Improving lives with smart infrastructure solutions

Results for the year ended
31 December 2018

Final

Summary and outlook

Another strong performance

Increased profit and enhanced margins

Record order book due to differentiated strategic positioning

Evolving into the UK's leading smart infrastructure solutions company

Positive outlook

Confidence reflected in increased dividend.

COSTAIN

Financial review

Tony Bickerstaff
Chief Financial Officer

Another strong performance

Underlying[1] – **operating profit** up **7%** to

£52.5m

(FY2017: £49.1m*)

Underlying[1] – **profit before tax** up **13%** to

£49.7m

(FY2017: £43.8m*)

Revenue – including share of joint ventures and associates

£1.49bn

(FY2017: £1.73bn)

Record **order book** of

£4.2bn

(FY2017: £3.9bn)

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

38.2p

(FY2017: 32.9p*)

Dividend up **8%** to

15.15p

(FY2017: 14.0p)

Net cash balance[2]

£118.8m

(FY2017: £177.7m)

Preferred **bidder position** of

c £600m

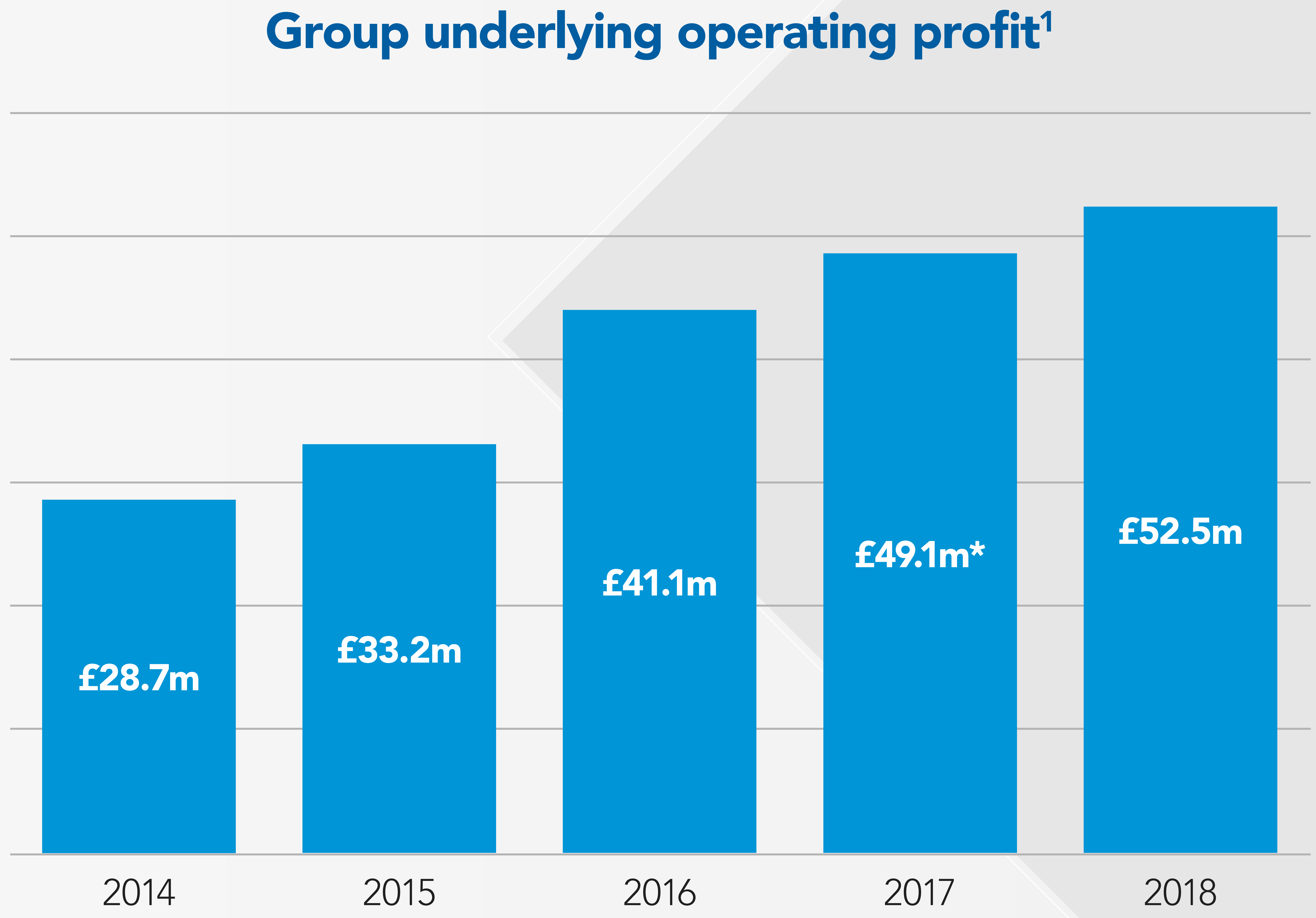
(FY2017: c £400m)

Notes:

* 2017 has been restated in accordance with common practice to reflect the decision to change the accounting treatment of Research and Development Expenditure credits ('RDEC') which is a reclassification between operating profit and taxation. The 2017 reported basic earnings per share of 31.1p remains unchanged as a result of the restatement.

1. Before other items; amortisation of acquired intangible assets, employment related deferred consideration, an exceptional one-off pension charge of £8.6 million in respect of the equalisation of Guaranteed Minimum Pensions ('GMP') impacting UK companies with defined benefit schemes and a £2.6 million credit (2017: £2.5 million credit) for the reassessment of the accounting treatment of RDEC.
2. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings

Track record of increasing profitability



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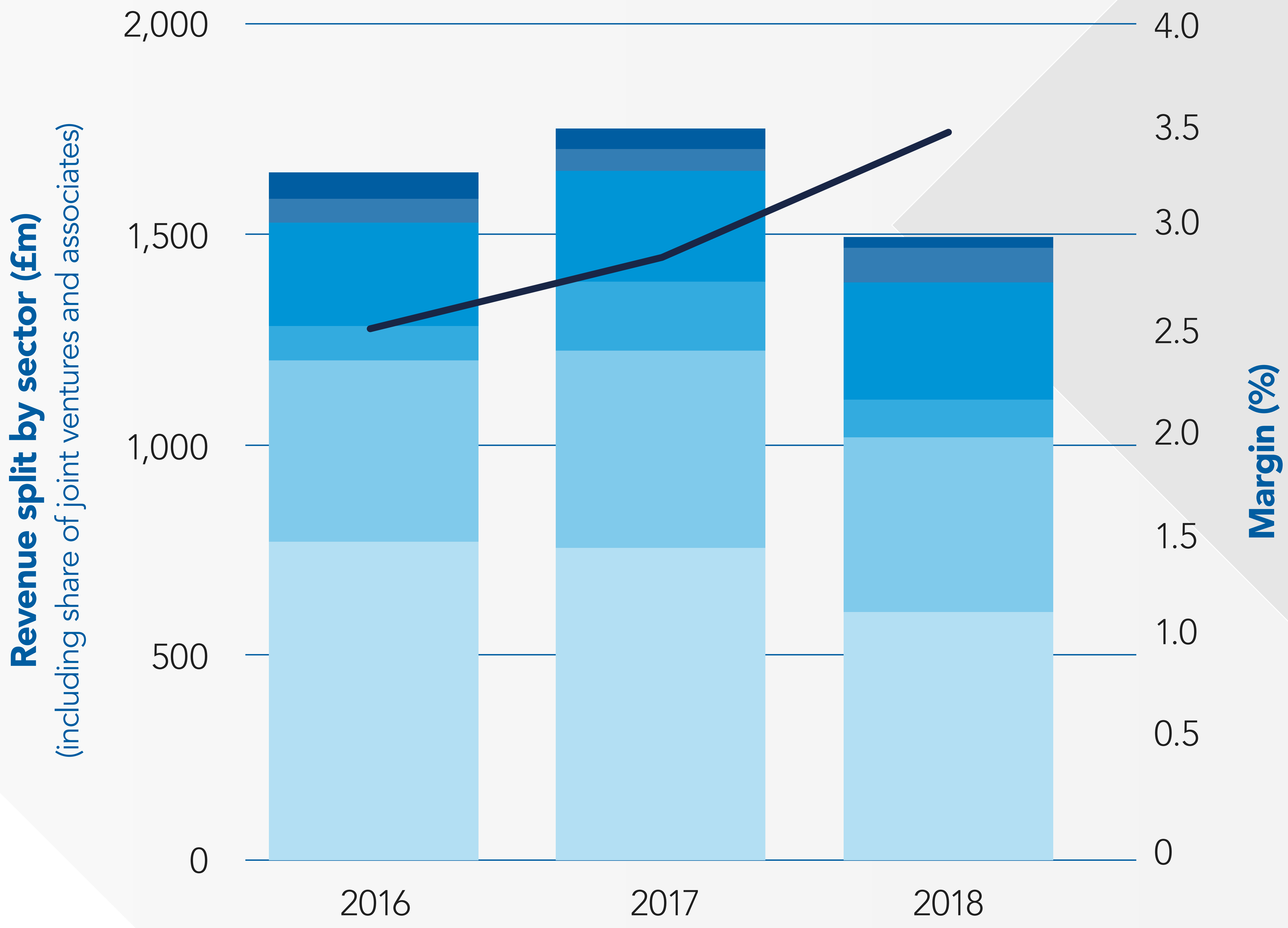
Enhanced margin reflects changing nature of Costain's business



- Revenue reduction in 2018 due to lower level of capital projects, with increased operating margin reflecting strategic change in mix of activities
- In 2019 targeting further increase in profit with an enhanced margin on a lower revenue profile
- Expected revenue growth in 2020 reflecting timing of major regulatory driven procurement programmes

Segmental income statement

	2018			2017		
	Revenue[1] £m	Underlying operating profit[2] £m	Margin	Revenue[1] £m	Underlying operating profit[2] £m	Margin
Infrastructure	1,093.6	46.0	*4.2%*	1,379.7	52.4	*3.8%*
Natural Resources	390.3	14.1	*3.6%*	343.9	5.0	*1.5%*
Alcaidesa (Spain)	5.4	(0.7)		5.3	(1.4)	
Central costs		(6.9)			(6.9)	
Underlying operating profit[2]	1,489.3	52.5	*3.5%*	1,728.9	49.1	*2.8%*
Other JVs		0.3			0.3	
Underlying profit from operations[2]		**52.8**			**49.4**	
Net interest expense		(3.1)			(5.6)	
Underlying profit before tax[2]		**49.7**			**43.8**	
Statutory reported profit before tax		40.2			41.8	
Underlying basic earnings per share[2]		**38.2p**			**32.9p**	
Statutory reported basic earnings per share		30.9p			31.1p	

Notes:

1. Including share of joint ventures and associates
2. Before other items; amortisation of acquired intangible assets, employment related deferred consideration, an exceptional one-off pension charge of £8.6 million in respect of the equalisation of Guaranteed Minimum Pensions ('GMP') impacting UK companies with defined benefit schemes and a £2.6 million credit (2017: £2.5 million credit) for the reassessment of the accounting treatment of RDEC.

Other items

	2018 £m	2017 £m
Guaranteed Minimum Pension (GMP) one-off pension cost	(8.6)	-
Research & development grant income – change in estimate credits	2.6	2.5
Acquisition related –		
Amortisation of acquired intangible assets	(3.0)	(3.2)
Employment related deferred consideration	(0.4)	(1.2)
Group operating profit - other items (pre-tax)	(9.4)	(1.9)

- One-off cost of equalisation of Guaranteed Minimum Pensions impacting UK companies with defined benefit pension schemes
- Change in the accounting treatment of research and development expenditure credits, with re-assessment of prior years included as other items

COSTAIN

Strong net cash position

	2018 £m	2017 £m
Net cash at the beginning of the period	177.7	140.2
Cash from operations	60.3	57.3
Changes in working capital (excluding pension deficit contributions)	(82.5)	15.0
Cash flow from operating activities	(22.2)	72.3
Pension deficit contributions	(15.7)	(12.5)
Acquisition consideration	–	(2.4)
Dividends	(13.7)	(11.9)
Tax	(8.2)	(5.3)
Share capital, interest, tax, fixed assets, investments and currency	0.9	(2.7)
Net cash at end of period	118.8	177.7
Net cash reconciliation		
Cash and cash equivalents at end of period	189.8	248.7
Less bank overdraft/borrowings	(70.5)	(71.0)
Reported net cash	118.8	177.7

- Working capital outflow from
  - Reversal of timing benefit from 2017: c £80m
  - Positive benefit in 2018: c £30m
  - Net £50m reversal
- Average month-end cash balance of £77.1m as expected (2017: £96.7m)
- Cash conversion for 3 years to Dec 2018 – 86%
- Year-end positive timing will unwind in H1 2019
- Year-end and month-end average will trend closer to each other
- Average month-end cash balance in 2019 expected to be c £80m, trending up in 2020

Well-established strategic supplier relationships

- Strategic partner relationships in place with 85 suppliers representing 63% of annual spend
- Strategic partners and preferred suppliers total 299 organisations representing 89% of annual spend
- Target cost, cost reimbursable arrangements with suppliers aligned to contracts with clients
- Average time taken to pay invoices, by number, in 2018 H2 - 53 days (2018 H1 - 59 days)
- On track to get below 50 days in 2019, the cashflow impact of which will be marginal as average time to pay based on invoice value is already c 30 days
- No supplier financing arrangements
- Project bank accounts increasingly common, working capital neutral

Robust and enhanced balance sheet

	31 December 2018		31 December 2017	
		£m		£m
Assets				
Non current assets (excluding pension deficit deferred tax)		106.5		118.7
Trade and other receivables	278.0		291.1	
Cash and cash equivalents	189.3		248.7	
Current assets		467.3		539.8
Total assets		573.8		658.5
Current liabilities		(326.7)		(423.2)
Total assets less current liabilities		247.1		235.3
Non current liabilities (excluding net pension liability)		(61.4)		(61.9)
Pension liability net of deferred tax		(3.4)		(19.4)
Total equity		182.3		154.0

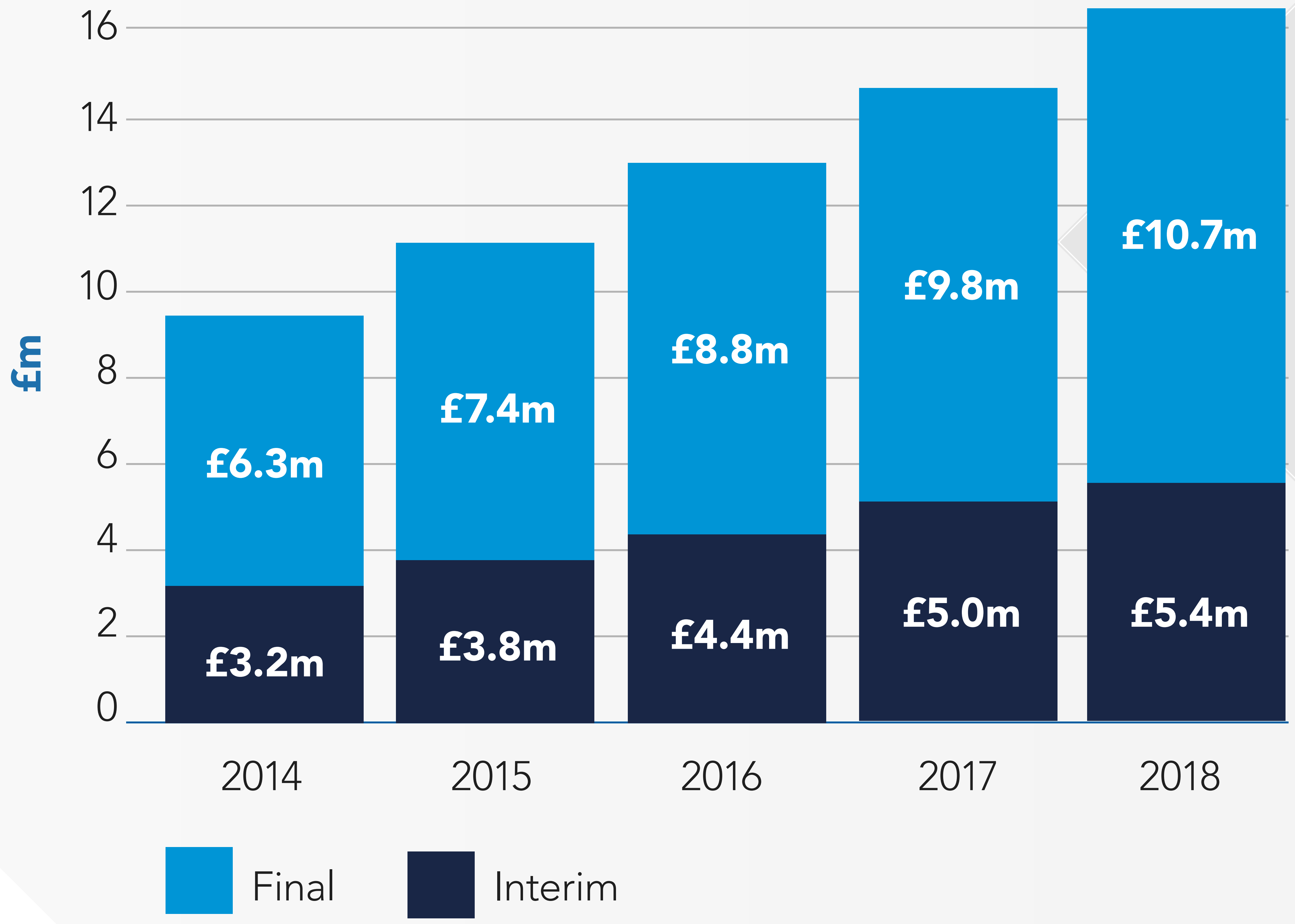
Banking facilities of
£191m
Utilised – £71m

Bonding facilities of
£320m
Utilised – £103m

Maturity date of
30 June 2022

Increasing shareholder returns

Total value of dividend pay-out

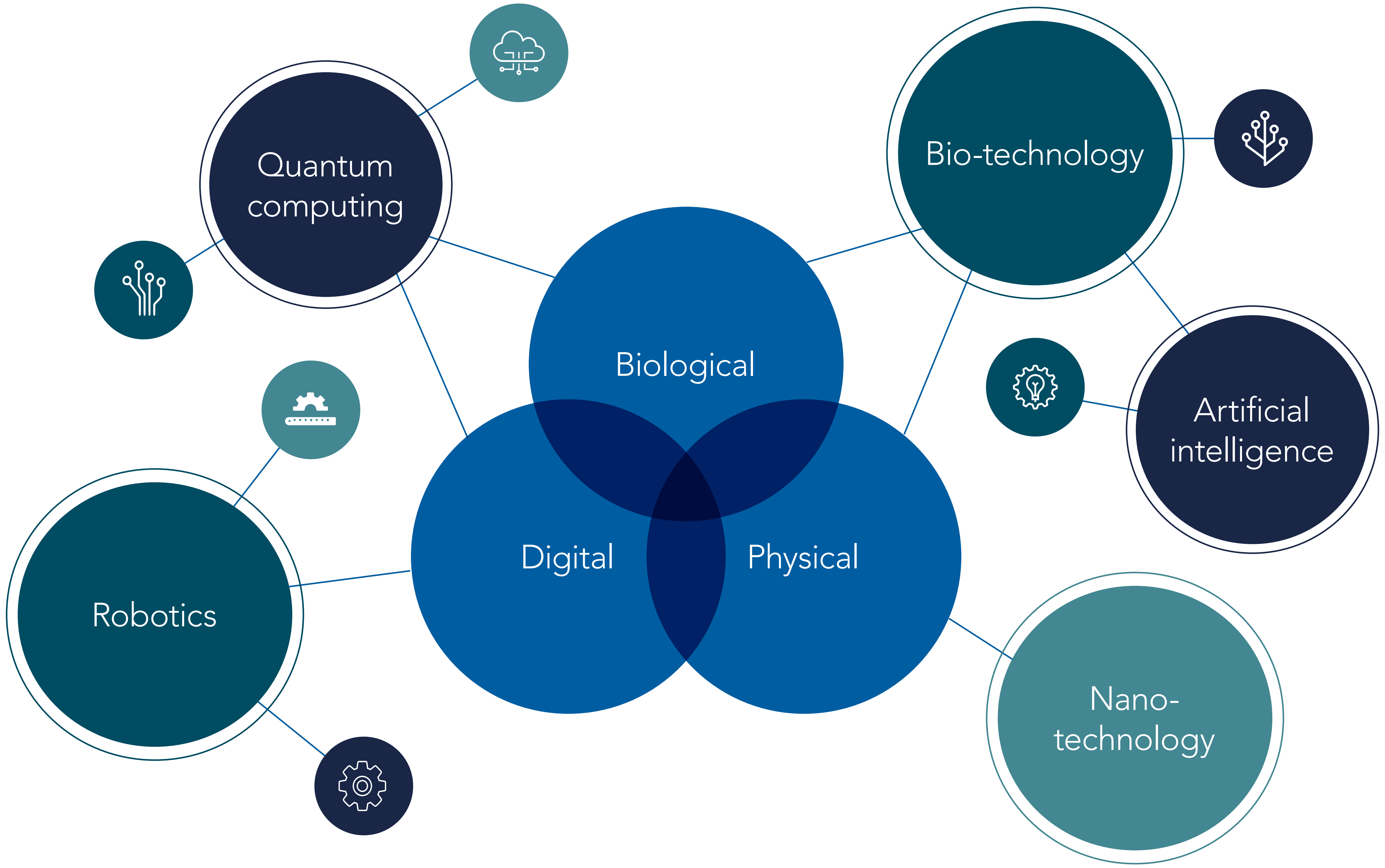


- Reflecting the historic and expected future pay-out ratio, the Group will target dividend cover of around 2.5 times underlying earnings
- Recommended final dividend of 10.0 pence per share (2017: 9.25 pence) increasing the total dividend for the year by 8% to 15.15 pence per share (2017: 14.0 pence)
- Dividend will be paid on 17 May 2019 to shareholders on the register at 12 April 2019
- In accordance with agreed deficit recovery plan, pension contribution topped up to match total annual dividend pay-out.

Embracing the new era of opportunity

Andrew Wyllie CBE
Chief Executive

Fourth industrial revolution having global impact



Technology revolution is fundamentally changing all markets

Increased capacity


Congestion


Electric and CAV

Customer service


Call centre


Online retail

Security of supply


Coal-fired power


Smart meter

Working with our clients to fundamentally re-think infrastructure

WATER

Client question

Describe where you have identified, implemented and utilised **innovative ideas** directly, or indirectly, with your client, supply chain and contract partners.

United Utilities

ENERGY

Client question

How do you deploy and use **emerging technology** to improve overall performance to the benefit of the client and supplier?

Exxon Mobil

TRANSPORTATION

Highways England

Client question

Describe how **technology** would be applied to improve the outcome for users.

Clients demanding evidence of innovation and technology integration

COSTAIN

Opportunities in major regulatory-driven procurement processes

Highways England:
Road Period 2 (2020-2025)

c £25bn

Network Rail:
CP6 (2019-2024)

c £47bn

Ofwat:
AMP7 (2020-2025)

c £50bn

Ofgem:
RIIO-1 (2013-2023)

c £60bn

TRANSPORTATION

Smart motorways
Digital railway
Smart mobility

WATER

Reduced leakage
Improved customer service
Intelligent asset optimisation

ENERGY

Decarbonisation
Decentralisation
Digitisation

Costain is at the forefront of the smart infrastructure revolution

TRANSPORTATION

Smart motorways
Digital railway
Smart mobility

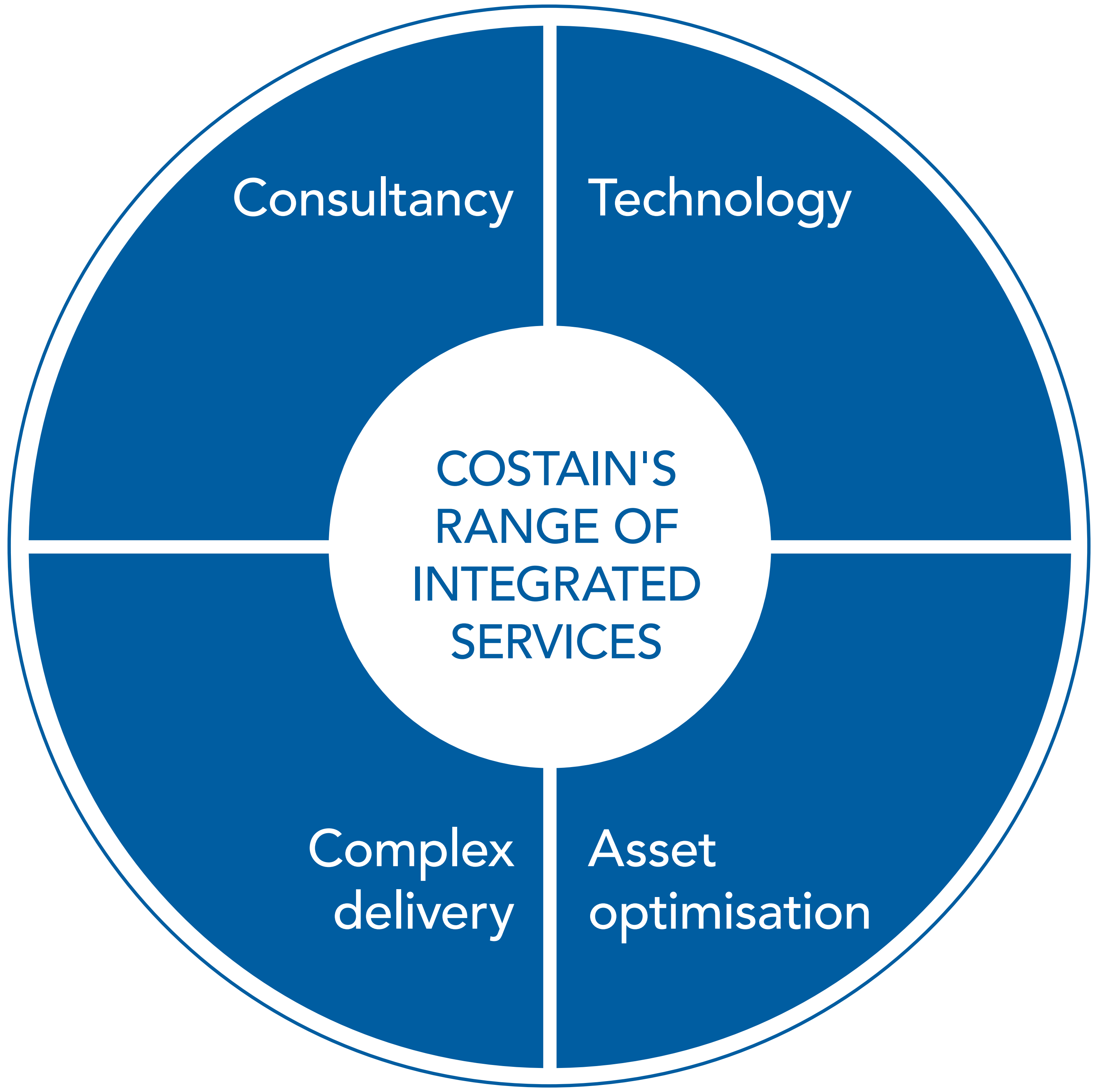
WATER

Reduced leakage
Improved customer service
Intelligent asset optimisation

ENERGY

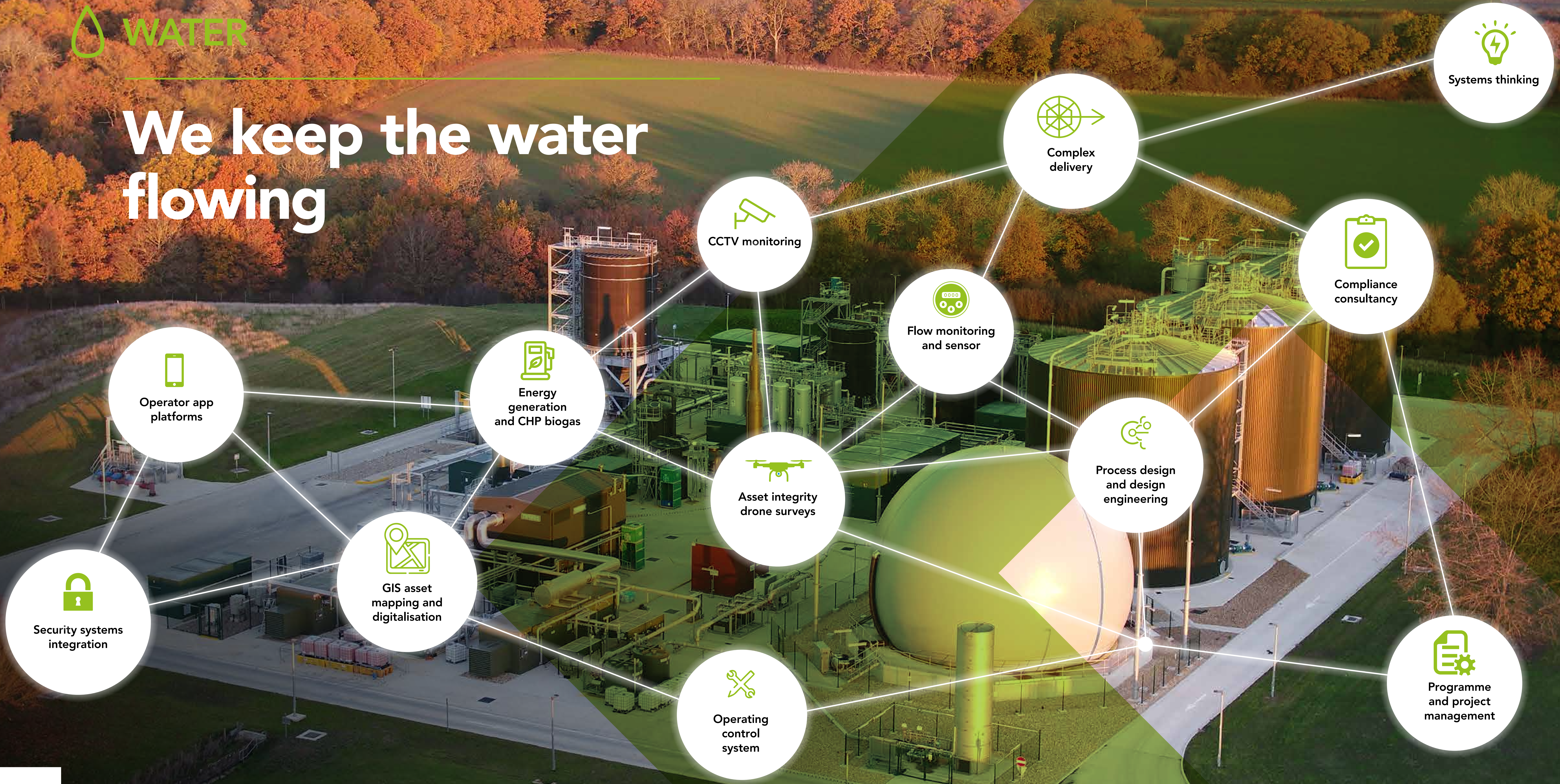
Decarbonisation
Decentralisation
Digitisation

Smart Infrastructure Solutions



WATER

We keep the water flowing



ENERGY

We power communities

TRANSPORTATION

We keep the nation moving

⇆ TRANSPORTATION

We keep the nation moving

COSTAIN

An outstanding team

c 1,300
Over one third of our people working across technology and consultancy

600+
Chartered professionals across a wide range of disciplines

25
PhD students undertaking leading-edge research at renowned universities

150
Dedicated staff at newly enlarged technology centre

One third
of our Executive Board is female

THE TIMES

The Times' Top 50 Employers for Women 2018

Resulting in record, higher-quality order book

Record **order book** of

£4.2bn

(FY2017: £3.9bn)

- Higher-quality reflects strategic change in mix of activities
- Over 90% repeat business
- Over 90% cost reimbursable contracts

Summary and outlook

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Positive outlook

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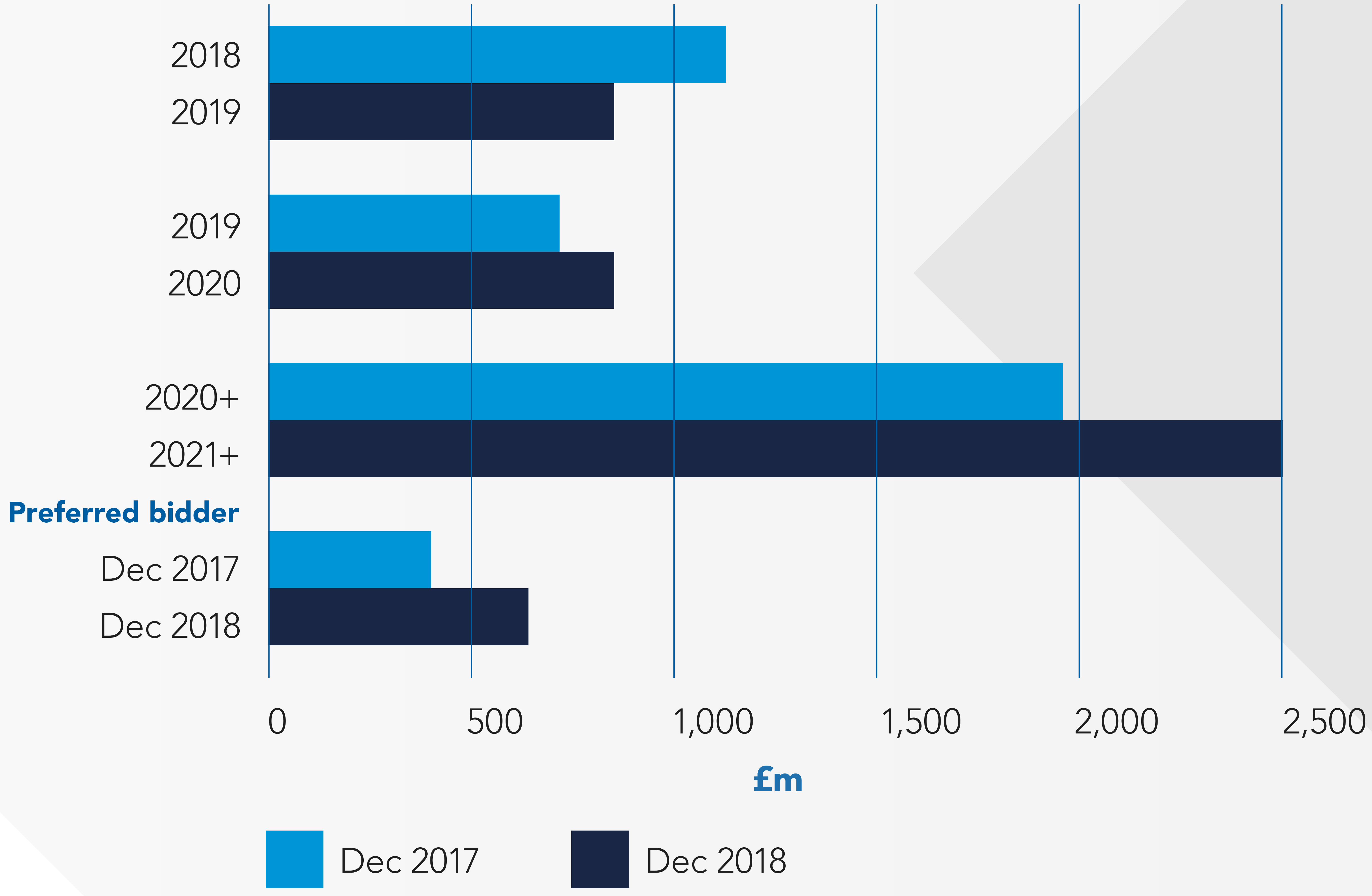
COSTAIN

Appendix

Order book profile



Higher-quality order book

Managing legacy pension obligation

	31 Dec 2018 £m	31 Dec 2017 £m
Fair value of scheme assets	748.5	779.5
Present value of defined benefit obligations	(752.7)	(803.4)
Recognised liability for defined benefit obligations	(4.2)	(23.9)
Deferred tax	0.8	4.5
Net pension deficit	(3.4)	(19.4)

- Reduction in net deficit primarily due to favourable asset returns, reduction in liabilities from updated assumptions and company contributions
- Contributions at £10m per annum (increasing with inflation) plus a top-up to match annual dividend payments
- Next triennial actuarial valuation as at 31 March 2019
- GMP equalisation estimated at £8.6m, increase in liability and one-off exceptional charge to income statement.

Alcaidesa

- Assets regarded as non-core
- Costain's assets are:
  – Two golf courses and associated parcel of land
  – 600 berth marina concession
- Net book value £25.5m (currency risk hedged)

Cautionary forward-looking statements

This presentation contains forward-looking statements based on current expectations and 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.