
ACCELERATING GROWTH



RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

2 MARCH 2016



Meeting national needs through people and innovation

Accelerating growth

The logo for Costain, consisting of the word "COSTAIN" in white capital letters on a blue rectangular background.

- Strong trading performance delivering 16% growth in profit
- Customer focussed strategy generating record order book
- Acquisition of Rhead Group enhancing capability
- Good visibility giving confidence in the future

FINANCIAL REVIEW



TONY BICKERSTAFF

FINANCE DIRECTOR



Meeting national needs through people and innovation

Strong trading performance



- Revenue¹ of £1,316.5m (2014: £1,122.5m)
- Underlying² operating profit up 16% to £33.2m (2014: £28.7m)
- Adjusted profit before tax of £29.9m (2014: £28.5m)
- Adjusted basic earnings per share of 25.1p (2014: 27.8p³)
- £108.2m year-end net cash balance (2014: £148.5m)
- Recommended final dividend of 7.25p (2014: 6.25p): if approved, total dividend for 2015 up 16% to 11.0p (2014: 9.5p)

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

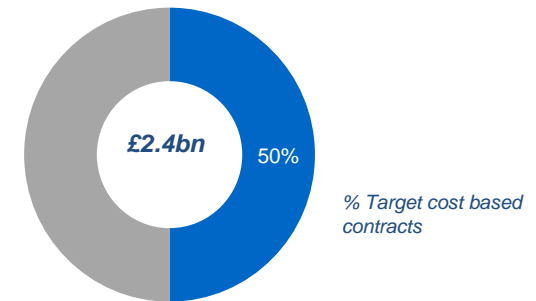
3. 2014 EPS benefitted from a lower tax charge and was based on a lower average number of shares than in 2015

Customer focussed strategy generating strong performance

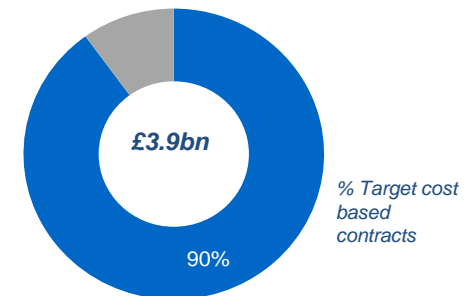
COSTAIN

- Focus on blue chip customers through long-term strategic relationships
- Ability to deliver a broad range of integrated services
- 90% target cost based contracts
 - longer term, sustainable margin
 - lower risk, more collaborative
- Ability to adapt to customers' rapidly changing needs, driving significant levels of repeat order business

December 2011



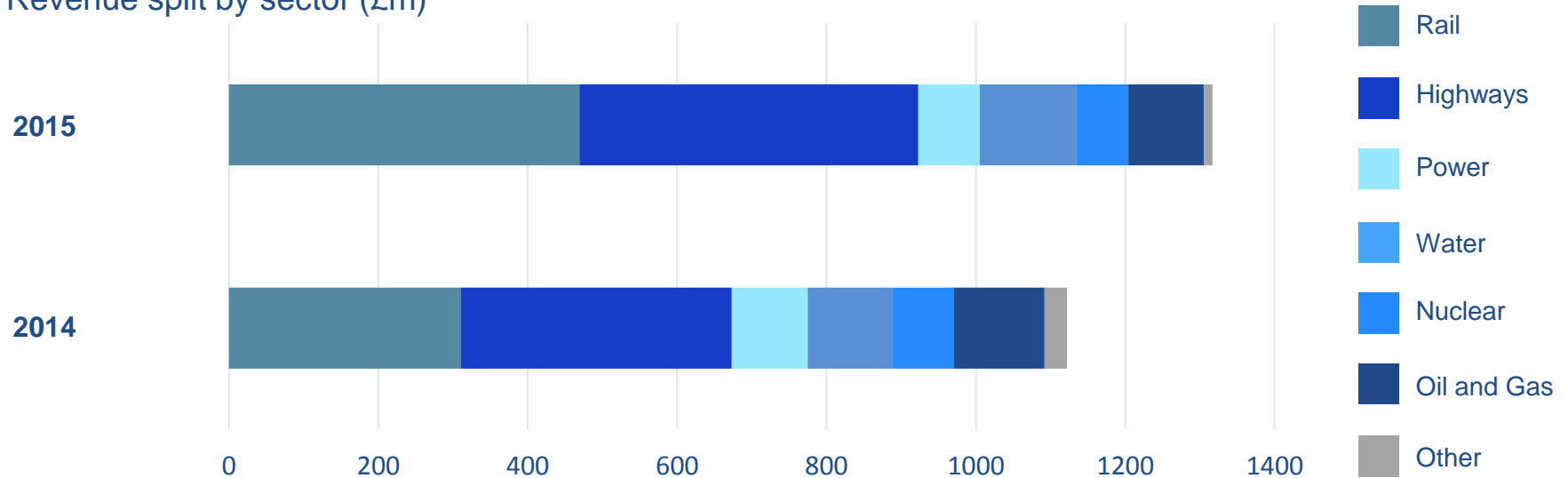
December 2015



17% growth in revenue

COSTAIN

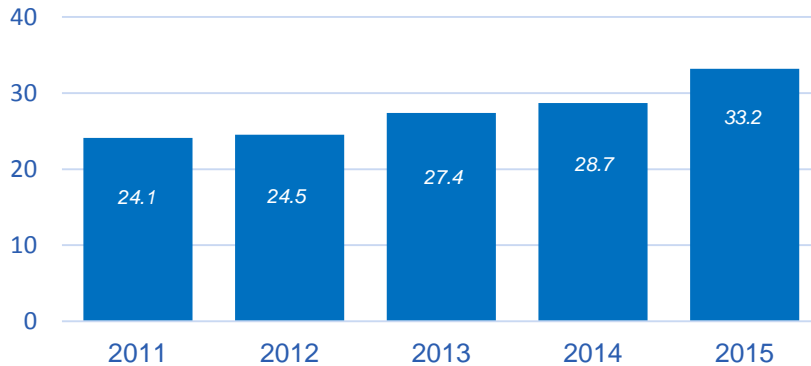
Revenue split by sector (£m)



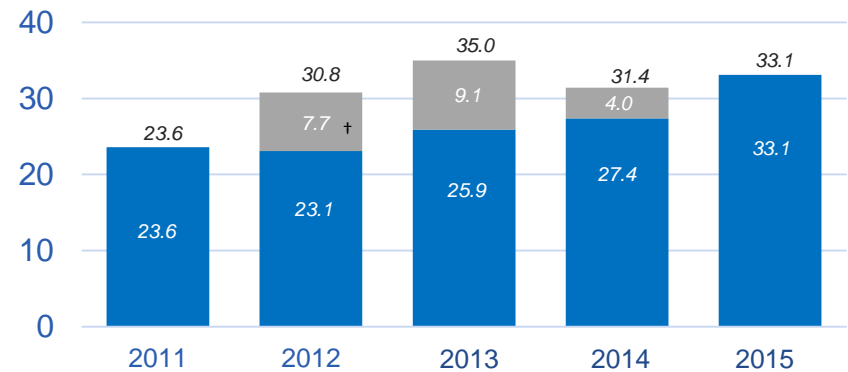
- Securing growth through targeted allocation of resources
 - Significant growth in Rail and Highways through long-term frameworks
 - Seeing growth in Water following transition from AMP-5 to AMP-6
 - Oil and Gas revenues impacted by market conditions

Increasing profitability

Group underlying operating profit (£m)¹



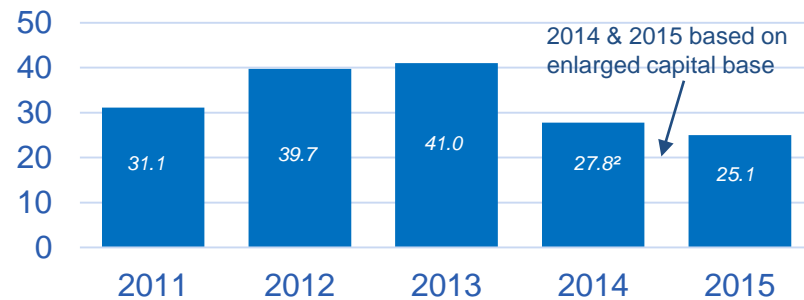
Group adjusted profit from operations (£m)¹



PFI & Investments Sales

† Net of one-off costs resulting from pension scheme liability management actions

Adjusted EPS (p)¹



Weighted average number of shares (m)	
2015	101.7
2014	94.6
2013	71.2
2012	65.3
2011	64.1

Note:

1. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration
2. 2014 EPS benefitted from a lower tax charge and was based on a lower average number of shares than in 2015

Segmental income statement

COSTAIN

	2015			2014		
	Revenue ¹ £m	Underlying Operating Profit £m	Margin	Revenue ¹ £m	Underlying Operating Profit £m	Margin
Infrastructure	996.1	50.9	5.1%	765.8	34.4	4.5%
Natural Resources	317.6	(11.1)	(3.5)%	354.4	0.4	0.1%
Alcaidesa (From 1/7/15)	1.9	(0.5)			-	
Central Costs		(6.1)			(6.1)	
Underlying Operating Profit²	1,315.6	33.2	2.5%	1,120.2	28.7	2.6%
Alcaidesa (JV to 30/6/15)	0.9	(0.4)		2.3	(1.3)	
Other JVs		0.3			-	
Profit from PFI Transfer to pension scheme		-			4.0	
Adjusted Profit from operations²		33.1			31.4	
Net interest expense		(3.2)			(2.9)	
Adjusted profit before tax²		29.9			28.5	
Adjusted Basic Earnings per share ²		25.1p			27.8p³	

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
3. 2014 EPS benefitted from a lower tax charge and was based on a lower average number of shares than in 2015

Strong net cash position

COSTAIN

	2015	2014
	£m	£m
Net cash at beginning of period	148.5	57.7
Cash from operations	38.2	31.3
Changes in working capital (excluding pension deficit contributions)	(10.4)	12.3
Cash flow from operating activities	27.8	43.6
Pension Deficit Contributions	(9.6)	(5.2)
Acquisition Consideration	(35.4)	(5.7)
Alcadesa Debt	(8.1)	-
Dividends	(9.4)	(7.7)
Issue of ordinary share capital	-	70.6
Interest, Tax, Fixed Assets & Investments	(5.6)	(4.8)
Net cash at end of period	108.2	148.5
Net Cash Reconciliation:		
Cash and cash equivalents at end of period	146.7	148.5
Less: Bank Overdrafts/borrowings	(38.5)	-
Reported Net Cash	108.2	148.5

Net cash movements due to:

- Good operating cash flow
- Continued growth in target cost, cost reimbursable contracts
- Year-end balance benefited from positive year-end timing
- Rhead acquisition and Alcadesa debt in H2
- Consequently, H2 average lower than full-year

Average month-end cash balance - £103.7m (2014: £95.6m)

Balance sheet and banking facilities

COSTAIN

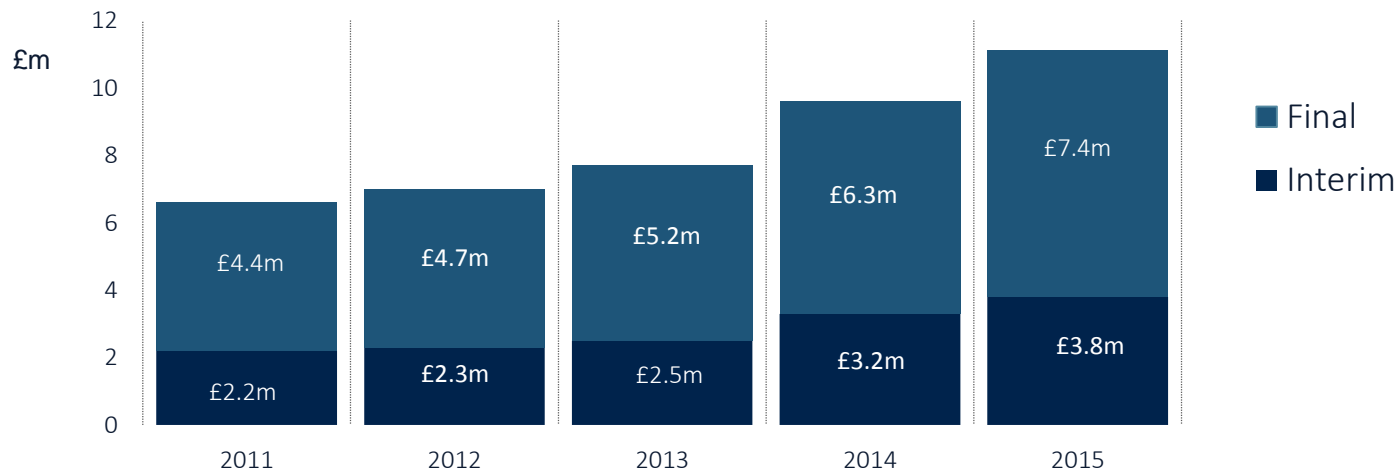
	31 December 2015	31 December 2014
	£m	£m
Assets		
Non current assets (excluding pension deficit deferred tax)	103.7	101.2
Trade and other receivables	274.7	198.4
Cash	146.7	148.5
Current assets	421.4	346.9
Total assets	525.1	448.1
Current liabilities	(372.2)	(299.3)
Total assets less current liabilities	152.9	148.8
Non current liabilities (excluding net pension liability)	(2.9)	(4.6)
Pension liability net of deferred tax	(29.4)	(33.4)
Total equity	120.6	110.8

- Banking and bonding facilities increased to £525m (including £125m debt facility)
- Maturity date extended to 30 June 2020

16% increase in recommended final dividend

- Progressive dividend policy, targeting ongoing dividend cover of c. 2 x underlying earnings
- Recommended final dividend of 7.25 pence per share (2014: 6.25 pence per share)
- Would represent a 16% increase in the total dividend for the year to 11.0 pence per share (2014: 9.5 pence per share)
- Final dividend, if approved, will be paid on 20 May 2016 to shareholders on the register as at 15 April 2016

Total value of dividend pay-out (£ million)



ACCELERATING GROWTH



ANDREW WYLLIE CBE
CHIEF EXECUTIVE



Meeting national needs through people and innovation

Accelerating growth

COSTAIN

- Unique customer-focused strategy delivered 16% growth in profit
- £ billions being invested to meet national needs
- Growing our skills and capabilities organically and by acquisition
- Record order book underpinning future growth

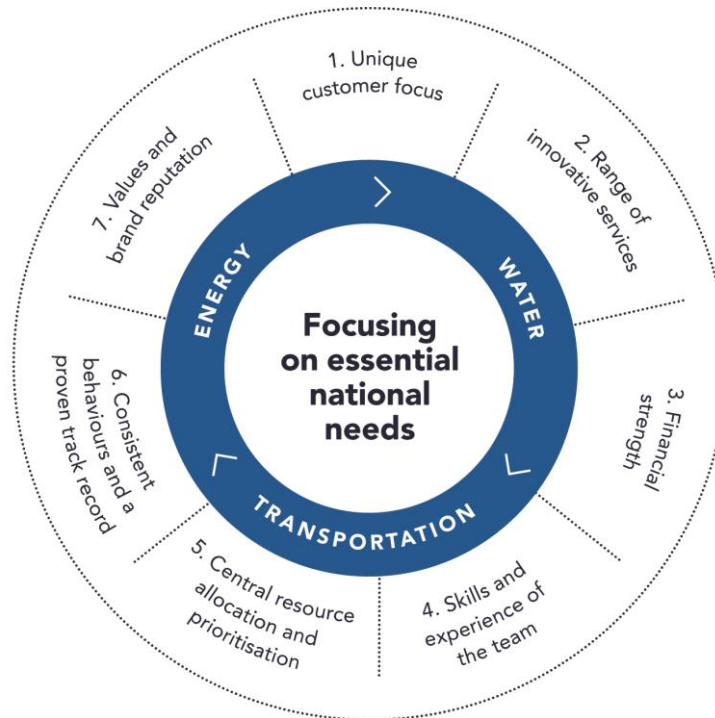


Unique customer focused strategy

COSTAIN



Why our major blue chip customers choose Costain:



Securing a future energy supply...



...maintaining a safe and reliable water supply

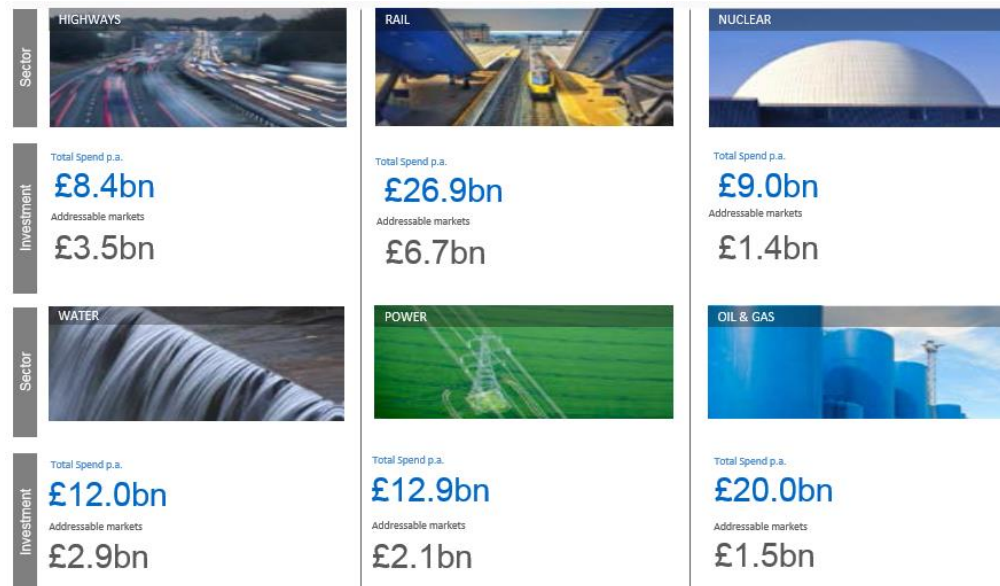


...upgrading the transport infrastructure

Rapidly changing and dynamic market: - significant investment across target sectors



- Total spend in target sectors estimated at c. £90 billion per annum with c. £20 billion per annum addressable to Costain
- Majority of spend non-discretionary: underpinned by regulation and legislation
- Defined by significant, long-term and increasingly complex programmes
- Customers demand broad range of integrated services delivered through strategic, collaborative relationships



Developing the best team in the industry

COSTAIN

- 16% growth in headcount to over 4,100
- Broadening range of skills and capabilities
 - Now have 1,000+ people in consulting, advisory and design service roles
 - 218 graduates on award winning programme, a 69% increase over last 3 years
 - 107 apprentices, up from 80 in prior year
- Rhead Group acquired in August 2015
 - professional services consultancy providing a range of solutions across the lifecycle of infrastructure, construction and asset management programmes



Driving innovation in our services

- Ability to develop and offer innovative solutions is essential and is a competitive advantage
- Numerous innovations in 2015 including:
 - deployment of robotic drilling machinery and automated equipment: *accelerating delivery at Crossrail*
 - live-trialling 'self-healing' road materials: *extending the life of strategic road infrastructure*
 - combining advanced analytics and manufacturing principles: *halving the cost of critical water infrastructure*
- Collaboration between customers, supply chain and partners including researchers and universities
- R&D initiatives with eleven leading universities including progressing a number of patent applications



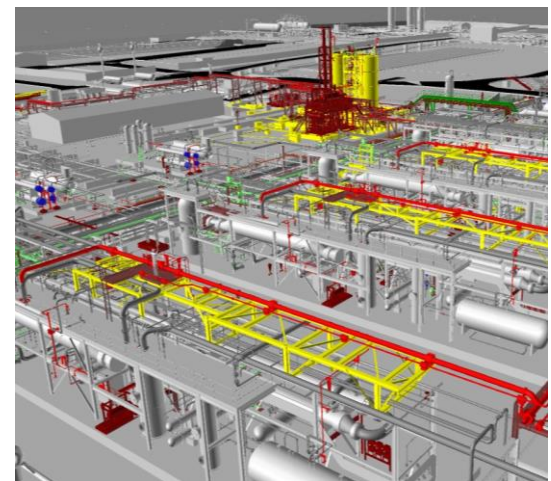
People and innovation delivering leading market positions

- As an example, we are a leading supplier of services in Highways across England and Wales
- Comprehensive capability to meet all customer requirements
- Examples of current contracts across the asset life-cycle include:
 - **Advisory and concept development:** A14, M4 Newport, Preston Distributor
 - **Specialist design:** ESDAL
 - **Complex delivery:** A556, M1, Heysham M6 link
 - **Technology integration:** All Wales Framework, Smart Motorways
 - **Programme management:** Smart Motorways
 - **Asset optimisation:** ASCs, East Sussex, MACs

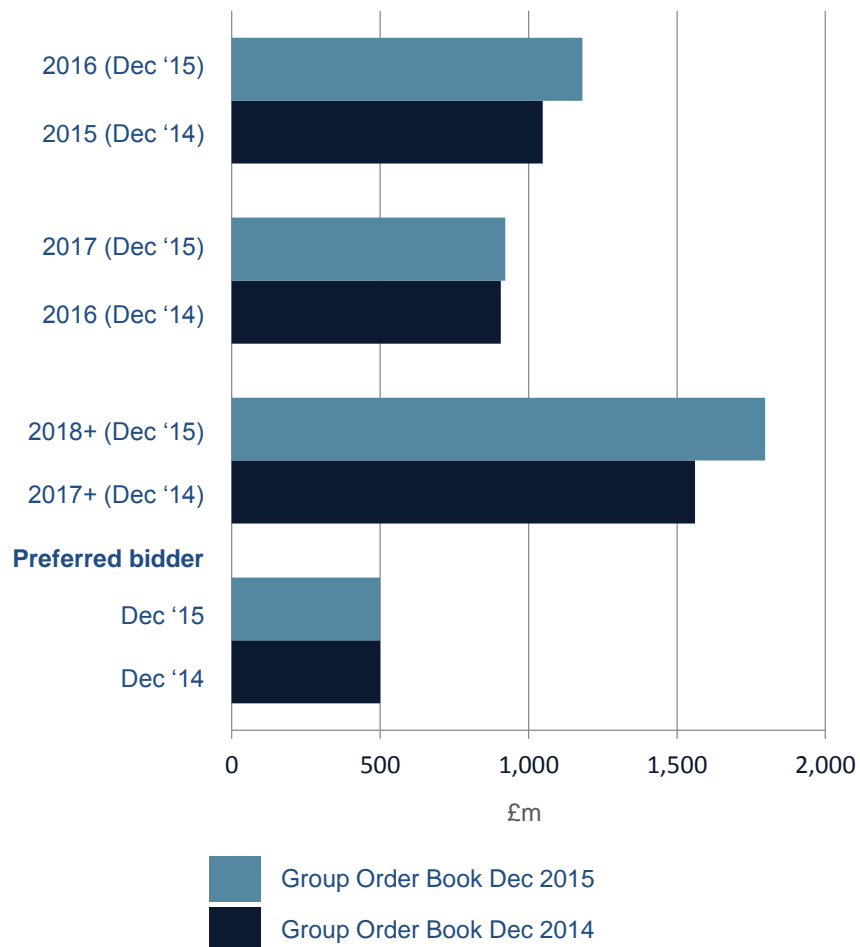


People and innovation delivering value for customers

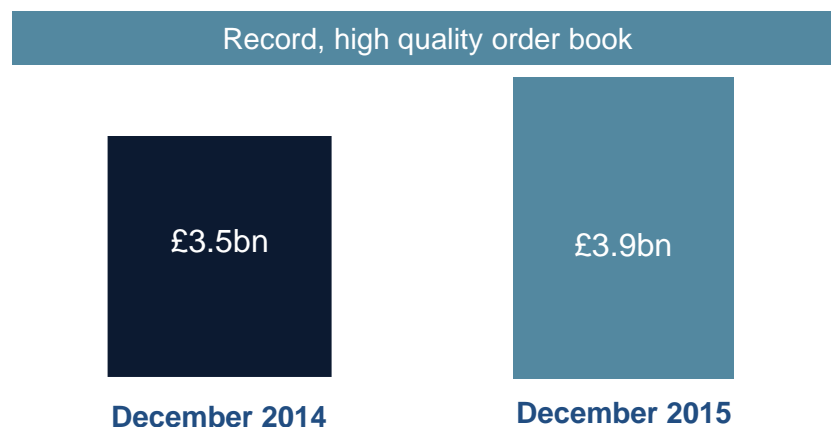
- Completion in 2015 of Dimlington Terminal Freon Replacement Upgrade contract for Perenco
- Contract secured as a result of innovative conceptual study by Costain
- Delivered ahead of deadline set by new EU legislation
- Improved terminal energy efficiency and achieved significant saving in capital cost
- Completed without interrupting terminal operation, saving daily revenues of circa £3 million
- Resulting in repeat order work with the customer
- Winner: IChemE Industry Project of the Year Global Awards



Record order book and increased visibility



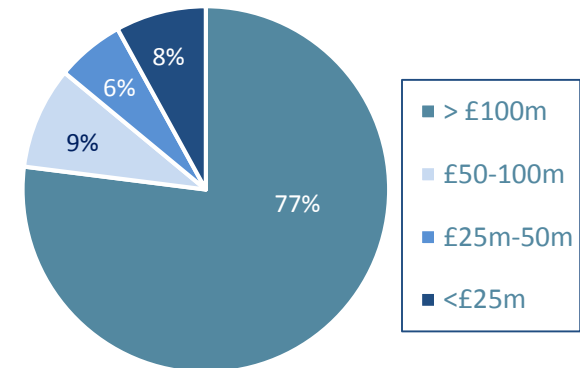
- Forward order book up 11% to £3.9bn (December 2014: £3.5bn)
- Over £1.7bn of new contracts and extensions secured in 2015
- Over £1.1bn of work already secured for 2016



Long term strategic customer relationships underpinning growth

- Changing nature and increasing complexity of customers' requirements fundamentally changing market dynamics
- Larger, longer term contracts – our average contract duration now over four years
- Requiring broad range of integrated services
- Changing dynamics driving sector consolidation
- Need to continue to demonstrate scale, capability and innovation
- Continuing to grow, both organically and by targeted acquisition
- Over 90% repeat orders demonstrating strength of relationships

Order book by value remaining



Summary and outlook

COSTAIN

- Strong trading performance
- Unique customer-focused strategy
- Record forward order book
- Continuing to accelerate growth
- Good visibility giving confidence for the future



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APPENDIX



Meeting national needs through people and innovation

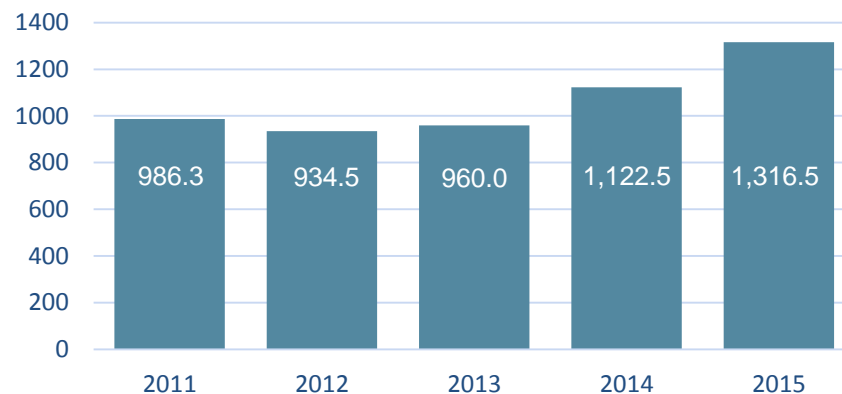
Costain financial overview

COSTAIN

Key historic financial information (£m)

Year end December, £m	FY11	FY12*	FY13	FY14	FY15
Revenue	986.3	934.5	960.0	1,122.5	1,316.5
Underlying operating profit margin	2.4%	2.6%	2.9%	2.6%	2.5%
Adjusted profit from operations	23.6	30.8	35.0	31.4	33.1
Profit before tax (Reported)	23.9	24.7	12.9	22.6	26.0
Cash generated/(used by) operations***	34.7	(22.3)	(32.9)	43.6	18.2
Cash and cash equivalents	141.7	107.4	84.3	148.5	146.7
Net cash	140.1	105.7	57.7	148.5	108.2

Revenue (£m)



Source Costain company reports

Notes: 1. Includes share of joint ventures and associates

* FY12 Restated for revised IAS 19 Employee benefit accounting standard

*** Pre-interest and tax

Other items and tax

Other Items

- Amortisation of acquired intangible assets – £3.2m (2014: £3.0m)
- Employment related and other deferred consideration – £0.4m (2014: £2.2m)
 - Accounting standards require any consideration related to employment to be expensed over the required service period and any changes to other deferred consideration to be recognised in the income statement
 - Rhead Group – 2 years from acquisition date

Tax

- 2015 tax rate at 14.6% on adjusted profit before tax (2014: 7.1%, benefit of non-taxable gains)
- Includes benefits of R&D tax relief and positive timing differences
- Normalised rate expected to be c. 18-20% on non JV profit

Re-organisation of Alcaidesa

- Terminated land development JV with Santander in Spain
- Assets split equally between the parties by mutual consent
- From July 2015, 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 £23.5m
- Assets regarded as non-core



Legacy pension obligation

- Agreed full actuarial valuation as at 31 March 2013 and updated recovery plan
- Contributions at £7m per annum increasing with inflation plus a top-up for total contributions to match annual dividend payments
- Decrease in accounting net deficit due to increase in discount rate used to calculate liabilities, asset value increase and company contributions offset by increase in inflation

	31 Dec 2015	31 Dec 2014
	£m	£m
Fair value of scheme assets	650.7	659.3
Present value of defined benefit obligations	(687.4)	(701.0)
Recognised liability for defined benefit obligations	(36.7)	(41.7)
Deferred tax	7.3	8.3
Net pension deficit	(29.4)	(33.4)

- Legacy defined benefit scheme; closed to new entrants in 2005 and closed fully to future accrual in 2009
- All current employees on defined contribution arrangements only
- Actions taken to manage obligation including asset transfers & liability reductions