)
- Employment related and other deferred consideration – Nil (H1 2014: £1.3m; FY 2014: £2.2m)
- 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

- 2015 tax rate at 15% on adjusted profit before tax
- First half includes benefit of positive timing of deferred tax assets not previously recognised
- Normalised rate expected to be c.20% on non JV profit

Legacy pension obligation



- Contributions at £7m per annum plus a top-up for total contributions to match annual dividend payments
- Total contributions in H1 2015 of £ 5.9m with further contributions of £3.7m planned for H2 2015
- £29.6m in accounting net deficit. Decrease is a result of company contributions and asset value gains offsetting an increase in liabilities due to changes in the market based assumptions used.

	30 June 2015	31 Dec 2014	30 June 2014
	£m	£m	£m
Fair value of scheme assets	667.5	659.3	599.8
Present value of defined benefit obligations	(704.5)	(701.0)	(650.7)
Recognised liability for defined benefit obligations	(37.0)	(41.7)	(50.9)
Deferred tax	7.4	8.3	10.9
Net pension deficit	(29.6)	(33.4)	(40.7)

- 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