



# Results

for the year ended  
31 December 2020



Improving people's lives.

# **Alex Vaughan**

Chief Executive Officer

# Operating effectively, safely and profitably



- Adjusted operating profit of £18m in line with expectations
- A465 and P&H contracts significantly impacted profitability
- Robust operational changes strengthening the business
- Continued momentum in securing new work in line with strategic focus
- Market benefits from clear strategic commitment to high levels of infrastructure investment
- Strong net cash position.

**Confident outlook for 2021 and beyond**

# COVID-19 business resilience

Effective and productive operations through the pandemic



- Continued to adapt and develop, maintaining strong and effective safety measures throughout pandemic
- All projects operating effectively and productively
- COVID impact on profitability estimated at £9.2m in 2020, mitigated by several cost reduction measures
- Resilience shown across all teams, partners and clients throughout.

Looking after our teams



Remote working



Safe sites



**“Proud of how well everyone responded”**



# Contract update

## Peterborough and Huntingdon



- Mutual contract termination and settlement agreement signed in June 2020
- One-off charge of £49.3m to income statement in H1 to reflect cash received
- Ongoing adjudication process concludes in December 2021, with cash adjustment in Q1 2022
  - High confidence expected outcome in line with provided position
  - Targeting additional cash payments to Costain of up to £50m
  - Capped downside risk is up to a further cash charge of £57.3m (which would not affect Costain's banking arrangements).

## A465 Heads of Valley Dualling Section 2



- Settlement agreement entered into with Welsh Government in line with provision made for YE 2020
- New management team in place completing contract which is scheduled for completion in September 2021.

# Assured delivery

## Operational changes



### Team and culture

- Leadership team
- Greater accountability
- Changing behaviours
- Increased training and development.



### Structure

- Improved governance and controls
- Operational excellence model
- Organisational delayering.



### Risk management

- Contract selection
- Five stage gated approvals
- Independent risk reviews
- Enhanced monitoring.

**A stronger, more resilient business, focused on assured delivery**

# **Helen Willis**

Chief Financial Officer

# Financial overview



- **Remained profitable throughout the year**
- **Adjusted operating profit £18m in line with expectations**
  - Full impact of COVID-19
  - Contract review completed
  - Efficiencies in year
- **Significant one off contract adjustments**
  - A465 and Peterborough & Huntingdon reported at half year £94.7m
  - ASF South legacy contract £5m
- **Strong year end cash position**
  - £102.9m net cash
  - Second half average month-end net cash improved at £94.4m.



# Reconciliation to statutory reported profit



2020	Adjusted	Contract Adjustments	Other items	Total	2019
	£m	£m	£m	£m	£m
Group revenue	1,070.5	(92.1)	-	978.4	1,155.6
Group operating profit/(loss)	18.0	(99.7)	(10.3)	(92.0)	(3.2)
Share of results of joint ventures and associates	0.2	-	-	0.2	0.3
Net finance expense	(4.3)	-	-	(4.3)	(3.7)
<b>Profit/(loss) before tax</b>	<b>13.9</b>	<b>(99.7)</b>	<b>(10.3)</b>	<b>(96.1)</b>	<b>(6.6)</b>
Taxation	(1.5)	19.0	0.6	18.1	3.7
<b>Profit/(loss) after tax</b>	<b>12.4</b>	<b>(80.7)</b>	<b>(10.3)</b>	<b>(78.0)</b>	<b>(2.9)</b>
Basic earnings/(loss) per share	5.8p	-		(36.7)p	(2.3)p

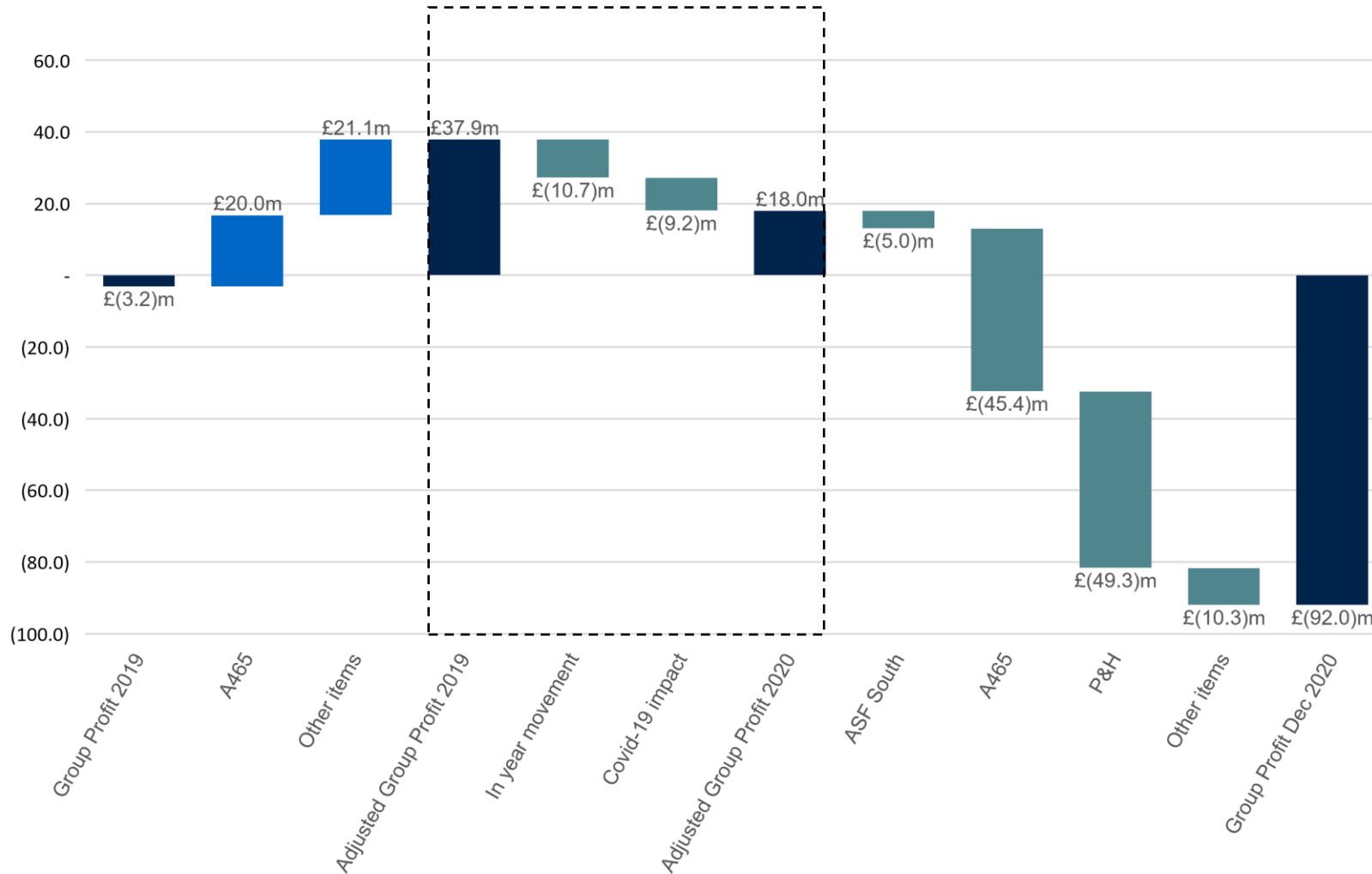
# Adjusting items



<b>Contract adjustments</b>	<b>£(99.7)m</b>
A465 – settlement agreement announced	£45.4m
Peterborough & Huntingdon – legal process ongoing	£49.3m
ASF South – close out legacy contract completed in 2016	£5.0m

<b>Other items</b>	<b>£(10.3)m</b>
Goodwill impairment of natural resources goodwill	£(9.0)m
Amortisation of acquired intangibles	£(1.0)m
Impairments and profits and losses on sales of non-core assets	£1.8m
One off costs incurred renegotiating bank facilities	£(1.2)m
GMP equalisation	£(0.9)m

# Adjusted operating profit



- Adjusted operating profit in line at £18m
- Decreased £19.9m year on year
- COVID-19 impact £9.2m in first half 2020
- In year movement £10.7m: impact from extensive contract review, assessing end of life assumptions, cautious revenue recognition, margin mix, volume.

# Segmental profit



	FY 2020			FY 2019		
	Adjusted revenue	Adjusted operating profit	Margin	Adjusted revenue <sup>1</sup>	Adjusted operating profit	Margin
	£m	£m		£m	£m	
Transportation	724.2	20.1	2.8%	740.6	29.7	4.0%
Natural resources	345.1	5.7	1.7%	429.4	15.4	3.6%
Alcaidesa (Spain)	1.2	(0.1)		5.6	(0.7)	
Central costs		(7.7)			(6.5)	
<b>Adjusted operating profit</b>	<b>1,070.5</b>	<b>18.0</b>	<b>1.7%</b>	<b>1,175.6</b>	<b>37.9</b>	<b>3.2%</b>

- Transportation revenue decreased slightly. HS2 Main Works, Preston Western Distributor Road and Gatwick Station coming on stream. Also ECI phases of RDP Frameworks
- Natural resources division revenue impacted by Peterborough & Huntingdon termination and lower year 1 AMP 7 spend partly offset by UU growth
- Margins impacted by volume and mix as well as contract review.

# Balance sheet

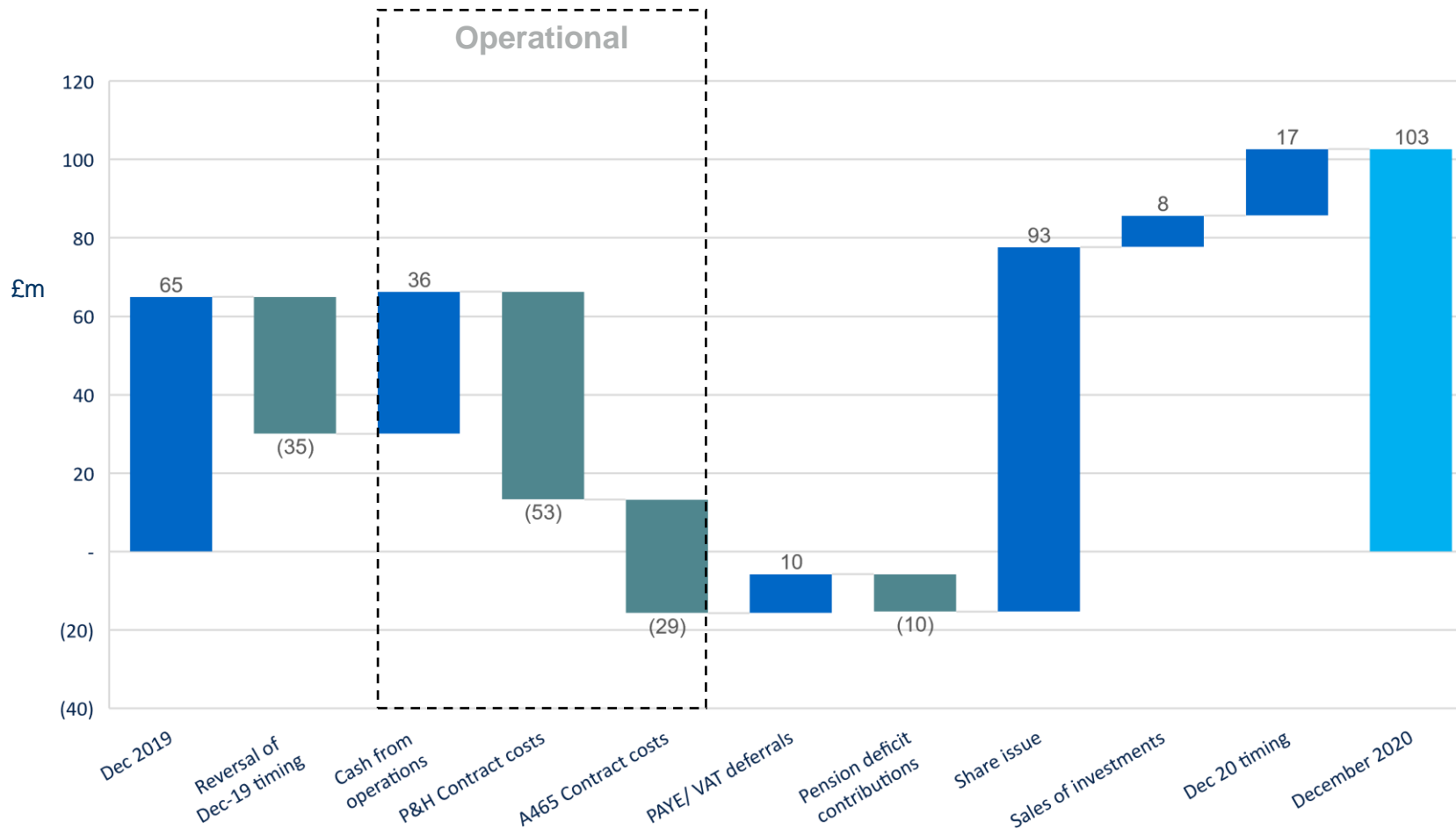
Consolidated statement of financial position	2020	2019
As at 31 December	£m	£m
<b>Assets</b>		
Total non-current assets	118.4	113.2
<b>Current assets</b>		
Trade and other receivables	219.5	254.4
Cash and cash equivalents	150.9	180.9
<b>Total current assets</b>	<b>370.4</b>	435.3
<b>Current liabilities</b>		
Trade and other payables and lease obligations	259.1	260.9
Interest bearing loans and borrowings	7.2	68.0
<b>Total current liabilities</b>	<b>266.3</b>	328.9
<b>Net current assets</b>	<b>104.1</b>	106.4
<b>Non-current liabilities</b>		
Other payables and lease obligations	21.9	17.9
Interest bearing loans and borrowings	39.6	48.0
<b>Total non-current liabilities</b>	<b>61.5</b>	65.9
<b>Retirement benefit obligations/asset (net of tax)</b>	<b>(4.5)</b>	<b>4.0</b>
<b>Equity</b>	<b>156.5</b>	<b>157.7</b>

Target balance sheet measures	Position at Dec 2020
Net assets > £200m	£156.5m
Current asset ratio > 1.3	1.4
High positive net cash <sup>1</sup>	£102.9
No structural debt	✓

<sup>1</sup>excludes arrangement fees

Other Measures	Position at Dec 2020
Banking facility	£179m
• RCF	£131m
• Term loan	£48m
• Maturing	September 2023

# 2020 cash bridge



- Strong year end net cash position of £102.9m comprising £89.8m of cash, £61.1m share of cash in joint operations and £48.0m of drawn debt
- The average month-end net cash balance for the year was £73.8m (2019: £41.2m). H2 improved to £94.4m
- Supplier payments in line with prompt payment code.



# Financial summary



- Resolution of A465 contract and progressing Huntingdon & Peterborough resolution
- Balance sheet strengthened by capital raising and good year end cash
- Focus on profitability with clear cash generation
- Strong order book and secured revenue position as we start 2021 – margins in line with strategy.

# Alex Vaughan

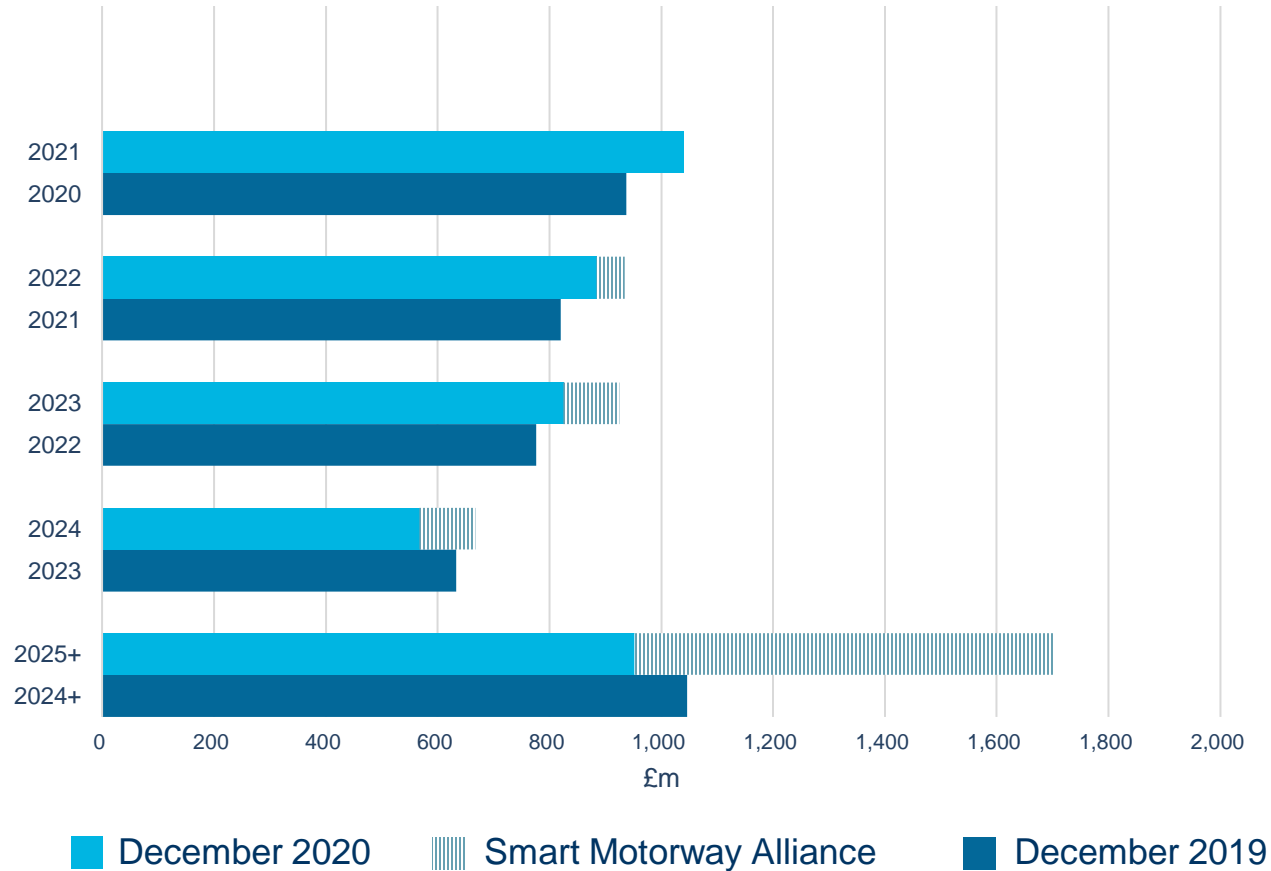
Chief Executive Officer

# Strength of secured workload

c£1,020m of work secured for 2021 plus additional orders from frameworks



Order book revenue by year



## Strong forward workload

- Order book of **£4.2** billion, of which
  - **£1.2** billion of new contract awards and extensions
  - **c£1** billion secured for 2021

In addition:

- Selected preferred bidder **£1.2** billion
- Secured positions on **c60** major live consultancy and digital frameworks, with 27 won in 2020.

# Significant market opportunity

Our four markets driven by key strategic national priorities



**Transportation**  
We connect and keep the nation moving

RIS2      HS2 Phase 1 & 2a  
**£27.4bn**    **c£45bn**

Network Rail CP6 (2019-24)  
**£53bn**

Investment in Local and Devolved Authorities  
**£20.2bn**

Including the **£4.8bn** levelling up fund

**Water**  
We keep water clean and flowing

AMP7  
**£51bn**

**Energy**  
We power communities sustainability

Ten-point plan      Energy White Paper  
**£12bn**  
Stimulating private investment up to **£42bn** by 2030

RIIO-2  
**£30bn**

**Defence**  
We keep the nation safe

Defence budget  
**£41.5bn**

Defence Review 2020  
**£16.5bn**  
additional funding over 4 years plus **£5bn** of existing commitments

# Leading as a socially responsible purpose led business

## A focused plan to achieve our responsible business goals



Costain included in the FTSE4Good index for the first time

### Climate change action plan

- Costain to be net zero carbon by 2035
- Certified to PAS2080
- Shaping the green growth agenda - expertise in hydrogen, nuclear and electrification of our transport network
- Supporting industrial clusters and industry groups towards net zero.

### Sustainability

- No major environmental incidents
- Over £49m and 1.9m tCO<sub>2</sub>eq saved through implementation of our resource efficiency matrix since 2018
- Significant water quality improvement through water contracts.

### People

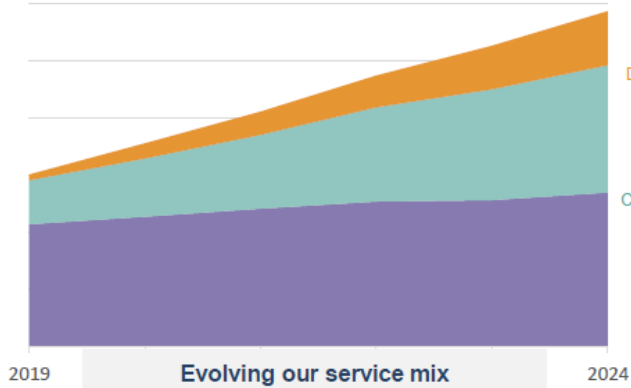
- Diverse leadership – women make up 50% of our Board and 56% of our Executive team
- Top 100 Apprenticeship Employer
- 34% reduction year-on-year in accidents, resulting in our best ever safety performance.

### Social value

- Since 2014 our supply chain academy has supported over 200 SMEs, delivering £700k in social value
- HS2 EW alone added £115m social and local economic value
- 43% of our spend was with SMEs
- £211k to UK charitable causes.

# Implementing our Leading Edge strategy

## Aligned to meet our clients' changing needs



- Digital technology solutions
- Consultancy and advisory
- Complex programme delivery

**2019** **Evolving our service mix** **2024**

Focusing on Complex Programme Delivery, Consultancy and Digital Services	Increasing the proportion of higher margin services	Increasing divisional margins to 6% - 7%
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# Continued focus and a clear path to delivering the strategy

## Critical milestones to deliver growth and value



Strategic outcomes		By December 2021		Target
Cash generation	➤	Positive cash generation from underlying operations	➤	90% cash conversion
Increase margins	➤	Margin progression across both divisions, c 3.5%-4.0%	➤	6%-7% divisional margins
Consistent profitability in Complex Programme Delivery	➤	New (Q3 2019 to date) secured contracts delivering 3%-5% divisional margins	➤	All contracts delivering 3%-5% divisional margins
Grow higher margin services	➤	>40% of profits from higher margin services (6%-8%)	➤	55% of profits from higher margin services (6%-8%)
Improve efficiency	➤	£12m annualised efficiency	➤	£20m annualised efficiency (cumulative)

# Summary and outlook

- Operating effectively, safely and profitably
- Working to resolve P&H contract
- Operational changes have strengthened the business
- Strengthened cash position
- Strong secured work position through our broader proposition
- Clear strategic commitment to further infrastructure investment
- Good momentum towards delivery of strategic objectives
- Confident in delivering significant growth in profit for 2021 and beyond.



COSTAIN



# Q&A

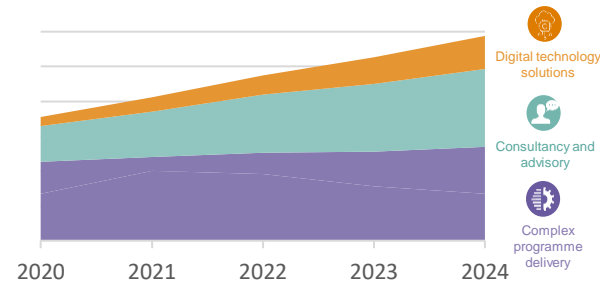
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# Complex programme delivery

Focused on strategic long term investment programmes



## Our strong secured foundation:



### Example wins (2020):

- Anglian Water Strategic Pipeline Alliance
- Highways England Smart Motorway Alliance (ECI stage)
- HS2 Main Works contract
- Highways England A30 upgrade
- Transport for London A40 Westway
- AMP7 Capital Delivery Frameworks (Southern Water, Thames Water, Severn Trent Water)
- Thames Tideway Tunnel
- United Utilities maintenance services programme
- Highways England Regional Delivery Programme (RDP)
- Highways England A19 Testos Roundabout
- Network Rail Gatwick rail station upgrade
- East Sussex County Council highway services asset management programme
- Lancashire County Council Preston Western Distributor Road.

### Safer, greener, faster, better, more efficient

Embodied Carbon

Programme

Number of Crossings

Pipeline Length

TotEx

Social value

CapEx

**U-Route**

A19 Testo's Junction Improvements - Gantry Installation & Overhead Interface

# Consultancy and advisory

A trusted partner adding value with implementation bias



## Our growing position

Example wins (2020):

### Delivery Partner

- Cadent CMO Feeds
- Bradford Council Street Lighting
- AWE - Project MENSA

### Design Services

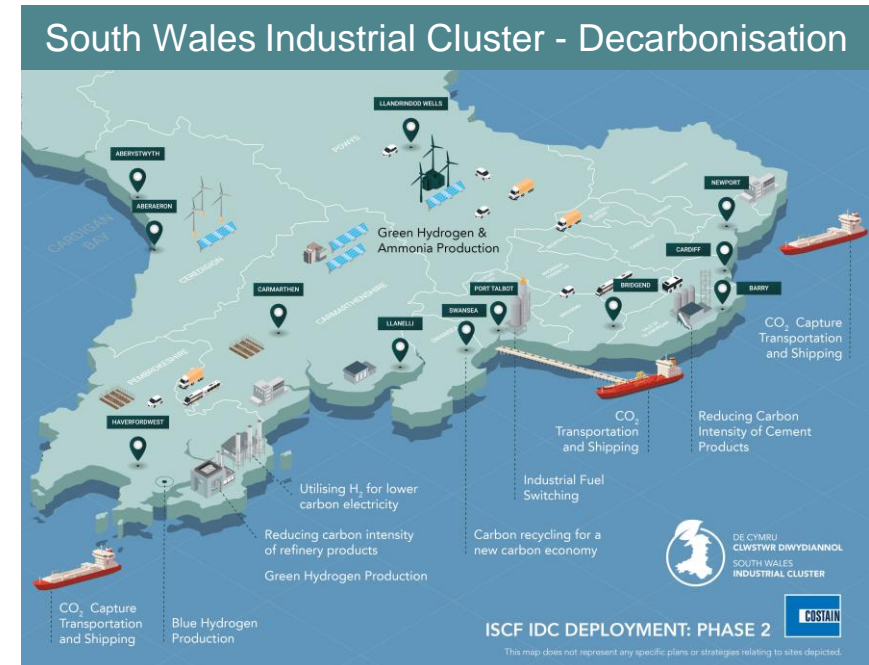
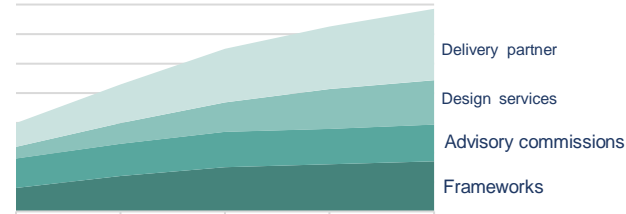
- Ineos Breagh Gas plant FEED
- Pale Blue Dot - Acorn Carbon Capture FEED
- Sellafield DDP
- Network Rail design services framework
- Southern Water Framework
- HS2 Phase 2a consultancy services

### Advisory Commissions

- Thames Water PMO
- South Wales Industrial Cluster – decarbonisation work
- EDF project controls
- Dreadnought Alliance

### Frameworks

- SPATS2
- United Utilities Maintenance Service Provider Framework
- Yorkshire Water Technical Services Framework
- Transport for London Professional Services Framework
- Crown Commercial Services Management Consultancy Framework
- United Utilities Manchester Resilience programme
- South Staffs Water consultancy and asset management services.



Leading the deployment project and working with multiple partners to shape the infrastructure required for the development of a hydrogen economy, including large scale carbon capture, usage and storage (CCUS) and transport, to decarbonise industry in South Wales and support the green industrial revolution agenda.



# Digital services

## Optimising performance by integrating leading digital solutions



### Step changing performance

Example wins (2020):

#### Digitally led

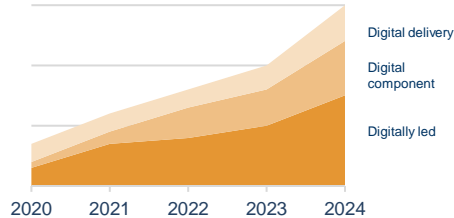
- Level crossing enhanced safety solution (Meerkat)
- Anglian Water Strategic Pipeline Alliance – digital twin
- Highways England TMTii framework

#### Digital as a key component

- Government G-Cloud 12 Framework
- DOS4 Central Govt Digital Framework
- SPATS2
- United Utilities maintenance services programme

#### Digital delivery tools

- SDP – productivity apps for delivery
- IICC - Intelligent Infrastructure Control Centre
- U-Route – automated design decision making tool
- ANNIE – machine learning capability.



Optimising the design, delivery and operation of vital infrastructure – improving productivity and performance.

Working alongside Anglian Water to develop a digital twin of up to 500km of interconnecting pipelines that are being built to deliver safe and clean water to residents for many years to come.

# Cash flow



<b>Consolidated cash flow statement</b>		<b>2020</b>	<b>2019</b>
Year ended 31 December		<b>£m</b>	<b>£m</b>
Net cash at beginning of period		<b>64.9</b>	118.8
<b>Cash (used by)/from operations</b>		<b>(66.7)</b>	26.0
Changes in working capital (excluding pension deficit contributions)		<b>26.3</b>	(33.2)
<b>Net cash used by operating activities</b>		<b>(40.4)</b>	(7.2)
Pension deficit contributions		<b>(10.6)</b>	(16.3)
Dividends		-	(13.5)
IFRS 16 leases		<b>(12.1)</b>	(13.6)
Interest, tax, fixed assets, investments and currency		<b>(0.2)</b>	(16.3)
Proceeds of sale of subsidiaries and investments		<b>8.8</b>	12.5
Capital raise		<b>92.5</b>	0.5
<b>Net cash at end of period</b>		<b>102.9</b>	64.9
Cash and cash equivalents at end of period		<b>150.9</b>	180.9
Bank borrowings (ex fees)		<b>(48.0)</b>	(116.0)
<b>Net cash at end of period</b>		<b>102.9</b>	64.9

# IFRS 16 impact



Income statement impact	£m
Decrease in operating costs	13.0
Increase in depreciation	(12.2)
Increase in finance costs	(1.0)
<b>Net impact on income statement</b>	<b>(0.2)</b>

Fixed Assets impact	£m
Fixed assets opening position	29.6
Additions	20.3
Disposals	(4.9)
Depreciation	(12.3)
<b>Fixed assets closing adjustment</b>	<b>32.7</b>

Liabilities impact	£m	£m	£m
	Opening	Movement	Closing
Current liabilities	(12.8)	0.3	(12.5)
Non-current liabilities	(17.2)	(3.6)	(20.8)
	<b>(30.0)</b>	<b>(3.3)</b>	<b>(33.3)</b>

# Cautionary forward-looking statements



This presentation contains certain statements that are forward-looking statements based on current expectations and reasonable assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements.

Each forward-looking statement speaks only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.