
ENGINEERING SUCCESS



RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

24 AUGUST 2016



Meeting national needs through people and innovation

WELCOME



Dr PAUL GOLBY CBE

NON-EXECUTIVE CHAIRMAN



Meeting national needs through people and innovation

Engineering Success

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

- Unique customer focused strategy, *Engineering Tomorrow*, delivering strong performance
- Costain is at the forefront of a revolution in the use of technology to increase capacity of infrastructure and improve customer service
- Multi-billion pound investment programmes in place to address national infrastructure needs providing many opportunities
- On course to deliver a result for the year in line with the Board's expectations

FINANCIAL REVIEW



TONY BICKERSTAFF

FINANCE DIRECTOR



Meeting national needs through people and innovation

Another strong performance



- Unique strategy and market position delivered another strong performance
- 27% increase in revenue¹ to £791.4m (H1 2015: £621.1m)
- 21% increase in underlying² operating profit to £15.8m (H1 2015: £13.1m)
- Adjusted² profit before tax increased to £14.1m (H1 2015: £11.4m)
- Adjusted² basic earnings per share increased to 11.9p (H1 2015: 9.6p)
- £69.2m net cash balance (2015: £126.8m)
- £3.9bn record forward order book
- 15% increase in dividend

Notes:

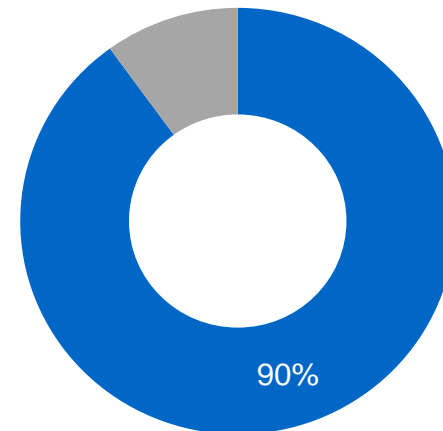
1. Including share of joint ventures and associates

2. Before other items, amortisation of acquired intangible assets and employment related and other deferred consideration

Customer focused strategy delivering success

- 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

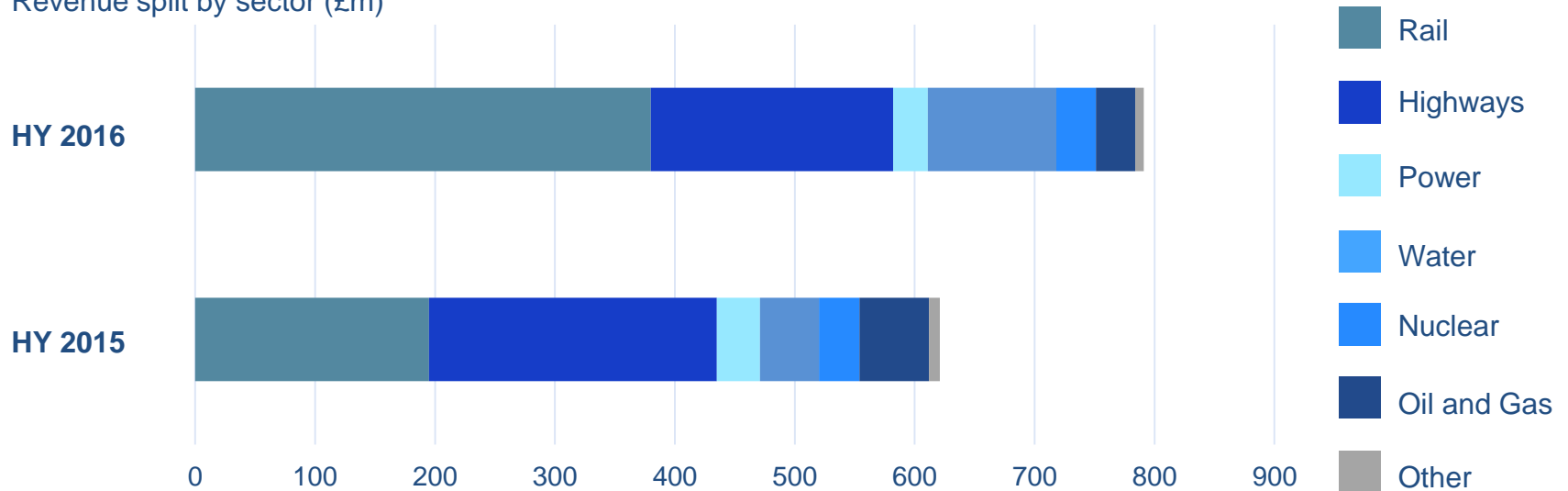
Order Book – 90% Target cost based contracts



27% growth in revenue



Revenue split by sector (£m)

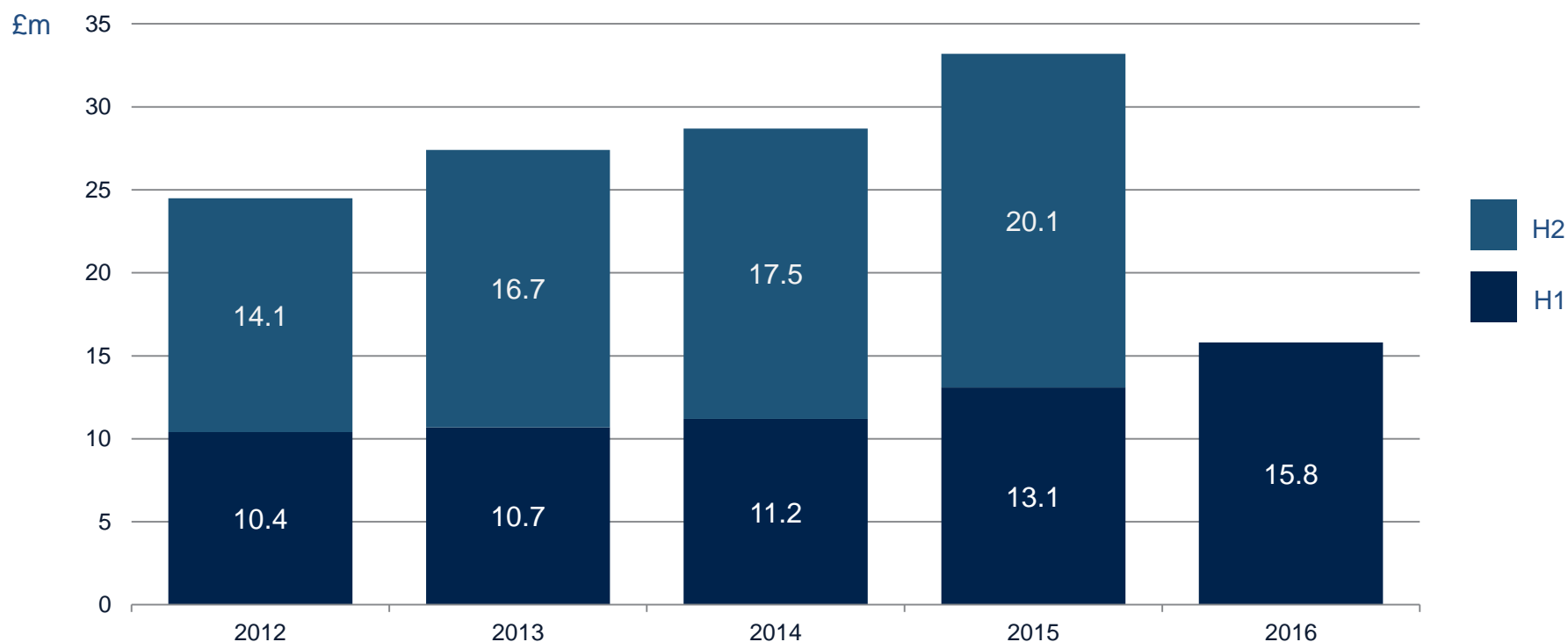


- Growth reflects targeting of Group resources to most attractive opportunities
 - Significant growth in Rail across a range of activities
 - As anticipated, increase in Water as AMP6 moves to delivery phase
 - Reduction in Oil & Gas reflecting current market conditions

Track record of increasing earnings

COSTAIN

Group underlying operating profit*



* Before other items, amortisation of acquired intangible assets and employment related and other deferred consideration

21% growth in underlying operating profit

COSTAIN

6 Months to 30 June 2016

	Revenue ¹	Underlying Operating Profit	
	£m	£m	Margin
Infrastructure	613.2	27.4	4.5%
Natural Resources ³	175.7	(8.5)	-4.8%
Alcaidesa (From 1/7/15)	2.5	(0.2)	
Central Costs		(2.9)	
Underlying Operating Profit²	791.4	15.8	

6 Months to 30 June 2015

	Revenue ¹	Underlying Operating Profit	
	£m	£m	Margin
Infrastructure	475.2	23.6	5.0%
Natural Resources ³	145.0	(7.5)	-5.2%
Alcaidesa (From 1/7/15)		-	
Central Costs		(3.0)	
Underlying Operating Profit²	620.2	13.1	

Full Year 2015

	Revenue ¹	Underlying Operating Profit	
	£m	£m	Margin
Infrastructure	996.1	50.9	5.1%
Natural Resources ³	317.6	(11.1)	-3.5%
Alcaidesa (From 1/7/15)	1.9	(0.5)	
Central Costs		(6.1)	
Underlying Operating Profit²	1,315.6	33.2	

Alcaidesa (JV to 30/6/15)	-
Other JVs	0.1
Adjusted Profit from operations²	15.9
Net interest expense	(1.8)
Adjusted Profit before tax²	14.1

Alcaidesa (JV to 30/6/15)	0.9	(0.5)
Other JVs		0.1
Adjusted Profit from operations²	12.7	
Net interest expense		(1.3)
Adjusted Profit before tax²	11.4	

Alcaidesa (JV to 30/6/15)	0.9	(0.4)
Other JVs		0.3
Adjusted Profit from operations²	33.1	
Net interest expense		(3.2)
Adjusted Profit before tax²	29.9	

Adjusted Basic Earnings per share² **11.9p**

9.6p

25.1p

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. Including the legacy Manchester Waste PFI contract

Uniquely, over 90% target cost based contracts

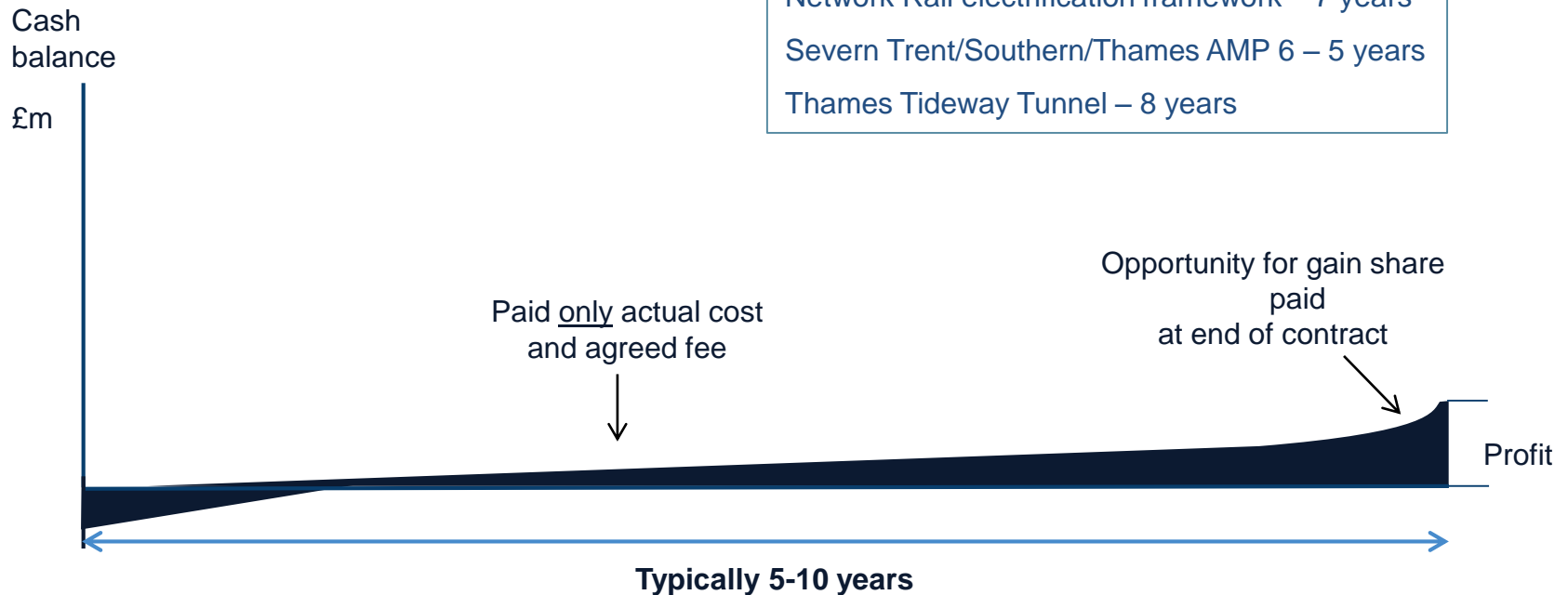
COSTAIN

Target cost, cost reimbursable contracts

- Suitable for complex, long term investment programmes
- Lower risk, more collaborative

Some examples:

- Crossrail programme – 8 years
- East Sussex Highways maintenance – 7 years
- Highways England ASC – 5 years
- Network Rail electrification framework – 7 years
- Severn Trent/Southern/Thames AMP 6 – 5 years
- Thames Tideway Tunnel – 8 years



Robust net cash position

COSTAIN

	6 months to 30 June 2016 £m	6 months to 30 June 2015 £m	Full Year 2015 £m
Net cash at beginning of period	108.2	148.5	148.5
Cash from operations	17.8	14.7	38.2
Changes in working capital (excluding pension deficit contributions)	(38.2)	(17.3)	(10.4)
Cash flow from operating activities	(20.4)	(2.6)	27.8
Pension deficit contributions	(7.6)	(5.9)	(9.6)
Acquisition consideration	(0.3)	(5.2)	(35.4)
Alcadesa debt	-	-	(8.1)
Dividends	(7.1)	(5.9)	(9.4)
Interest, tax, fixed assets etc	(3.6)	(2.1)	(5.6)
Net cash at end of period	69.2	126.8	108.2
Net cash reconciliation:			
Cash and cash equivalents at end of period	128.8	126.8	146.7
Less: bank borrowings	(59.6)	-	(38.5)
Reported net cash	69.2	126.8	108.2

Net cash movement due to:

- Good operating cash flow
- Working capital outflow from:
 - Reversal of year end positive timing
 - Further growth in target cost, cost reimbursable contracts
- Dividend & pension contributions H1 weighted
- Acquisition of Rhead Group for £36m in H2 2015

H2 2016 includes:

- Acquisition of SSL for £17m

Average month-end net cash balance - £79.4m

Strong balance sheet and increased banking facilities

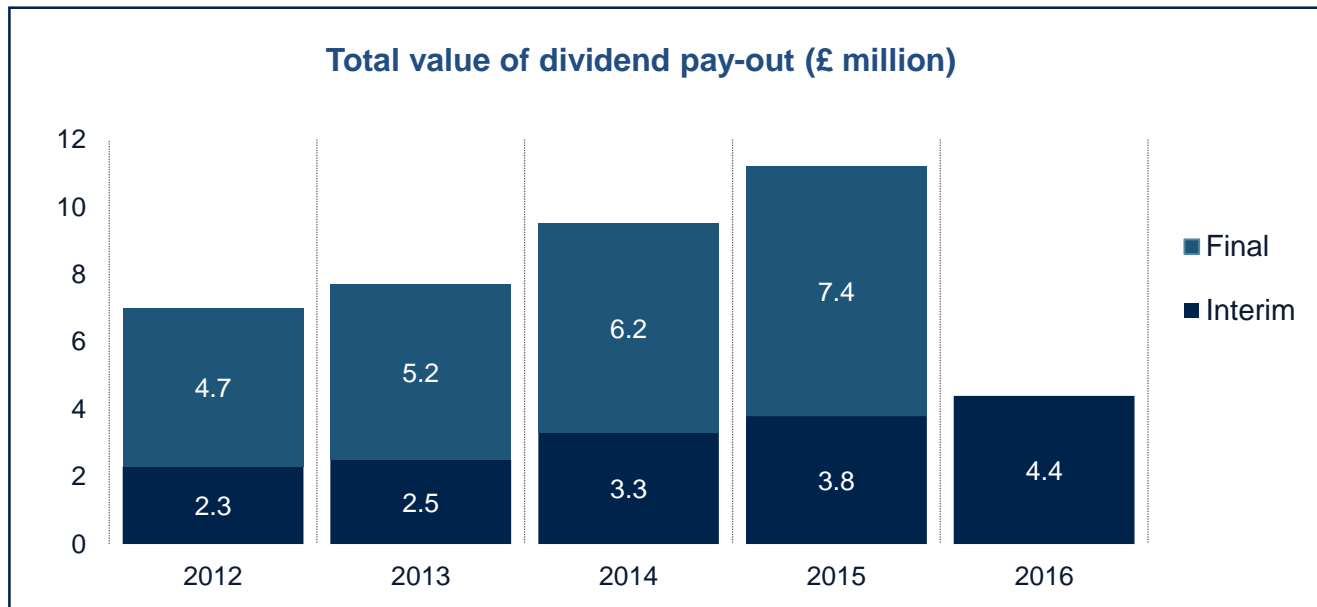


	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Assets			
Non-current assets (excluding pension deficit deferred tax)	104.6	97.1	103.7
Trade and other receivables	350.5	230.5	274.7
Cash	128.8	126.8	146.7
Current assets	479.3	357.3	421.4
Total assets	583.9	454.4	525.1
Current liabilities	(404.2)	(311.2)	(372.2)
Total Assets less current liabilities	179.7	143.2	152.9
Non-current liabilities (excluding net pension liability)	(32.3)	(3.0)	(2.9)
Pension liability net of deferred tax	(46.5)	(29.6)	(29.4)
Total Equity	100.9	110.6	120.6

- Banking facilities increased by £30m to £155m
- Bonding facilities unchanged at £400m
- Maturity date extended to 30 June 2021

15% increase in dividend

- Progressive dividend policy, targeting ongoing dividend cover of c 2 x underlying earnings
- Interim dividend of 4.3 pence per share (2015: 3.75 pence per share)
- Increase of 15% in the interim dividend
- Dividend will be paid on 21 October 2016 to shareholders on the register as at 16 September 2016



ENGINEERING SUCCESS



ANDREW WYLLIE CBE

CHIEF EXECUTIVE



Meeting national needs through people and innovation

Engineering Tomorrow

COSTAIN

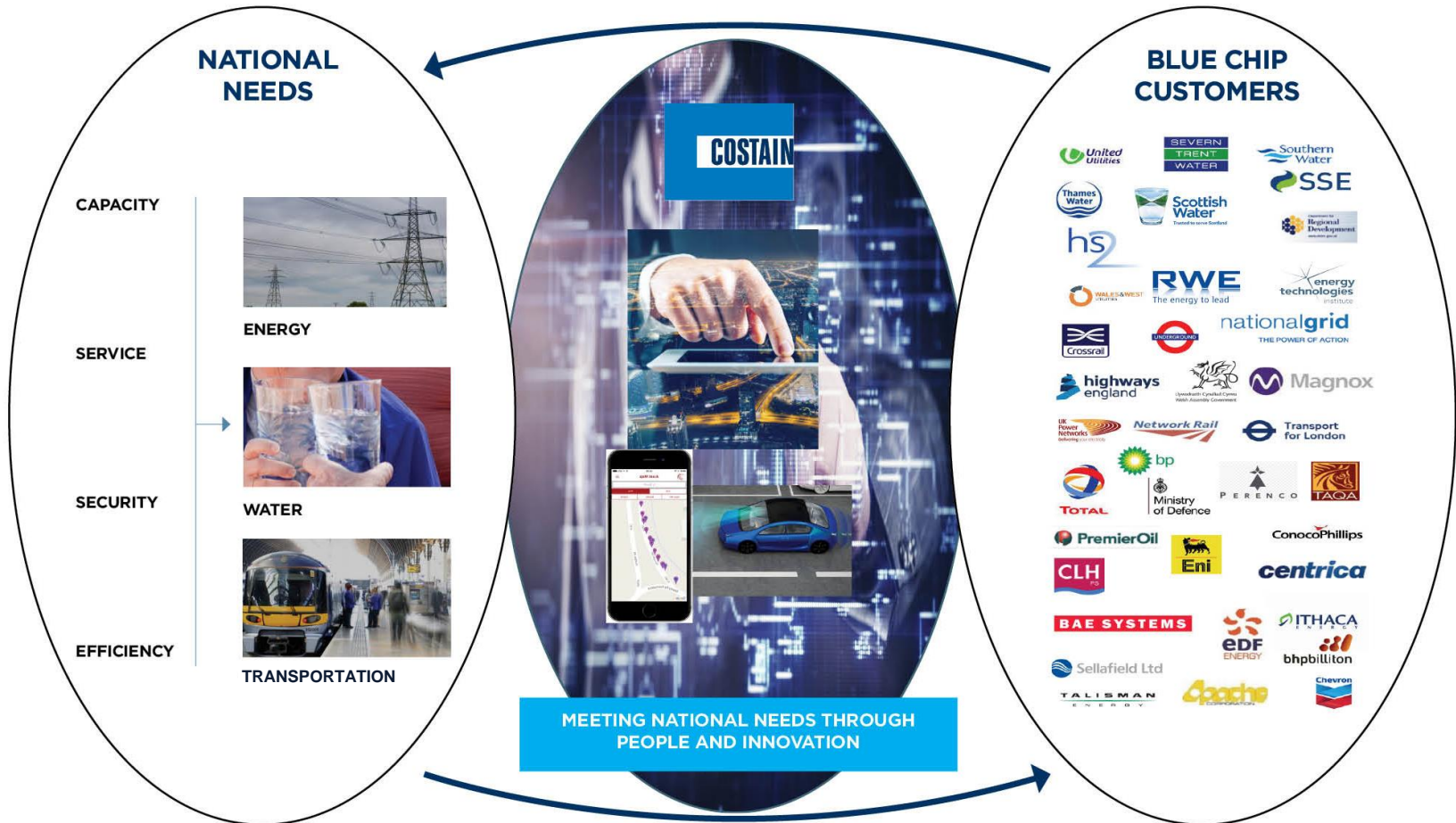
- Unique customer focused strategy, *Engineering Tomorrow*, delivering strong performance
- We are seeing a revolution in the demand for technology to increase capacity of infrastructure and improve customer service
- Costain's people and innovations are at the forefront of this revolution in multi-billion pound investment programmes to address national infrastructure needs
- We are growing skills and capabilities, organically and by acquisition, to meet this demand
- Dynamic market providing many exciting opportunities



Meeting national needs through people and innovation

Our unique strategy: *Engineering Tomorrow*

COSTAIN



Committed investment in essential infrastructure

- Customer requirement for a significant step change in efficiency, security, service and capacity across energy, water and transportation
- Total spend in target markets estimated at c. £90 billion per annum with c. £20 billion addressable market
- Majority of spend non-discretionary: underpinned by regulation and legislation
- Defined by long-term and increasingly complex programmes
- Customers demanding strategic, collaborative and long term relationships

Examples of committed spend:



Ofgem RIIO
2013-2023
£58bn



AMP6
2015-2020
£44bn



Rail Control Period 5
2014-2019
£38bn

Technology revolution in infrastructure

National needs

Capacity



ENERGY

Service



WATER

Security



TRANSPORTATION

Efficiency

"Our Smart Motorways programme has made use of the hard shoulder, utilised advanced technology to add extra capacity and used our Traffic Officer Service to manage traffic effectively across some of the busiest sections of the motorway network. We will build on this by significantly expanding the roll out of Smart Motorways across the country."

Highways England, Strategic Business Plan 2015-2020

"Intelligent infrastructure is a game changer leading to smarter working, lower costs, improved safety and better reliability."

Network Rail - Strategic business plans 2014-19

"We also need to ensure our people are equipped with the skills and capabilities to thrive in this new environment with an increased use of technology, devolved decision making and focus on customer service and outcomes."

Thames Water, Business Plan 2015-2020



Costain at the forefront of technology revolution

COSTAIN



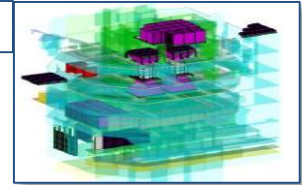
Monitoring the volume, movement and speed of vehicles

Enhancing delivery efficiency through factory levels of performance



Data driven decision making development with Cambridge University

BIM modelling using latest modelling techniques



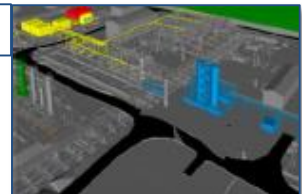
Bringing innovation to Crossrail

Electrification of the rail network



Enabling customers to maintain and increase efficient use of their assets

Securing energy supply through enhancement of North Sea assets



Continuing to develop the best team

COSTAIN

- Growing and evolving our team
 - 4,200 people, up 14% since last year
 - Over 25% now in consultancy and advisory roles
- Continuing professional development
 - Every employee has a personal development plan
 - Over 60,000 training and development hours in last 12 months
- Investing in tomorrow's talent
 - 212 graduates in award-winning graduate development programme
 - 107 apprentices across a range of disciplines
 - 10 sponsored PhD students at leading universities



Meeting national needs through people and innovation

Growing skills and capabilities by acquisition

COSTAIN

- Rhead Group

- Professional services consultancy, with a focus on programme & commercial management, acquired in August 2015 for £36m
- Successfully integrated and performing well
- Enhanced capabilities have secured additional contracts such as the Humber Pipeline for National Grid

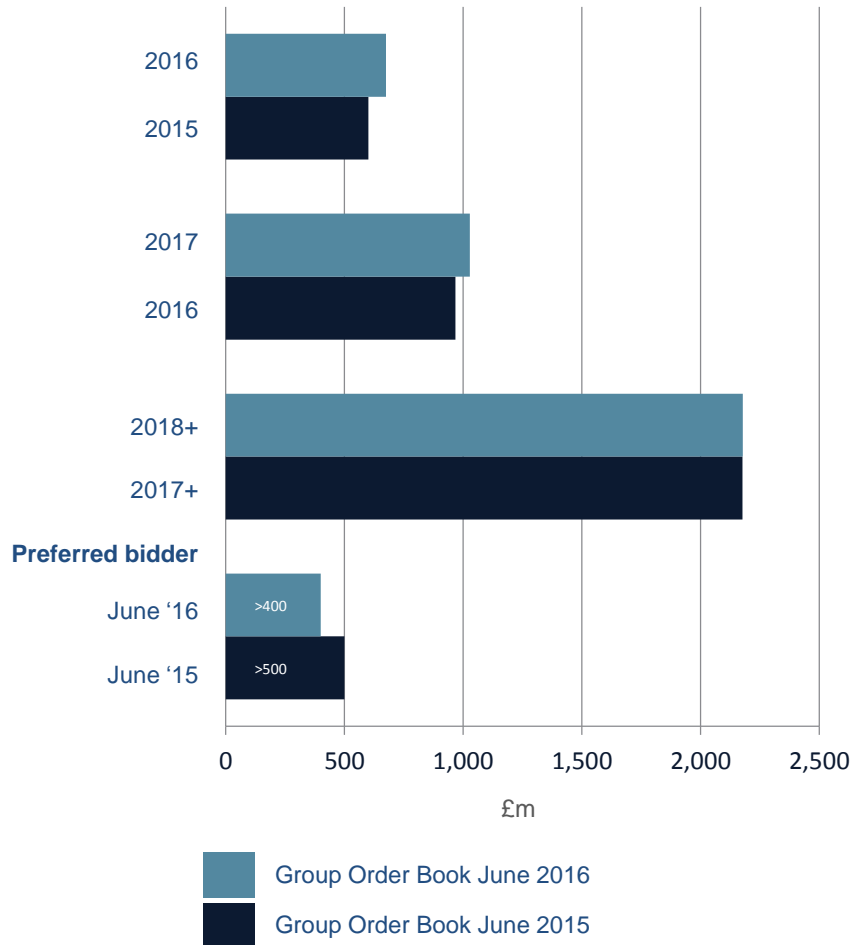


- SSL

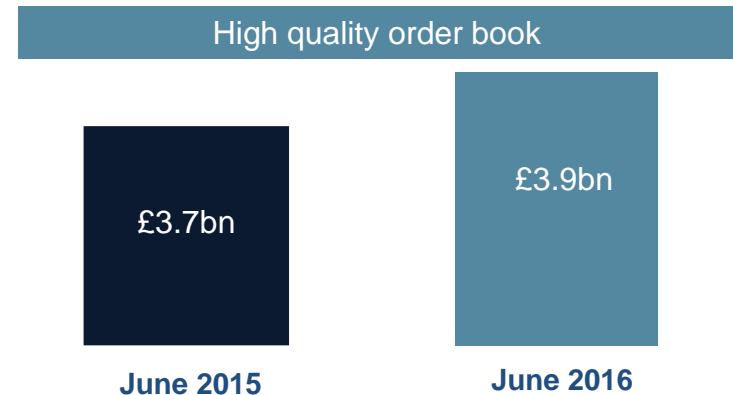
- Technology solutions principally in highways sector but with wider applications, £17m acquisition announced in July 2016
- Full integration proceeding well
- Customers include Highways England, TfL, Scottish & Welsh Governments
- Enhances capability to deliver innovative technology-based solutions



High quality order book



- Forward order book up 5% to £3.9bn (June 2015: £3.7bn)
- Over £1.4bn secured for 2016 (June 2015: over £1.2bn for 2015)
- Over £1bn of work already secured for 2017 (June 2015: £950m for 2016)
- Over 90% repeat orders
- High levels of tendering activity reflecting continuing investment to meet national infrastructure needs



Summary and outlook

- Unique customer focused strategy, *Engineering Tomorrow*, delivering strong performance
- Costain is at the forefront of a revolution in the use of technology to increase capacity of infrastructure and improve customer service
- Multi-billion pound investment programmes in place to address national infrastructure needs providing many opportunities
- On course to deliver a result for the year in line with the Board's expectations

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APPENDIX



Meeting national needs through people and innovation

Other items and tax

Other Items

- Amortisation of acquired intangible assets – £2.0m (2015: £1.2m)
- Employment related and other deferred consideration – £0.7m (2015: £NIL)
 - 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 August 2015
 - SSL – 3 years from July 2016

Tax

- 2016 effective tax rate at 14.2% (2015: 15.0%)
- Includes benefits of R&D tax relief and positive timing differences
- Normalised rate expected to be c. 18-20%

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 £23.5m
- Assets regarded as non-core



Legacy pension obligation

- Increase in net deficit due to reduction in discount rate used to calculate liabilities
- Contributions at £7m per annum plus a top-up to match dividend payments
- Latest actuarial valuation as at 31 March 2016 in progress

	30 June 2016	31 December 2015	30 June 2015
Fair value of scheme Assets	704.9	650.7	667.5
Present value of defined benefit obligations	(762.3)	(687.4)	(704.5)
Recognised liability for defined benefit obligations	(57.4)	(36.7)	(37.0)
Deferred tax	10.9	7.3	7.4
Net pension deficit	(46.5)	(29.4)	(29.6)

- 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 and liability reductions

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