Smart thinking, improving lives

Results for the half-year ended 30 June 2018

FINAL

Welcome

Results for the half-year ended 30 June 2018

Smart thinking,
improving lives

Summary and outlook

Another good performance

Increased profit and enhanced margin

Ongoing evolution

Continuing differentiation into the UK's leading smart infrastructure solutions company

Confident outlook

On course to deliver full year results in line with the Board's expectations.

Financial review

Tony Bickerstaff
Chief Financial Officer

Results for the half-year ended 30 June 2018

Smart thinking, improving lives

Continued good performance in H1 2018

Underlying[1] – **operating profit** up **8%** to

£22.8m

(HY2017: £21.2m)

Underlying[1] – **profit before tax** up **17%** to

£21.4m

(HY2017: £18.3m)

Revenue – including share of joint ventures and associates

£772.9m

(HY2017: £874.5m)

Order book of

£3.7bn

(HY2017: £3.7bn)

Underlying[1] **basic earnings per share** of

16.6p

(HY2017: 14.4p)

Net cash position[2]

£77.7m

(HY2017: £87.5m)

Interim **dividend** up 8% to

5.15p

(HY2017: 4.75p)

Preferred **bidder position** of circa

£400m

(HY2017: over £400m)

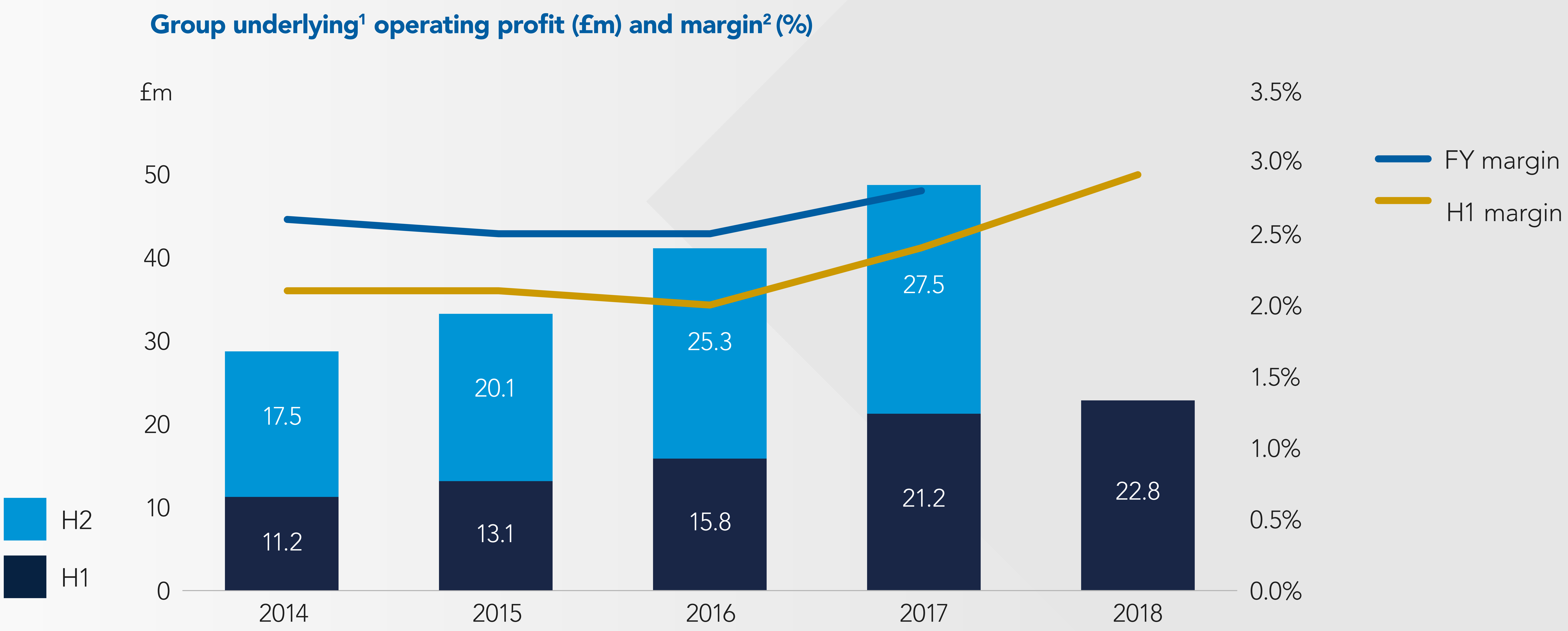
Notes:

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

Our strategy is delivering results

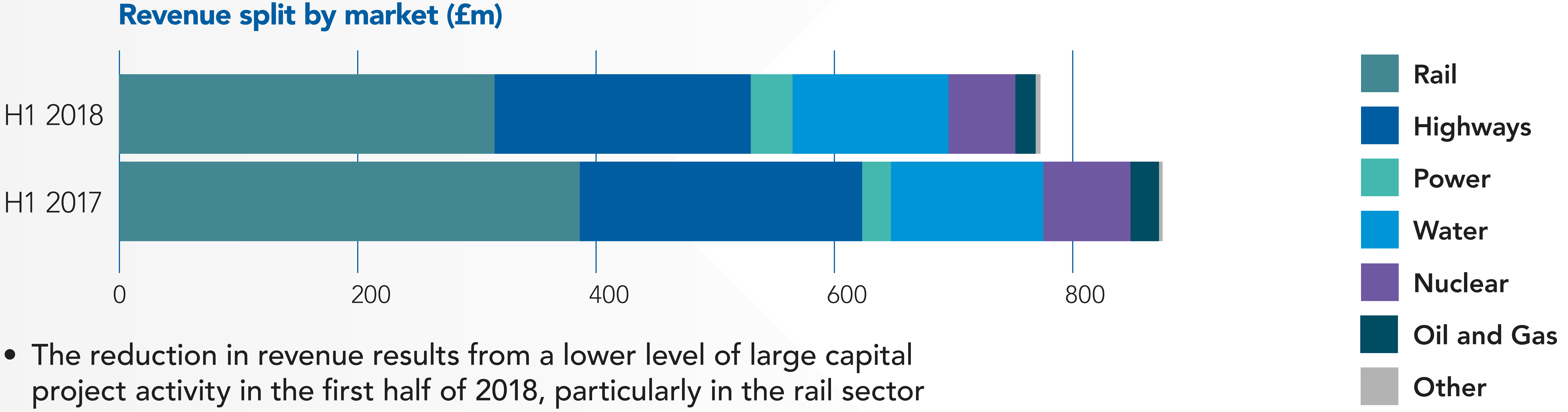
- Changing nature of our services and contracts
- One Costain philosophy
- Focused and disciplined approach
- Higher quality order book
- Margin progression.

Track record of increasing profitability



Note:
1 Before other items; amortisation of acquired intangible assets and employment related deferred consideration
2 Margin is calculated by dividing the Group underlying operating profit by Group revenue including JVs & associates

Revenue profile reflects changing nature of Costain's business



- The reduction in revenue results from a lower level of large capital project activity in the first half of 2018, particularly in the rail sector
- As at 30 June 2018, the Group had secured over £1.4bn of revenue for 2018 (30 June 2017: over £1.5bn secured for 2017)
- The order book at 30 June 2018 includes over £0.85bn of revenue secured for 2019 (30 June 2017: over £0.9bn secured for 2018).

Segmental income statement

	HY 2018			HY 2017			FY 2017		
	Revenue[1] £m	Underlying[2] Operating Profit £m	Margin	Revenue[1] £m	Underlying[2] Operating Profit £m	Margin	Revenue[1] £m	Underlying[2] Operating Profit £m	Margin
Infrastructure	587.0	21.5	3.7%	694.1	24.8	3.6%	1,379.7	52.2	3.8%
Natural Resources	183.1	4.7	2.6%	177.7	0.2	0.1%	343.9	4.8	1.4%
Alcaidesa	2.8	0.0		2.7	(0.5)		5.3	(1.4)	
Central costs		(3.4)			(3.3)			(6.9)	
Underlying operating profit[2]	772.9	22.8	2.9%	874.5	21.2	2.4%	1,728.9	48.7	2.8%
Other JVs		0.1			0.1			0.3	
Net interest expense		(1.5)			(3.0)			(5.6)	
Underlying profit before tax[2]		21.4			18.3			43.4	
Reported profit before tax		*19.5*			*15.7*			*38.9*	
Underlying basic earnings per share[2]		16.6p			14.4p			34.8p	
Reported basic earnings per share		*15.1p*			*12.2p*			*31.1p*	

Notes:

1. Including share of joint ventures and associates
2. Before other items; amortisation of acquired intangible assets and employment related deferred consideration

Net cash position

	HY 2018 £m	HY 2017 £m	FY 2017 £m
Net cash at beginning of period	**177.7**	**140.2**	**140.2**
Cash from operations	25.2	23.7	54.4
Changes in working capital (excluding pension contributions)	(103.2)	(57.8)	17.9
Pension contributions	(9.9)	(7.3)	(12.5)
Acquisition consideration	–	(0.9)	(2.4)
Dividends	(8.7)	(7.0)	(11.9)
Share capital, interest, tax, and investing activities	(3.4)	(3.4)	(8.0)
	77.7	**87.5**	**177.7**
Net cash reconciliation:			
Cash and cash equivalents at end of period	158.1	167.8	248.7
Less: bank borrowings	(80.4)	(80.3)	(71.0)
Reported net cash	**77.7**	**87.5**	**177.7**

- H1 working capital outflow reflects
  - reversal of £80m year-end positive timing as expected
  - timing of receipts
  - changing profile of revenue
- Average month-end cash balance £90.8m (H1 2017: £97.3m)
- Average month-end balance for full year expected to be c£80m.

Strong balance sheet

	30 June 2018		30 June 2017		31 December 2017	
	£m	£m	£m	£m	£m	£m
Assets						
Non current assets (excluding pension related deferred tax)		116.9		113.0		118.7
Trade and other receivables	346.3		347.5		289.2	
Cash and cash equivalents	158.1		167.8		248.7	
Current assets		504.4		515.3		537.9
Total assets		621.3		628.3		656.6
Current liabilities		(389.8)		(437.2)		(421.3)
Total assets less current liabilities		231.5		191.1		235.3
Non current liabilities (excluding net pension liability)		(64.0)		(31.2)		(61.9)
Pension asset/(liability) net of deferred tax		13.9		(35.2)		(19.4)
Total equity		181.4		124.7		154.0

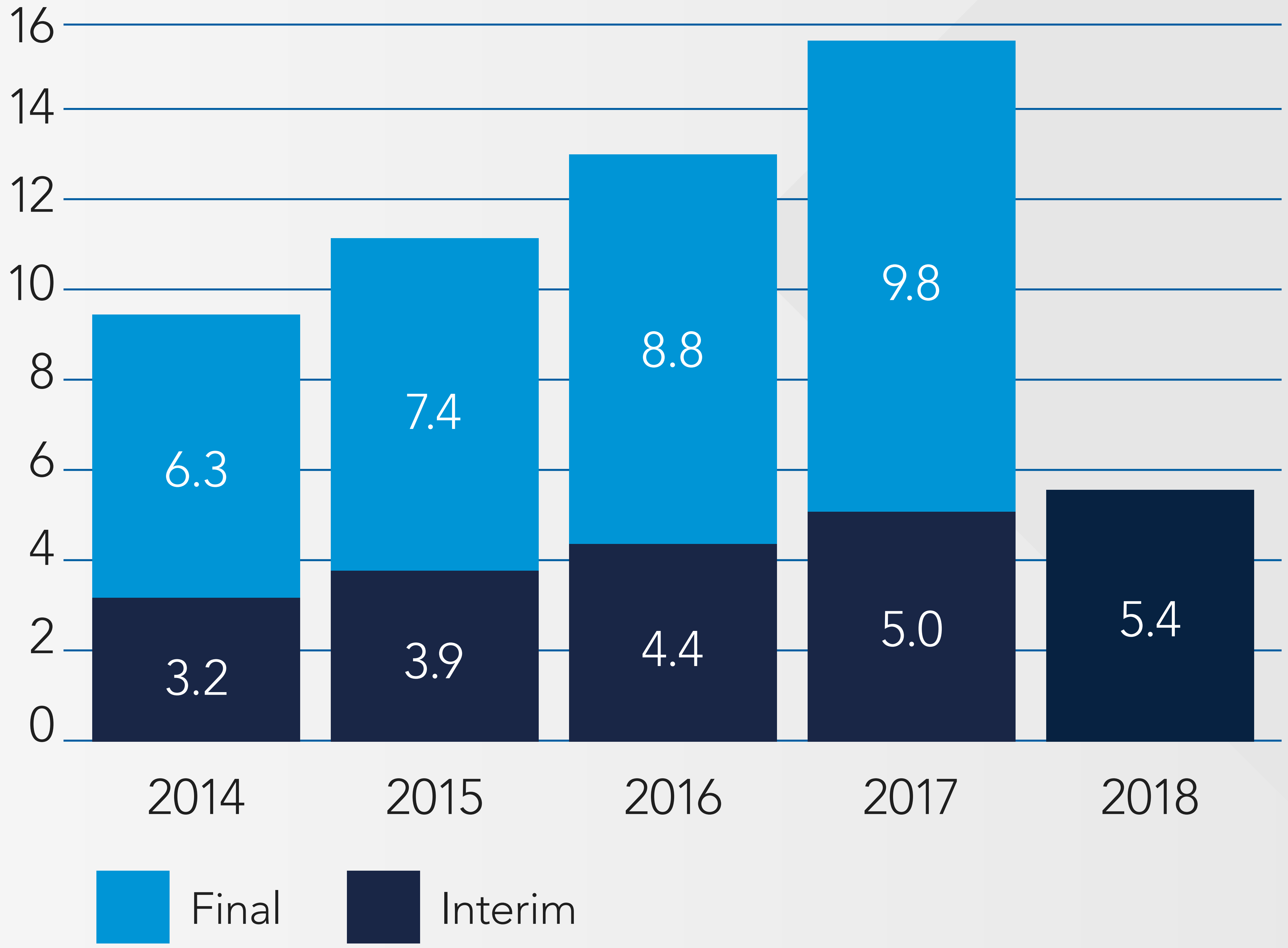
Banking facilities of
£191m
utilised – £80m

Bonding facilities of
£320m
utilised – £99m

Maturity date of
30 June 2022

Growing returns to shareholders

Total value of dividend pay-out (£m)



- Robust financial management
- Efficient allocation of capital regularly reviewed
- Further increase in interim dividend of 8%
- Policy targeting dividend cover of around 2.5 times, consistent with recent levels
- Dividend growing in line with earnings.

Evolving into the UK's leading smart infrastructure solutions company

Andrew Wyllie CBE
Chief Executive

Results for the half-year ended 30 June 2018

Smart thinking, improving lives

H1 developments impacting our markets

Road to Zero strategy states at least 50% of new cars to be ultra low emission by 2030

Transport secretary invites local authorities and private sector companies to invest in the rail network

EDI performance now criteria in Network Rail bid assessments

Gender pay gaps published

UK Government to fund connected and autonomous vehicle simulation and modelling

Rail regulator calls for additional £1bn on upgrades

Big investors champion the battle for more women on boards

Government agrees landmark deal to establish UK as world leader in future mobility

Environment secretary orders water industry to raise the bar to reduce leakage

NIC report states tech like artificial intelligence and machine learning could help cut delays and disruptions across the UK's infrastructures

£600m budget commitment to lower carbon electricity generation

Business and energy secretary announces new £200 million nuclear sector deal to secure the UK's diverse energy mix, meaning cheaper energy bills

Our markets are changing, and fast

Critical requirement	Ensure security of supply +	Improve customer service +	Increase capacity +	Performance efficiency
Government and regulator action	Tightening of legislation and raising the performance bar to improve the country's infrastructure and people's lives			
Critical challenges	Utilisation of existing networks +	Legislation and regulation +	Value-for-money criteria +	Budget prioritisation

circa £20bn per annum addressable market in energy, water and transportation

ENERGY

Decarbonisation
Energy mix

WATER

Reduced leakage
Improved customer service
Intelligent asset optimisation

TRANSPORTATION

Smart motorways
Digital railway
Smart mobility

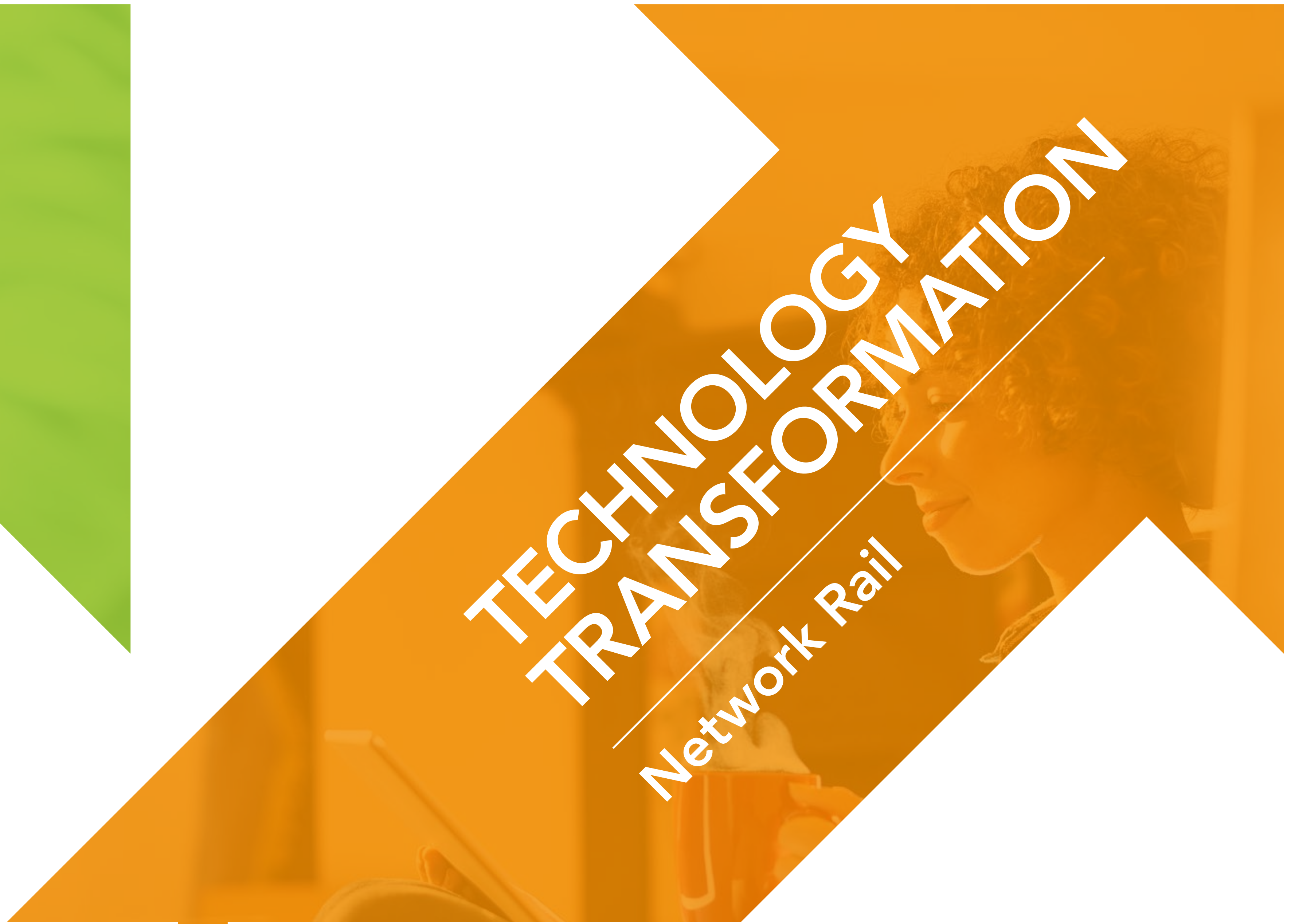
=

Clients are consolidating their supply chains and demanding technology enabled smart infrastructructre solutions

Clients' spending patterns are therefore changing rapidly

Spend in Road Period 2 (2020-2025) expected to be more than the record £11bn spent in Road Period 1, with emphasis on modernisation and automation.

Need for step change in customer service, cost efficiency and leakage reduction in AMP7 (2020-2025): expect TOTEX similar to AMP6 (£44bn), with emphasis on asset optimisation and utilisation of technology.



Record £47bn programme proposed for Control Period 6 (2019-2024) to reduce delays and improve infrastructure reliability, for transformation into a 'digital railway'.

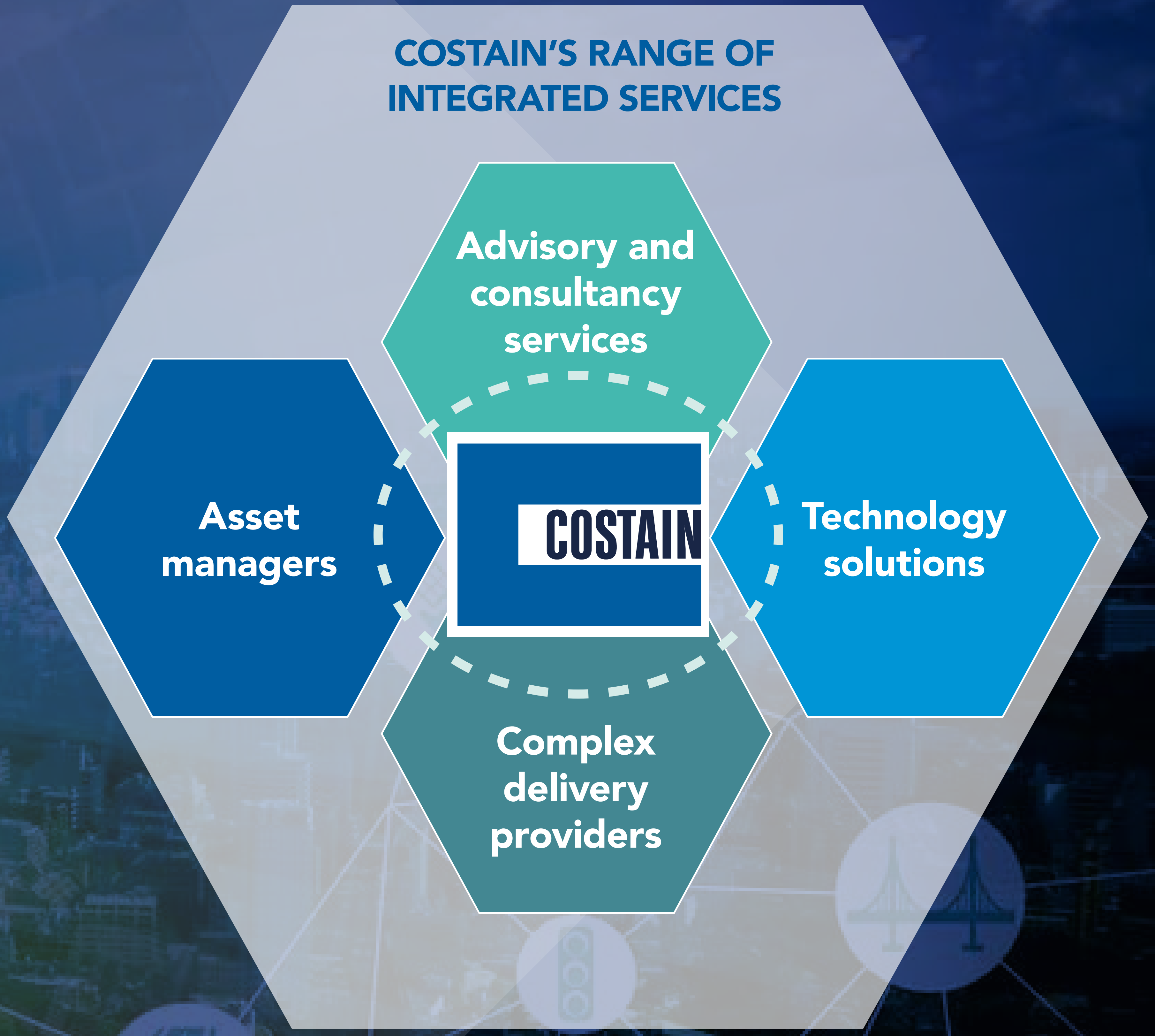
Costain is meeting client demands for ...

MODERNISATION AND AUTOMATION

STEP CHANGE

TECHNOLOGY TRANSFORMATION

Smart Infrastructure Solutions



Our smart infrastructure solutions in highways today

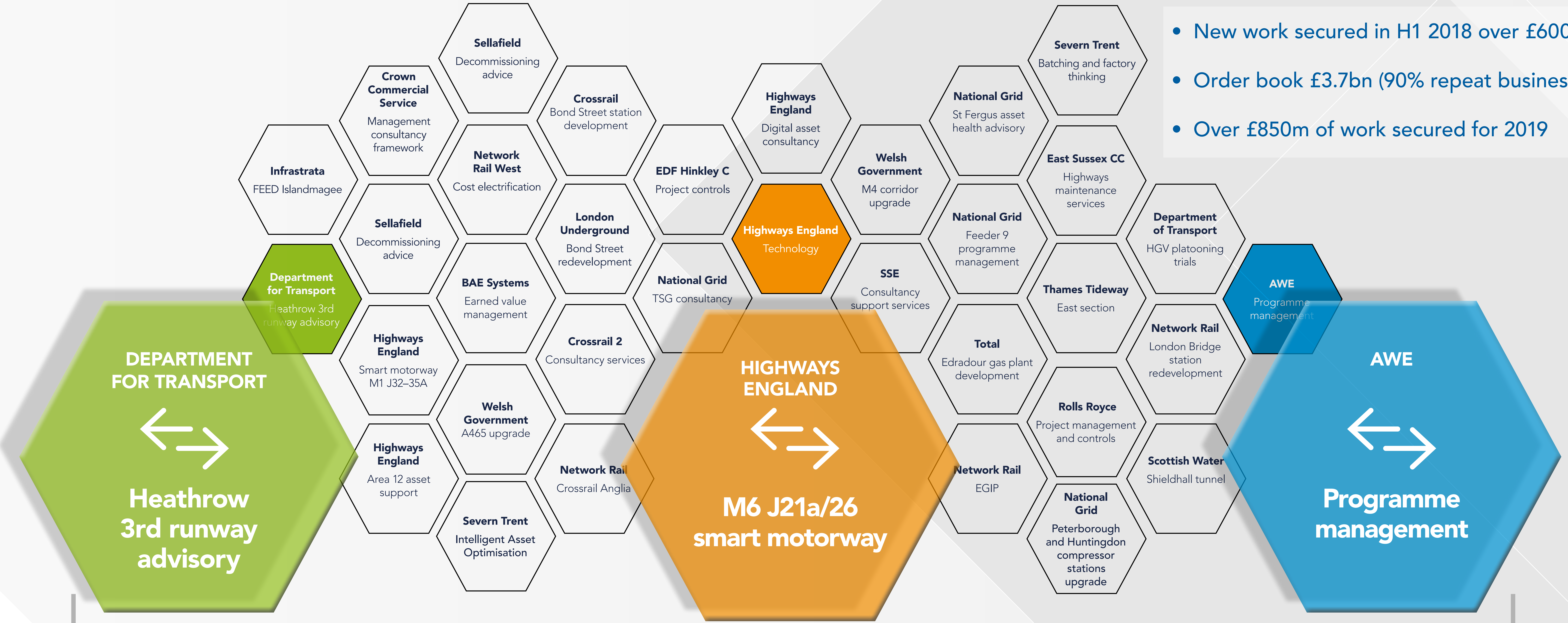
COSTAIN

Costain today

- One third of our c 4,000 people in technology or consultancy roles
- Over 600 chartered professionals
- Over 170 graduates from a broad range of disciplines
- More than half of 2018 graduate intake are female
- 40 PhDs, of which 24 are sponsored students
- 70 apprentices on structured programmes
- The Times Top 50 Employer for Women 2018.

Securing and delivering a wide range of smart infrastructure solutions

- New work secured in H1 2018 over £600m
- Order book £3.7bn (90% repeat business)
- Over £850m of work secured for 2019



Integrated services: consultancy, technology, complex delivery, asset optimisation

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COSTAIN

Appendix

Alcaidesa

- Assets regarded as non-core
- Costain's assets:
  - Two golf courses and associated parcel of land
  - 600 berth marina concession
- Net book value £26.3m (currency risk hedged).

Managing legacy pension obligation

- Accounting surplus due to employer contributions, better than expected asset returns and positive changes in market assumptions
- Deficit recovery plan in place as agreed with the Pension Scheme trustees
- Contributions, based on 31 March 2016 actuarial valuation, at £9.6m per annum (increasing with inflation) plus top-up to match total dividend amount paid
- Next actuarial valuation as at 31 March 2019.

	30 June 2018 £m	31 December 2017 £m	30 June 2017 £m
Fair value of scheme assets	776.7	779.5	762.4
Present value of defined benefit obligations	(759.6)	(803.4)	(805.9)
Recognised liability for defined benefit obligations	17.1	(23.9)	(43.5)
Deferred tax	(3.2)	4.5	8.3
Net pension surplus (deficit)	13.9	(19.4)	(35.2)

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