COSTAIN

Smart thinking, improving lives

Results for the year
ended 31 December 2017

FINAL

Welcome

Dr Paul Golby CBE
Chairman

Results for the year ended 31 December 2017

Summary and outlook

Another strong performance

Continued growth in revenue and profit

Clear purpose and strategy

Transforming Costain into the UK's leading smart infrastructure solutions company

Positive outlook

Increase in dividend, reflecting the Board's confidence for the future.

COSTAIN

Financial Review

Tony Bickerstaff
Chief Financial Officer

Another strong performance

Revenue – including share of joint ventures and associates, increased to

£1.73bn

(2016: £1.66bn)

Underlying[1] – **operating profit** up **18%** to

£48.7m

(2016: £41.1m)

Underlying[1] – **profit before tax** up **16%** to

£43.4m

(2016: £37.5m)

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

34.8p

(2016: 31.5p)

Net cash position[2] of

£177.7m

(2016: £140.2m)
Average month-end net cash of £96.7m (2016: £69.1m)

Recommended **final dividend** up **10%** to

9.25p

(2016: 8.4p)
Total dividend for 2017 up 10% to 14.0p (2016: 12.7p)

Notes:
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

the Costain way

- FOCUS ON BLUE-CHIP CLIENTS THROUGH LONG-TERM STRATEGIC RELATIONSHIPS
- 'ONE COSTAIN' PHILOSOPHY
- OVER 90% TARGET COST CONTRACTS
- OPTIMISED ALLOCATION OF RESOURCES
- EFFECTIVE RISK MANAGEMENT
- RIGOROUS APPROACH TO CONTRACT SELECTION AND MANAGEMENT

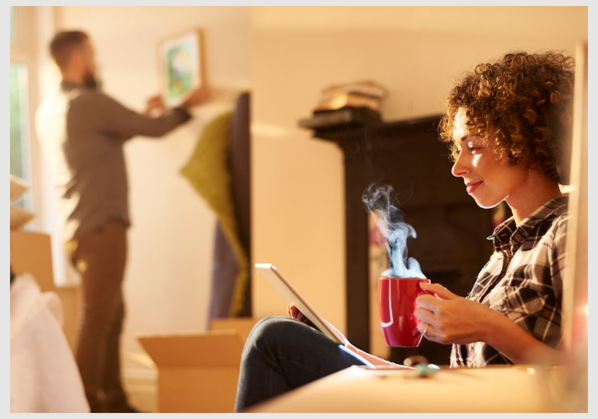
Two reporting divisions:

– Infrastructure
– Natural Resources

BUT

'One Costain' approach:

Allocation of resources determined by opportunity

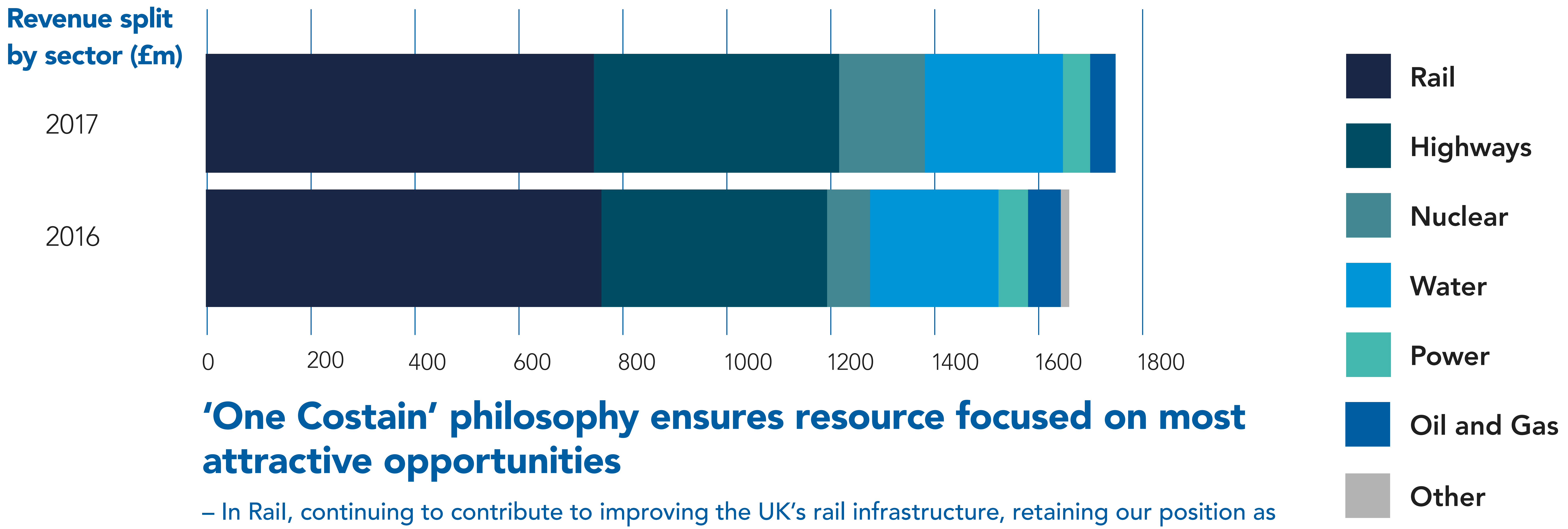


ENERGY

WATER

TRANSPORTATION

Revenue growth reflects 'One Costain' philosophy

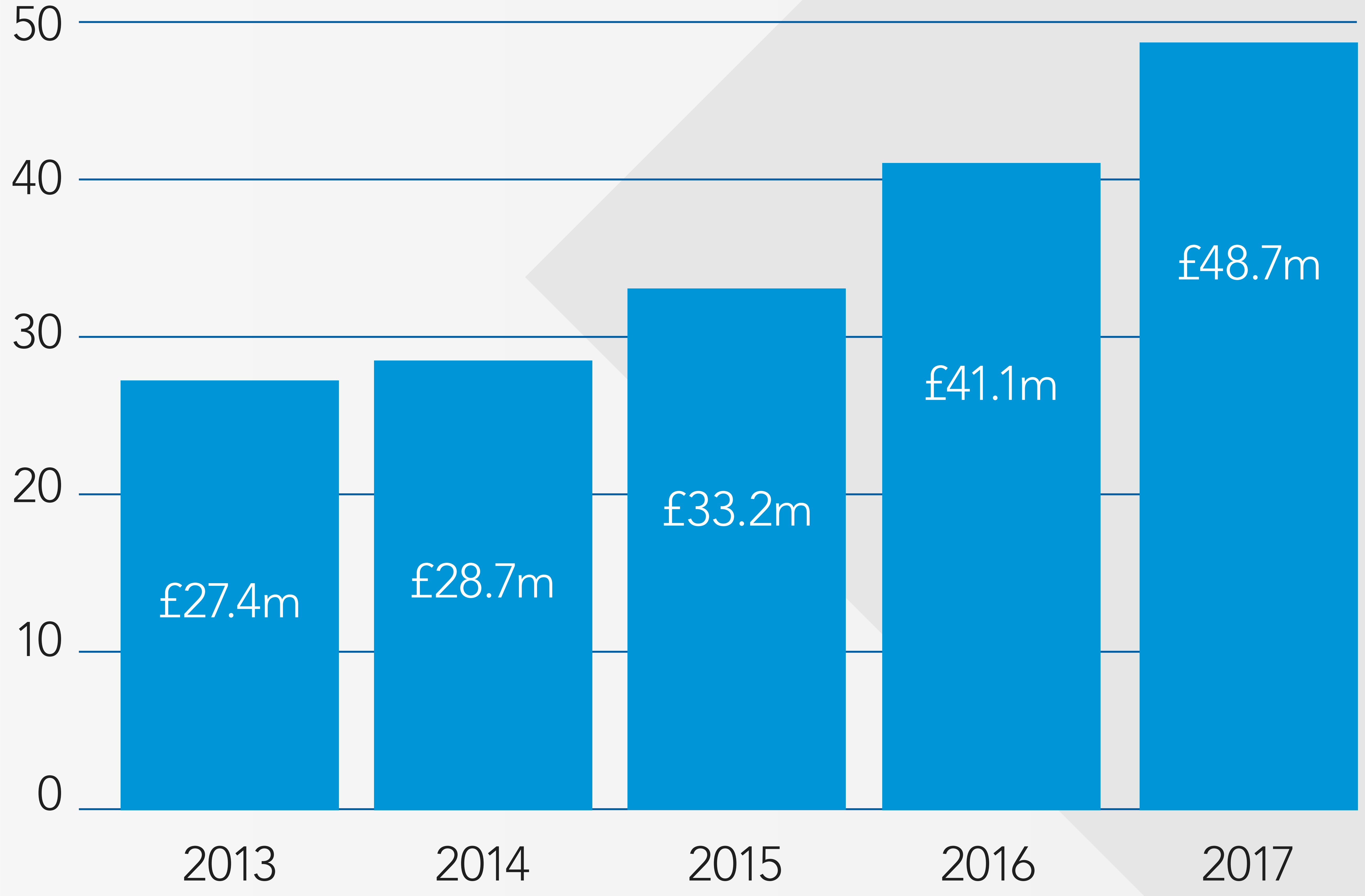


'One Costain' philosophy ensures resource focused on most attractive opportunities

- In Rail, continuing to contribute to improving the UK's rail infrastructure, retaining our position as Network Rail's leading supplier
- In Highways, progress on programmes to increase capacity, reduce delays and enhance safety across the road network
- In Water, improving and maintaining water quality standards, supply resilience and meeting anticipated demographic shifts
- In Nuclear, continuing to play a role in the development and decommissioning of the UK's facilities.

Track record of increasing profitability

Group underlying operating profit[1]



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

Segmental income statement reflects targeted resource allocation

	2017			2016		
	Revenue[1] £m	Underlying operating profit[2] £m	Margin	Revenue[1] £m	Underlying operating profit[2] £m	Margin
Infrastructure	1,379.7	52.2	3.8%	1,276.1	56.6	4.4%
Natural Resources	343.9	4.8	1.4%	377.3	(8.6)	(2.3)%
Alcaidesa (Spain)	5.3	(1.4)		4.6	(0.7)	
Central costs		(6.9)			(6.2)	
	1,728.9	48.7	2.8%	1,658.0	41.1	2.5%
Share of results of joint ventures		0.3			0.2	
Net interest expense		(5.6)			(3.8)	
Underlying profit before tax[2]		43.4			37.5	
Reported profit before tax		*38.9*			*30.9*	
Underlying basic earnings per share[2]		34.8p			31.5p	
Reported basic earnings per share		*31.1p*			*25.7p*	

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

Increased net cash position

	2017	2016
	£m	£m
Net cash at the beginning of the period	140.2	108.2
Cash from operations	54.4	49.6
Changes in working capital (excluding pension deficit contributions)	17.9	36.0
Cash flow from operating activities	72.3	85.6
Pension deficit contributions	(12.5)	(14.3)
Acquisition consideration	(2.4)	(18.3)
Dividends	(11.9)	(11.0)
Issue of ordinary share capital	2.2	2.5
Interest, tax, fixed assets, investments & currency	(10.2)	(12.5)
Net cash at end of period	177.7	140.2
Net cash reconciliation:		
Cash and cash equivalents at end of period	248.7	210.2
Less: bank borrowing	(71.0)	(70.0)
Reported net cash	177.7	140.2

- Year end timing impact on working capital
  - positive benefit in 2017: c.£80m
  - reversal of timing benefit from 2016: c.£60m
  - net benefit in 2017: £20m
- Average month end cash balance of £96.7m (2016: £69.1m)
- Cash conversion 137% (99% excluding year end timing benefits)
- Year end positive timing will unwind in H1 2018
- Small underlying working capital outflow, in line with contract terms, expected in 2018
- Average month-end cash balance in 2018 expected to be at a similar level to 2017.

COSTAIN

Strong balance sheet

	31 December 2017		31 December 2016	
		£m		£m
Assets				
Non current assets (excluding pension deficit deferred tax)		118.7		119.3
Trade and other receivables	289.2		302.7	
Cash and cash equivalents	248.7		210.2	
Current assets		537.9		512.9
Total assets		656.6		632.2
Current liabilities		(421.3)		(441.6)
Total assets less current liabilities		235.3		190.6
Non current liabilities (excluding net pension liability)		(61.9)		(31.5)
Pension liability net of deferred tax		(19.4)		(59.5)
Total equity		154.0		99.6

Banking facilities of
£191m
Utilised – £70m

Bonding facilities of
£320m
Utilised – £108m

Maturity date of
30 June 2022

COSTAIN

Strategy delivering high quality new business

New work secured in 2017

>£2.0bn

Work secured for 2018 at 31 Dec 2017

>£1.1bn

Order book

£3.9bn

Collaborative, target cost contracts

90%+

Repeat business

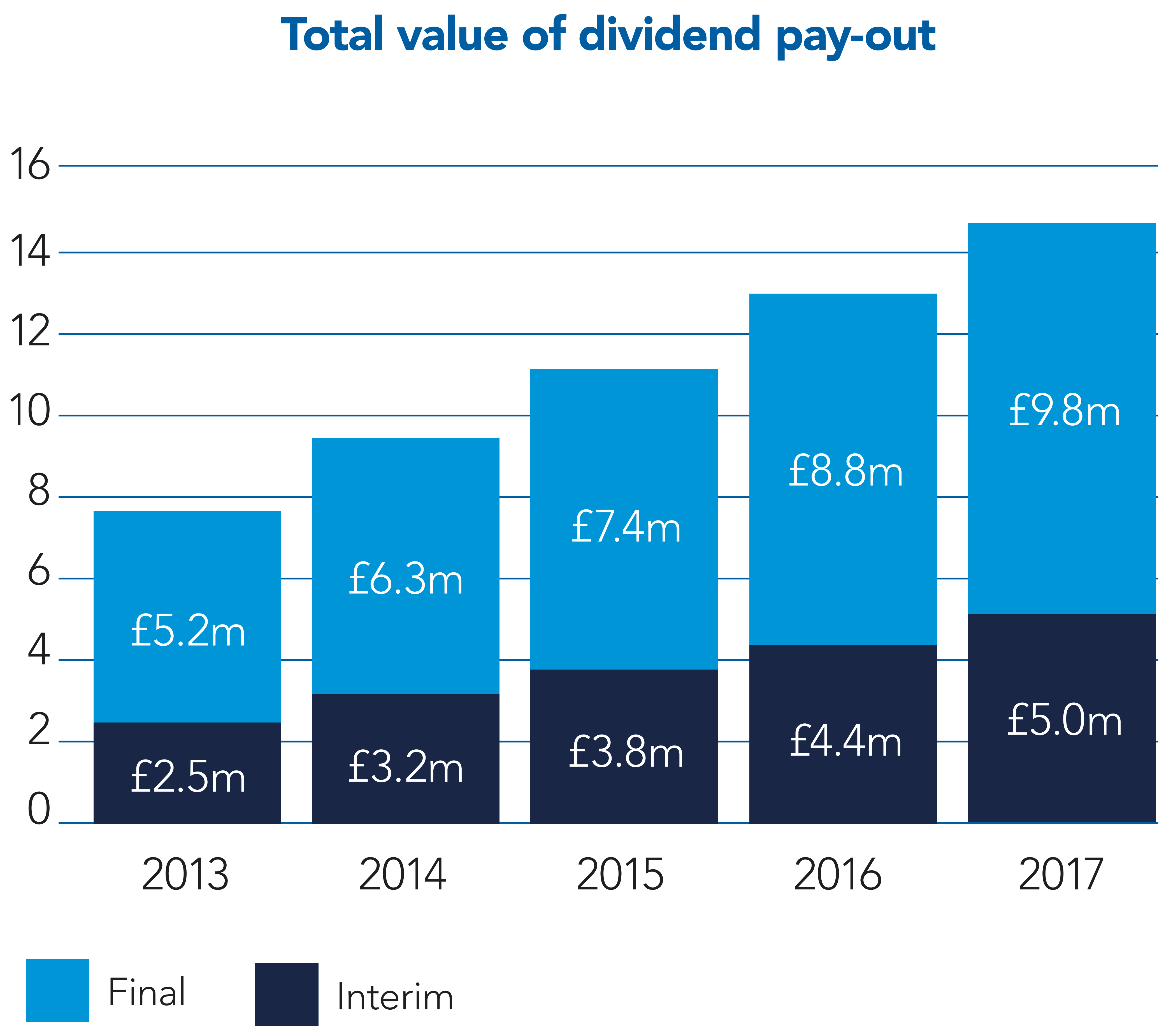
90%+

Tendering levels

High

10% increase in final dividend

- Progressive dividend policy, targeting ongoing dividend cover of around 2x underlying earnings
- Final dividend of 9.25 pence per share (2017: 8.4 pence per share) increasing the total dividend for the year by 10% to 14.0 pence per share (2016: 12.7 pence)
- Dividend will be paid on 18 May 2018 to shareholders on the register at 13 April 2018
- Pension deficit contribution topped up to match annual dividend pay-out.



COSTAIN

Transforming into the UK's leading smart infrastructure solutions company

Andrew Wyllie CBE
Chief Executive

Results for the year ended 31 December 2017

Our purpose:

To improve people's lives by enhancing the UK's energy, water and transportation infrastructures

COSTAIN

Fast changing UK market environment

INTERCONNECTIVITY

"Responding to longer term developments that could transform our roads, such as electrification and autonomous vehicles, and enabling this through pilots and appropriate investment."

Highways England
Strategic Road Network
Initial Report Overview

CLIMATE CHANGE

"UK bans sale of new combustion engine cars and vans by 2040."

Defra, DfT
Air quality plan
for nitrogen dioxide (NO2)
in UK (2017)

Demographic, economic and social trends

POPULATION GROWTH

"Ofwat price review (PR19) to deliver long-term customer focus and incentivise innovation."

Ofwat
PR19 is part of
Ofwat Water 2020

PRODUCTIVITY

"Our plans include… the deployment of digital railway solutions to help address the lack of capacity on the rail network."

Network Rail
Railway Upgrade
Plan 2017/2018

Rapidly evolving client requirements

Urgent national needs	Ensure security of supply +	Improve customer service +	Increase capacity +	Performance efficiency
Government and regulator action	Central and local governments, and regulators taking bold decisions to stimulate economic growth and improve people's lives			
Critical challenges	Utilisation of existing networks +	Legislation and regulation +	Value-for-money criteria +	Budget prioritisation
Client response	Smart motorways	Digital railway	Intelligent water asset optimisation	Decarbonising energy production

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

ENERGY

WATER

TRANSPORTATION

Rapidly changing spend profile creates opportunities for Costain

21 November 2017

Utilities are ripe for revolution says Ofwat chief executive:

"Profound change will be shaped by specialist companies emerging and using leading edge data analysis to better understand customers' needs and priorities and find the best combination of services at the right price."

13 December 2017

In its Strategic Road Network Initial Report, Highways England says technology will play an increasingly major role in keeping people moving, and the country connected. Highways England chief executive, said:

"We are delivering a record £15 billion of government investment to give people safe, efficient and reliable journeys, and provide businesses with the links they need to prosper and grow."

13 February 2018

Announcing its five year plan, Network Rail's chief executive stated:

"This plan … sets out how we will make the railway more reliable and cost efficient and how we accelerate the technological transformation of our railway into the digital age. Planned expenditure of up to £47bn over the five year period represents a 25% increase on spending in CP5 (2014-2019)."

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

NATIONAL NEEDS

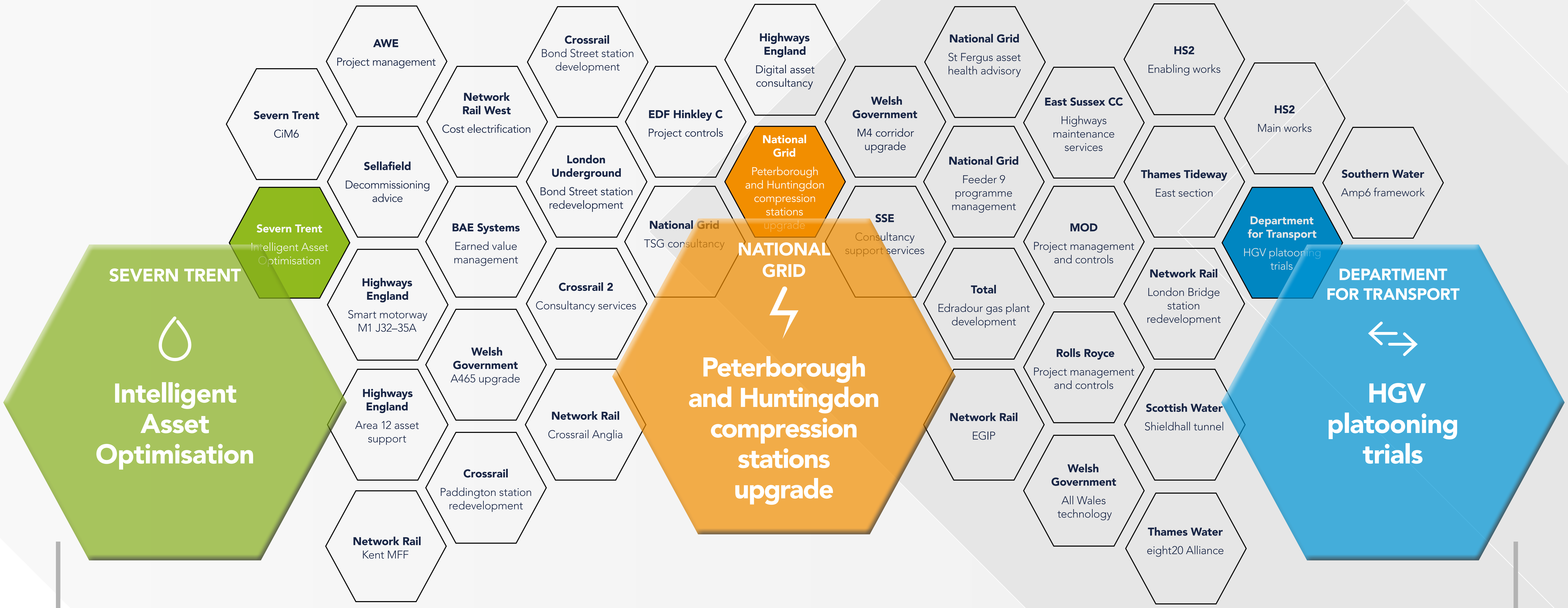
ENERGY | WATER | TRANSPORTATION

CAPACITY | SERVICE | SECURITY | EFFICIENCY

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

BLUE CHIP CLIENTS

Delivering a wide range of smart infrastructure solutions



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

COSTAIN

Smart thinking to deliver smart solutions

- Headcount of over 4,000 people
- Now over 1,300 people in consultancy and technology roles, up 300% in three years
- Diverse skills from data analytics to programme advisory, and digital engineering to carbon management
- Employ 22 PhDs including: cryogenic process optimisation, distributed embedded artificial intelligence and machine learning, robotics and automated systems
- In addition, sponsoring 21 PhDs at leading universities researching fields such as automation and robotics, connected autonomous vehicles, and data driven decisions.

Demi Ademuyewo
Mechanical Engineer

Our smart thinking agenda for the development of Costain – actions for 2018

Cash conversion in excess of 80%

90% business development spend with existing clients

The appointment of 4 capability leads to drive broader skills base across the Group

Over 40% of employees to be delivering consultancy and technology services

33% of our senior management positions filled by women by 2020

Recruit 500+ people across a range of disciplines

Over 20% growth in consultancy and technology activity

Summary and outlook

Another strong 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 £26.2m (currency risk hedged)

– Assets regarded as non-core.

Managing legacy pension obligation

- Reduction in net deficit primarily due to positive asset returns, change in assumptions and company contributions
- Agreed full actuarial valuation at 31 March 2016
- Contributions at £10m for 12 months to 31 March 2017 and then £9.6m per annum increasing with inflation until 2031
- In addition, as previously agreed, an additional top-up for total contributions to match annual dividend payments.

	31 Dec 2017 £m	31 Dec 2016 £m
Fair value of scheme assets	779.5	754.0
Present value of defined benefit obligations	(803.4)	(827.5)
Recognised liability for defined benefit obligations	(23.9)	(73.5)
Deferred tax	4.5	14.0
Net pension deficit	(19.4)	(59.5)

Additional information:

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

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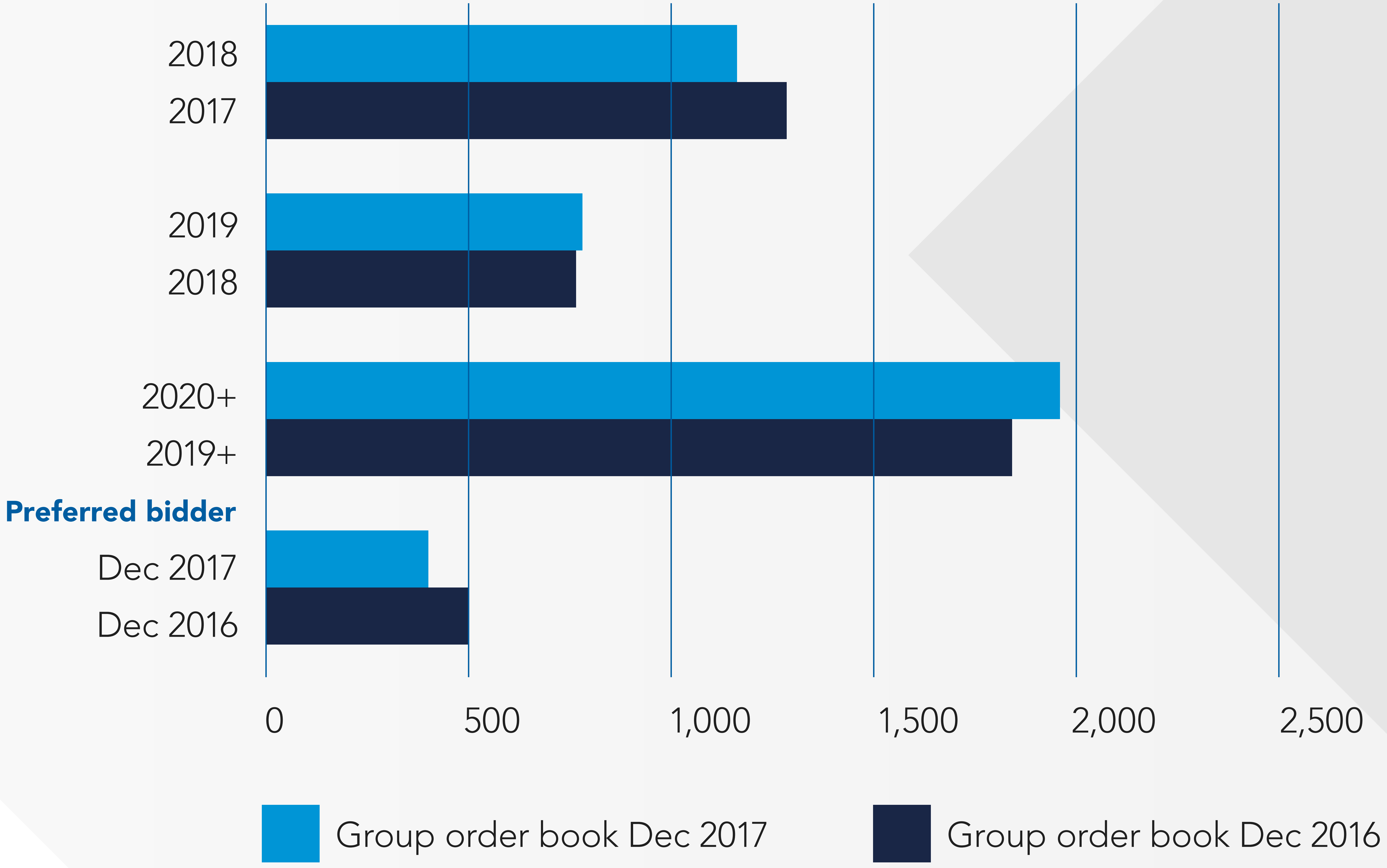
Order book breakdown



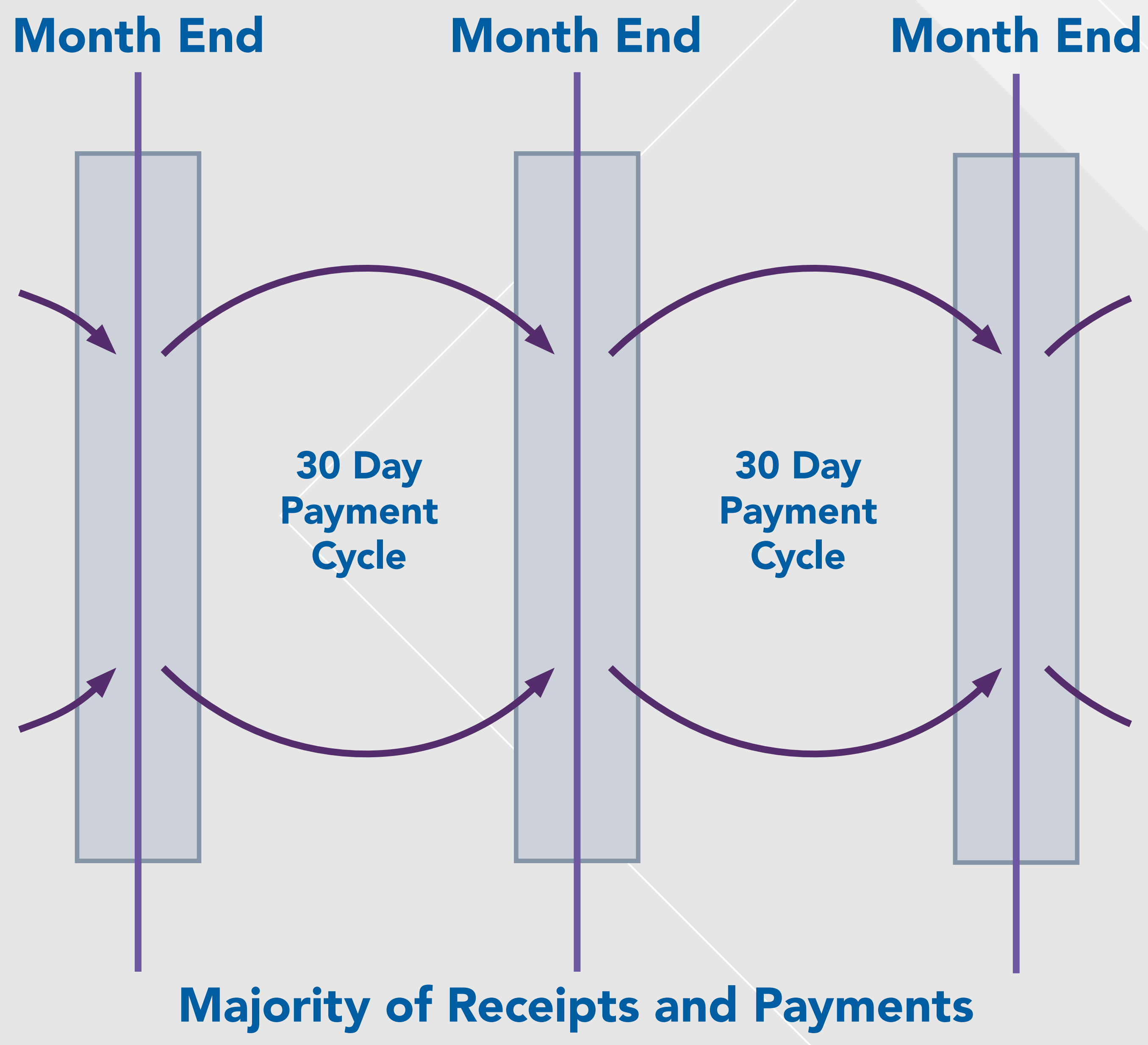
Two key elements driving cash flow

1. Net cash timing due to:

– Thirty day payment cycle

– Year end balance benefited from positive working capital due to timing of receipts including several early receipts

– Average month end balance more reflective of underlying cash position



2. Target cost, cost reimbursable contracts:

– Suitable for complex, long term investment programmes

– Lower risk, more collaborative

Other financial items

IFRS15 revenue recognition

- Small number of long-term framework contracts accounted for as having separate performance obligations under IFRS15
- Adjustment to opening retained earnings in 2018–£4.6 million (£5.7 million pre-tax)
- Impact expected to reverse by 2020 as frameworks completed
- No impact to Group's cash flow

Tax

- 2017 effective tax rate of 16.2% (2016: 14.6%)
- 2017 benefited from R&D tax credits
- Normalised effective tax rate expected to be c.18% – 20%

Net finance expense

	2017 £m	2016 £m
Interest payable on borrowings	(1.7)	(1.3)
Amortisation of bank & bonding arrangement fees and non-utilisation fees	(2.4)	(1.9)
Interest cost on the pension scheme net liabilities	(1.8)	(1.1)
Interest income	0.4	0.6
Other	(0.1)	(0.1)
Net finance expenses (before other items)	(5.6)	(3.8)
Unwind of discount on deferred consideration	(0.1)	(0.4)
Total net finance expense	(5.7)	(4.2)

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