COSTAIN

Results for the half-year ended 30 June 2019

From L-R: Gemma Small, Civil & Structural Engineer,
Kuldip Khella, Senior Estimator and Jan Bullock, Quality Coordinator


From L-R: Sibin Paul, Principal Engineer
Mubin Khan, Software Engineer

Summary and outlook

On course to deliver full year in line with revised expectations

Improved H1 margins

- Underlying operating profit of £21.2 million and divisional operating margin of 4.0%

Strong momentum in securing new work

- £1.1 billion of new contract awards and extensions to existing contracts secured in the period, with c £900m of revenue secured for 2020

Robust balance sheet

- Underpinning renewed strategic focus and strong market backdrop

New ‘Leading Edge’ strategy in place

- Accelerating the deployment of higher margin services

Financial Review

Tony Bickerstaff

Chief Financial Officer

Paul Burns, Senior Electronic Technician

H1 2019 underlying performance

Underlying[1] **operating profit**

£21.2m

(H1 2018: £23.2m[3])

Underlying[1] **divisional profit margin**

4.0%

(H1 2018: 3.5%[3])

Underlying[1] **profit before tax**

£19.5m

(H1 2018: £21.8m[3])

Revenue – including share of joint ventures and associates

£599.2m

(H1 2018: £772.9m)

Order book of

£4.2bn

(H1 2018: £3.7bn)

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

15.4p

(H1 2018: 16.6p)

Net cash position[2]

£40.8m

(H1 2018: £77.7m)

Average month-end net cash[2] of

£63.7m

(H1 2018: £90.8m)

Interim dividend of

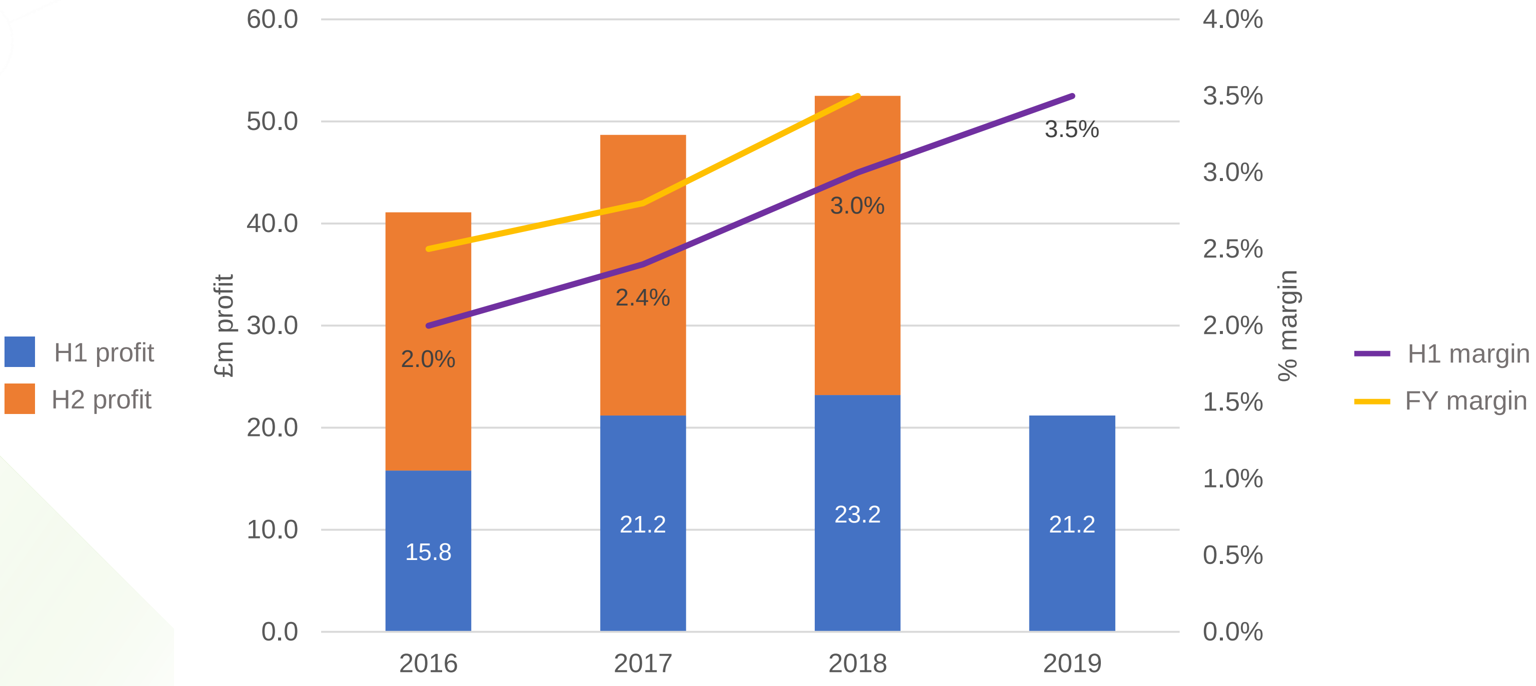
3.8p

(H1 2018: 5.15p)

Please see appendix for all notes

Increasing margins

Group underlying[1] operating profit (£m) and margin[2] (%)



Please see appendix for all notes

Divisional margin profile

TRANSPORTATION	
H1 2018 margin	**3.5%**
Rail margin increase	0.7%
Highways margin increase	0.2%
Reduction in overheads	0.1%
Investment in technology capability	(0.7%)
H1 2019 margin	**3.8%**

NATURAL RESOURCES	
H1 2018 margin	**3.3%**
Water margin increase	2.6%
Energy margin decrease	(1.3%)
Defence margin increase	0.6%
Increase in overhead/work winning investment	(0.5%)
Investment in technology capability	(0.4%)
H1 2019 margin	**4.3%**

Transportation margin of

3.8%

(H1 2018: 3.5%)

Natural Resources margin of

4.3%

(H1 2018: 3.3%)

Incremental H1 2019 investment of

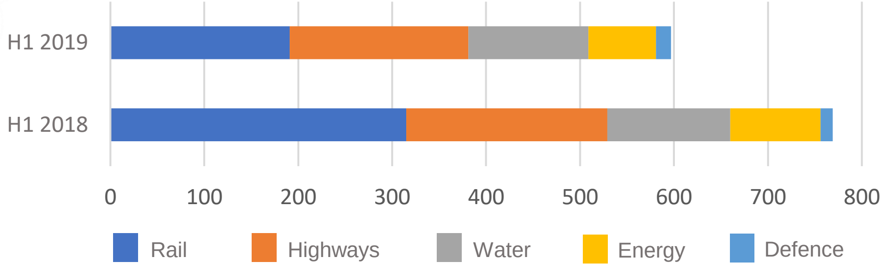
over £3.0m

in technology capability

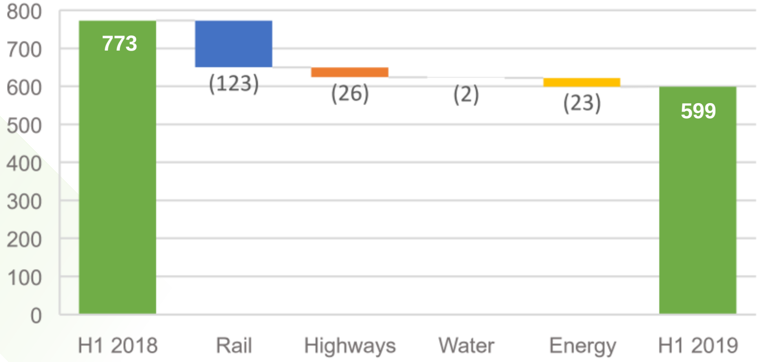
COSTAIN

Revenue includes higher margin mix of services

Revenue[1] split by market (£m)



Group – movement in revenue[1] (£m)



Please see appendix for all notes

Total H1 2019 revenue[1] of

£599.2m

(H1 2018: £772.9m)

Decrease due to lower level of large capital projects

Secured revenue for 2019 (H1 + H2 secured) of

over **£1.0bn**

Secured revenue for 2020 of

c **£900m**

(H1 2018: c £850m for 2019)

Segmental income statement

	H1 2019			H1 2018			FY 2018		
	Revenue[1]	Underlying[2] operating profit	Margin	Revenue[1]	Underlying[2] operating profit	Margin	Revenue[1]	Underlying[2] operating profit	Margin
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Transportation	380.2	14.6	3.8%	531.2	18.8	3.5%	1,004.1	41.4	4.1%
Natural Resources	216.0	9.2	4.3%	238.9	7.8	3.3%	479.8	18.7	3.9%
Alcaidesa (Spain)	3.0	(0.1)		2.8	-		5.4	(0.7)	
Central costs		(2.5)			(3.4)			(6.9)	
Underlying[2] operating profit	599.2	21.2	3.5%	772.9	23.2	3.0%	1,489.3	52.5	3.5%
Other joint ventures		0.1			0.1			0.3	
Underlying[2] profit from operations		21.3			23.3			52.8	
Net interest expense		(1.8)			(1.5)			(3.1)	
Underlying[2] profit before tax		19.5			21.8			49.7	
Statutory reported profit before tax		*8.4*			*19.9*			*40.2*	
Underlying[2] basic earnings per share		15.4p			16.6p			38.2p	
Statutory reported basic earnings per share		*7.0p*			*15.1p*			*30.9p*	

Please see appendix for all notes

Positive net cash position

	H1 2019	H1 2018	FY 2018
	£m	£m	£m
Net cash[1] at beginning of period	118.8	177.7	177.7
Cash from operations	29.0	25.6	60.3
Impact of arbitration award	(9.0)	-	-
Changes in working capital (excluding pension deficit contributions)	(66.0)	(103.6)	(82.5)
Cash flow from operating activities	**(46.0)**	(78.0)	(22.2)
Pension deficit contributions	**(10.9)**	(9.9)	(15.7)
Dividends	**(10.0)**	(8.7)	(13.7)
Share capital, interest, tax, fixed assets, investments and currency	**(11.1)**	(3.4)	(7.3)
Net cash[1] at end of period	**40.8**	77.7	118.8

Net cash reconciliation:			
Cash and cash equivalents at end of period	**130.5**	158.1	189.3
Less bank overdrafts/borrowings	**(89.7)**	(80.4)	(70.5)
Net cash[1] at end of period	**40.8**	77.7	118.8

H1 working capital outflow from:

- Net reversal of year end positive timing
- Growth in consultancy activities and investment in technology
- Acceleration in timing of supplier payments
- Reduction in monthly cashflows due to fall in revenue
- Timing of contract receipts and commercial settlements

H1 2019 average month end net cash[1] balance of

£63.7m

(H1 2018: £90.8m)

Expected average month end net cash[1] balance for FY 2019 of

£40m-£50m

with an anticipated increase in FY 2020 to

£50m-£60m

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Robust balance sheet

	30 June 2019	30 June 2018	31 December 2018
	£m	£m	£m
Assets			
Non current assets (excluding pension net surplus)	136.5	116.9	106.5
Trade and other receivables	312.9	346.3	278.0
Cash and cash equivalents	130.5	158.1	189.3
Current assets	443.4	504.4	467.3
Total assets	579.9	621.3	573.8
Current liabilities	(328.6)	(389.8)	(326.7)
Total assets less current liabilities	251.3	231.5	247.1
Non current liabilities (excluding pension net liability)	(76.6)	(64.0)	(61.4)
Pension surplus/(liability) net of deferred tax	3.7	13.9	(3.4)
Total equity	178.4	181.4	182.3

Net assets
c £180m
£120m net tangible assets

Current asset ratio
>1

Net cash position

Dividend policy:

Ongoing dividend cover of
2.5x

Interim dividend of
3.8p per share
(2018: 5.15p)
Consistent with revised full year expectations

Banking facilities of
£191m

Bonding facilities of
£320m

Maturity date of
30 June 2022

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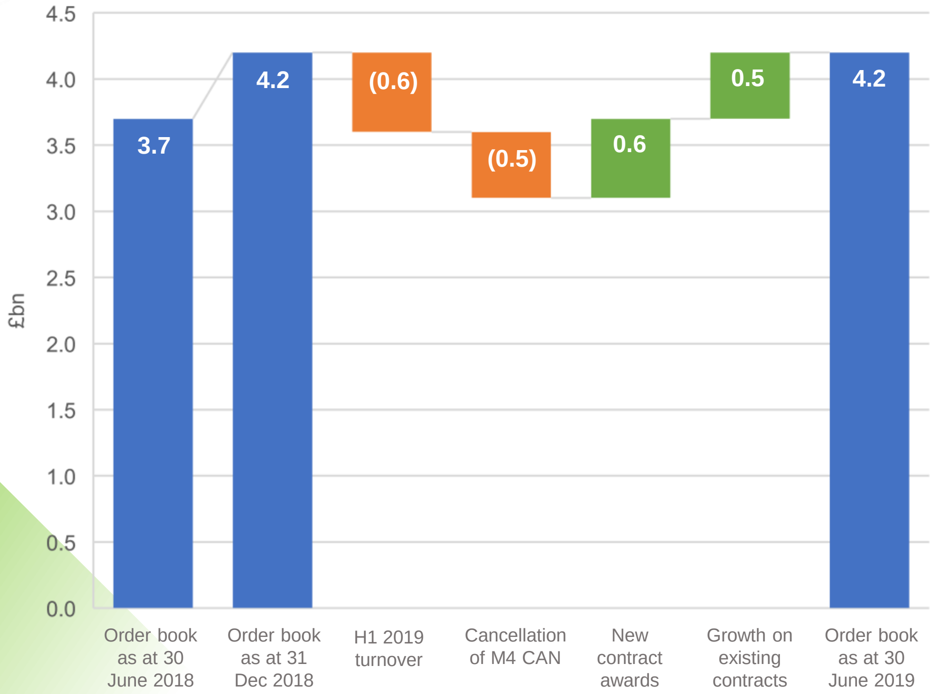
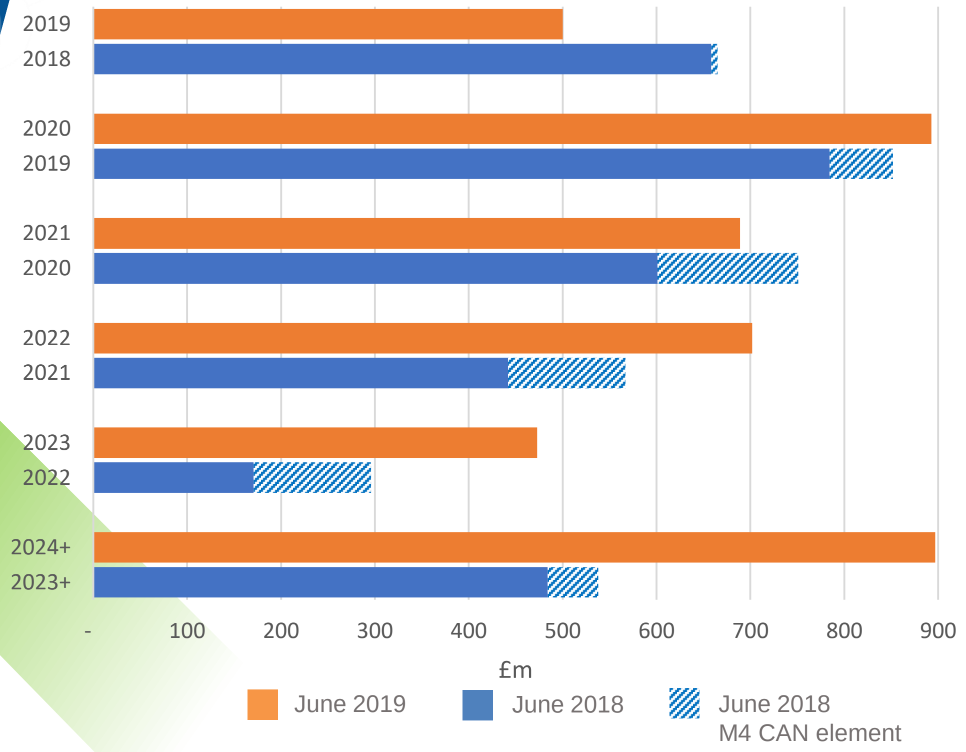
£1.1bn of new work secured in H1



Significant contract awards include:

- United Utilities maintenance provider
- Severn Trent AMP7 framework
- Highways England A19 Testos scheme
- >100 consultancy commissions

Order book breadth



c £900m

of revenue secured for 2020

Order book includes:

Integrated service delivery:

- HS2 enabling works (to 2020)
- Severn Trent AMP7 (to 2025)
- United Utilities Maintenance Services (to 2024)
- Sellafield DDP framework (to 2025)
- Area 14 M&R (to 2026+)
- AWE programme management (to 2022)
- ASC 4 & 12 (to 2021)
- East Sussex highways services (to 2023)

Complex programme delivery:

- HS2 Southern section main works (to 2025)
- HE roads investment programme framework (to 2026+)
- Thames Tideway (to 2023)
- M6 Smart Motorway (to 2022)

Our Leading Edge strategy

Alex Vaughan

Chief Executive Officer

Results for the half-year ended 30 June 2019

Melissa Lock, Apprentice Electrician

COSTAIN

Strong position for future growth

Solid underlying profits with continued increase in margins

Robust balance sheet with positive net cash

Secured £1.1bn of new work in H1 2019, with c £900m secured for 2020

A clear purpose and vision

Strong positions in growth markets

A clear strategy to enhance the value of Costain

A broad range of integrated services

Good progress implementing strategy

COSTAIN

Clear purpose and vision

COSTAIN

A fast-changing market provides opportunity

Mega trends giving rise to urgent national needs

Increasing capacity | Greater resilience | Enhanced security

Improved customer service | Significantly improved efficiency | Accelerating decarbonisation

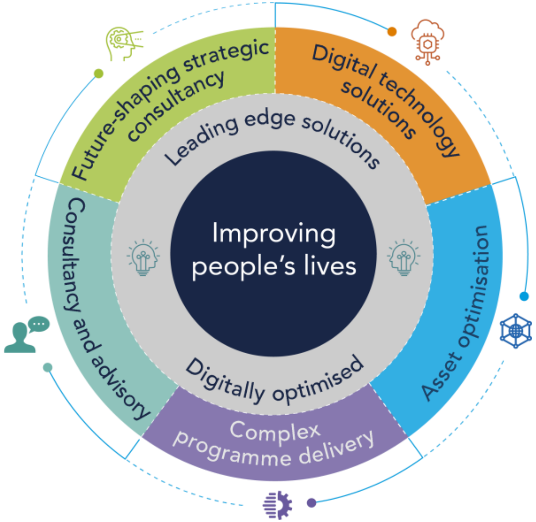
Enabling new solutions to meet these demands

Innovation | Collaboration | Digital technology | Automation | Efficiency

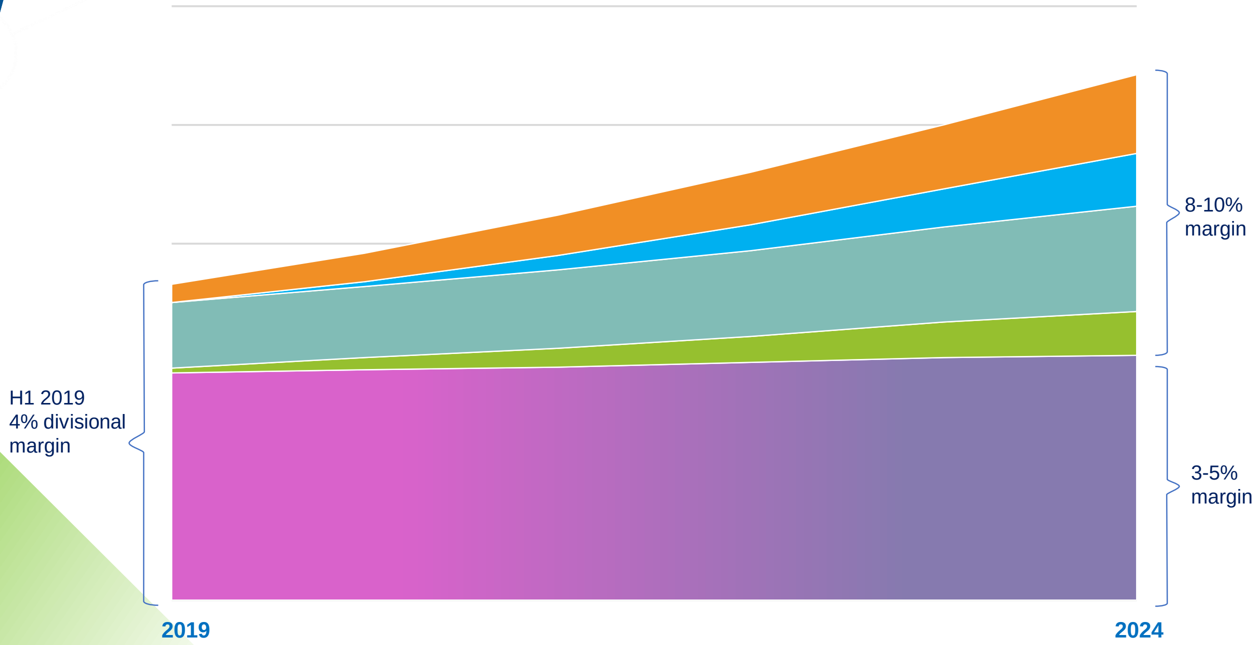
Distinct business model

Transportation
Highways | Rail | Aviation

Natural Resources
Water | Energy | Defence

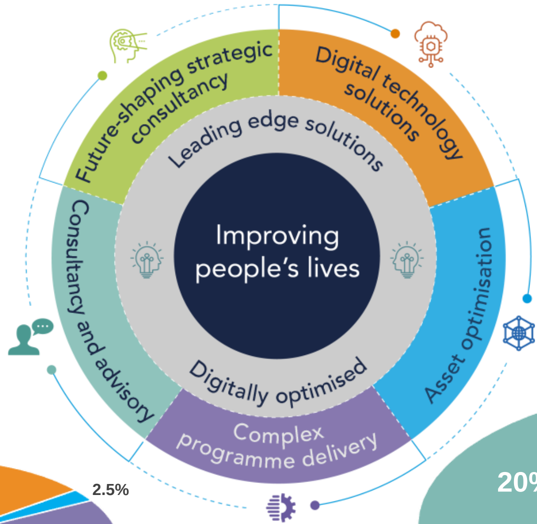


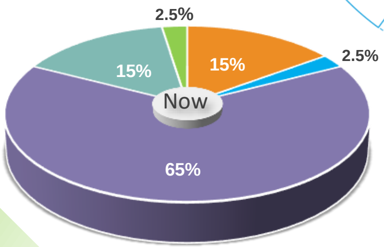
The future shape of Costain



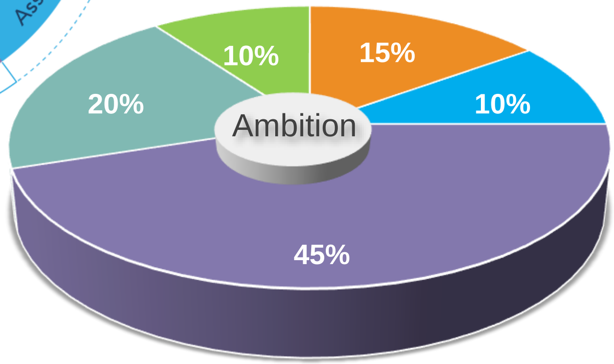
Broadening our services | Increasing profit
Increasing margins | Increasing revenue

Evolution of service mix





The changing profit mix from our integrated services



4% → **Increasing divisional margins** → **6% - 7%**

Case Study

Future-shaping strategic consultancy

Hydrogen transport solution

Decarbonising Liverpool's transport & shaping the future energy landscape

Client need:

- ✓ To develop a method to utilise hydrogen produced as a co-product of chemical production at Runcorn site

Outline:

1. Costain collaborated with INOVYN to develop a low carbon fuel source to enable the Liverpool region to convert its public transport fleet to hydrogen, bringing significant air quality benefits to the city streets as well as promoting the wider decarbonisation agenda.
2. We utilised our long heritage in hydrogen gas processing to shape a compression and gas clean up solution, enabling INOVYN to generate a new revenue stream from their chemical processing plant
3. We generated a solution that could enable to conversion of an entire public transport bus fleet to zero emission hydrogen fuel cell buses.
4. The project is also an enabler to the local hydrogen economy, opening up the supply of low carbon fuel to other infrastructure and making other transport schemes more viable, cost effective and deliverable.

Benefits

- Zero emission public transport for the Liverpool region, improving air quality and contributing to the UK's net zero carbon targets
- Creation of a new revenue stream for our client, utilising a co-product from their chemical processing plant
- The project will be a major differentiator and enabler for the region, demonstrating its commitment to clean growth
- Demonstrates the feasibility of the development of a hydrogen economy
- Strengthens the region's case to become the first net-zero carbon cluster
- Will act as a catalyst for the entire hydrogen mobility sector.

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Case Study

Consultancy and advisory

Major Defence Equipment Programme

Providing risk insight to improve programme control and delivery

Consultancy and advisory

Client need:

- ✓ Risk based evidence to underpin investment case
- ✓ Consistent, effective risk process followed by all parties
- ✓ Risk support to negotiations with major suppliers

Outline:

1. Risk specialists embedded with client team managing a complex multinational procurement programme
2. Worked with MOD and industry stakeholders to develop and implement a risk framework across an Alliance of MOD and Tier 1 suppliers
3. Conducted risk management maturity assessment to identify key areas for improvement
4. Forensic analysis of schedule logic and estimates, working jointly with industry parties and contributing stakeholders to develop schedule and cost risk analysis confidence models
5. Supported MOD team in quantifying, apportioning and transferring risk to suppliers through appropriate commercial mechanisms

Benefits

Ministry of Defence

- Opportunities yielding 12 months improvement to baseline schedule durations
- Up to 10% cost savings realised through risk-led contract negotiations with key suppliers
- Approval to proceed into build phase, underpinned by assured risk-based evidence
- Improved decision making informed by consistent, high quality risk information
- First end-to-end forecast of outturn for highly complex programme
- Improved integrity and credibility of baseline schedule
- Clear definition of main risk drivers and required response measures.

COSTAIN

Digital technology solutions

Costain Technology Centre

"Through digitally optimised, leading edge solutions, Costain is changing the landscape of how road users use road signs to improve road safety."

Harnessing technology to deliver faster, better and at lower cost

Creating digital asset solutions for our clients

Connecting assets, people and systems together to deliver better outcomes and smarter places

Digital Delivery	Digital Assets	Digital Systems Integration

Our people and in-house capability

Technology design | Solution architecture | Software development | Hardware development | Manufacturing | Telecoms
Operational control centre | Data science | System engineering | GIS analysts | BIM analysts | UAVs | IoT | Digital Twin
Smart Delivery Platform | New technology centre

Project example

The next generation of road message signs

- Marking an industry first, Costain and SWARCO have collaborated to develop and install the next generation of road message signs on the A14 project in Cambridgeshire for Highways England
- The two companies pioneered the technology behind the new signs, with Costain delivering the roadside controller
- This next generation of signs is able to get messages to road users more quickly, using unique high-resolution colour optical technology components which enable clearer messages and graphics to be displayed in all weather conditions
- Innovative approaches to design and production also mean the signs are more cost effective and easier to maintain.

Asset optimisation

Major water utility

Optimising wastewater treatment assets

Asset optimisation

Client need:

- ✓ Drive improved performance from 352 existing wastewater treatment assets by providing risk review on performance.
- ✓ Advise on how to mitigate risk and leverage performance in a well-planned, efficient and affordable manner.

Outline:

A team of Costain process scientists leveraged our deep operational expertise to focus on developing impactful effective and pragmatic improvements to our client's wastewater asset base, adopting a phased systems based approach

1. Undertook a strategic review of treatment sites, working closely with the client to analyse their data and, in workshops with operators, develop an understanding of the current system performance to determine risk and opportunity priorities
2. A deeper dive into the higher priority plants to understand the root issues. Processes were reintegrated and performance improvement was delivered in staged programmes. High level solutions (mix of opex and capex) were priced which then enabled a re-prioritisation of actions to deliver the highest impact/lowest cost interventions first
3. Integration of consulting and technology solutions, including the use of data, to understand asset performance and drive proactive interventions to improve efficiency, increase resilience and enhance capacity.

Benefits

- Strategic improvement programme
- Improved asset resilience and efficiency, reducing the risk of penalties and fines
- Improved and simplified operational models
- £10m savings through eradicating suboptimal solutions
- Potential £5m savings through enhanced productivity
- Improving regulator confidence and business reputation.

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Complex programme delivery

London Gatwick Airport station

Delivering a better railway for a better Britain

Complex programme delivery

Client need:

✓ To enhance passenger experience at Gatwick Airport by transforming the station, with minimal disruption, to reduce overcrowding, decrease journey times and enhance safety.

Outline:

1. Costain have been appointed by Network Rail to deliver a major upgrade to transform the existing Gatwick Airport station, a critical national transport hub, with minimal disruption and whilst maintaining the operation of the airport and the station.
2. The station handles in excess of 20 million passengers annually and currently experiences significant passenger congestion at both platform level and in the existing station concourse. The redevelopment works will provide crucial increased capacity to support airport growth and a significantly enhanced passenger experience.
3. The logistically challenging project will be delivered by Costain's highly experienced team over a number of stages between 2020 and 2023. The programme will ensure the station and railway remain operational throughout the project and optimise the number of railway possessions required.
4. Offsite fabrication is being fully explored during detailed design to reduce operational impact and improve safety and quality performance.

Benefits

- Significantly improved passenger satisfaction
- Fewer instances and a lower overall level of overcrowding
- Reduction in accidents in the station
- Reduced journey times between the railway station and Gatwick Passenger Transportation Interchange building
- Reduction in delays to train services at Gatwick Airport
- Increased capacity in support of airport growth.

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Depth of our client relationships

Our Connected Digital Roads project will create the link between digital roads infrastructure and connected vehicles. Costain will carry out a pilot to demonstrate the effectiveness of an open mobility services platform (OMSP) that will make real time information seamlessly available to connected vehicles.

We are digitising roadside technology, including signage, CCTV and sensors, enhancing information and journey experience for road users, increasing capacity, reducing delays and improving road safety.

Commissioned by HE to develop a Customer Assurance Framework to provide consistent means of assuring how customer experience is addressed in the delivery of major projects and programmes.

Operation Stack. We deployed a network of wireless sensors and gathered data to estimate freight flow on its way to the channel crossings, using predictive logic to forecast crossing demand and predict the extent of queuing. This data was shared on a multi agency platform, enabling all parties to instigate coordinated mitigations.

- Delivery of the flagship A14 Cambridge to Huntingdon improvement
- Regional Investment Programme delivery including A19 Testos scheme

Executive board leading clear implementation plan

Business-wide implementation workstreams

- Tony Bickerstaff – Increased competitiveness
- Darren James – Being at our best
- Maxine Mayhew – Unlocking our capability
- Alex Vaughan – Accelerating technology
- David Taylor – Leading edge delivery
- Ian Parker – Positioned for greater shaping/ Turning reputation into value
- Tracey Wood – Building a sales culture

Q2 2019 milestones

- Appointed Chief Digital Officer
- Launched operational excellence programme
- Implemented robotics payments systems
- Opened £3.5m technology centre
- Appointed key account directors and launched sales development programme

COSTAIN


Neil Gob, Occupational Health Nurse

Summary and outlook

On course to deliver full year in line with revised expectations

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Strong momentum in securing new work

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COSTAIN

Results for the half-year ended 30 June 2019

From L-R: Gemma Small, Civil & Structural Engineer, Kuldip Khella, Senior Estimator and Jan Bullock, Quality Coordinator

Appendix

Scott Hughes, Senior Project Manager

Managing legacy pension obligation

	30 June 2019 £m	31 December 2018 £m	30 June 2018 £m
Fair value of scheme assets	815.1	748.5	776.7
Present value of defined benefit obligations	(810.6)	(752.7)	(759.6)
Recognised surplus/(liability) for defined benefit obligations	4.5	(4.2)	17.1
Deferred tax	(0.8)	0.8	(3.2)
Net pension surplus/(deficit)	**3.7**	**(3.4)**	**13.9**

Reduction from 31 December 2018 reflects revised market based assumptions and company contributions

June 2019 and December 2018 figures include GMP equalisation liability of £8.6m

Contributions at £10.0m per annum (increasing with inflation) plus a top-up to match total annual dividend payments

Latest actuarial valuation as at 31 March 2019 ongoing

Other items

	H1 2019 £m	H1 2018 £m	FY 2018 £m
Pension GMP equalisation charge	-	-	(8.6)
RDEC grant income	-	-	2.6
Diamond contract arbitration	(9.7)	-	-
Amortisation of acquired intangible assets	(1.1)	(1.5)	(3.0)
Employment related deferred consideration	(0.2)	(0.3)	(0.4)
Total other items	**(11.0)**	**(1.8)**	**(9.4)**

Tax

- Effective tax rate on underlying earnings – 15.4% (2018: 19.1%)
- Includes credit from settlement of historical liability
- Underlying rate 2020 and beyond c 19%

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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 £25.0m (£34.0m gross asset value less £9.0m Euro loan, currency risk hedged)

COSTAIN

Notes

Page 5 – H1 2019 underlying performance

1. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off items shown on the income statement under ‘Other items’.
2. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings and excludes IFRS16 lease liabilities of £30.4m.
3. 2018 has been restated in accordance with common practice to reflect the decision to change the accounting treatment of Research and Development Expenditure Credits (RDEC) for the 2018 year-end accounts, which is a reclassification between operating profit and taxation. The reported basic earnings per share remains unchanged as a result of the restatement.

Page 6 – Increasing margins

1. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off items shown on the income statement under ‘Other items’.
2. Margin is calculated by dividing the Group underlying operating profit by Group revenue including JVs and associates.

Page 8 – Revenue includes higher margin mix of services

1. Including share of joint ventures and associates.

Page 9 – Segmental income statement

1. Including share of joint ventures and associates.
2. Before other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off items shown on the income statement under ‘Other items’.

Page 10 – Positive net cash position

1. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings and excludes IFRS16 lease liabilities of £30.4m.

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.

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