

COSTAIN

Half year results

Six months ended
30 June 2020

14 September 2020



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

COSTAIN

Alex Vaughan
Chief Executive Officer

Overview

- All contracts now operational following impact of COVID-19 with necessary safety measures in place
- Adjusted operating profit of £5.7 million
- Results impacted by charges due to A465 contract (£45.4 million) and Peterborough & Huntingdon contract (£49.3 million)
- Changes made to leadership, contract selection and risk management
- Strengthened balance sheet with over £140 million of net cash
- Over £2 billion of contracts and framework positions secured in H1
- Good momentum towards delivery of strategic objectives
- Strong pipeline of opportunities in our core markets.

A465 and P&H contract update

A465



- Previous adjudication award in Costain's favour
- Arbitration decision reversed the position and resulted in £45.4m charge to income statement in H1 to level of cash received to date

Contract Issues:

- Dispute resolution process highlighted an ambiguity as to the assumptions and responsibility for contract risks
- Changes in the ground conditions resulted in changes to the design and works information, significantly increasing the size and scale of retaining walls and associated works; increasing cost and extending the duration of the operations.

Peterborough and Huntingdon



- Contract terminated by mutual agreement in June 20
- One-off charge of £49.3m to income statement in H1 to level of cash received to date
- Legal resolution process over next 18 months

Contract Issues:

- Ongoing resolution process highlights insufficient of clarity of design assumptions
- Increased scope of work and change due to design changes
- Late commercial escalation in addressing recovery for change.

Decisive actions taken to address issues

Client/Contract selection

- No longer pursuing Energy EPC contracts
- Targeting long term investment programmes
- Reduction in acceptable level of downside risk on any new contract
- Increased minimum level of acceptable profit for all new contracts.

Leadership

- Changes to leadership including appointment of new transportation MD
- Removal of two leadership layers to enhance accountability
- Project and commercial management training
- Change culture from cost growth is beneficial to delivery on budget and time – challenging client change.

Enhanced contract risk management

- Implementation of Group-wide 'Operating Excellence model' on all contracts - enhancing project execution
- Five-stage gated approval process prior to signing any contract, including independent risk review prior to target cost approval
- Updated policy setting clear commercial expectations for our risk appetite
- Enhancements to monitoring and administration of scope changes to identify/escalate cost increases at the earliest stage
- Monthly review of contracts in standard and mandatory format – including change trends.

COVID-19: Business resilience

Our priorities



Doing the right thing by our people, our clients, society and protecting our business

Delivering critical services throughout lockdown

Operational impact



Initial operational impact recovered, operating at 90% productivity with resilient working practices

Mitigating actions



Strict safety measures put in place to protect our workforce

Enabling effective remote working and supporting the wellbeing of our teams

Safeguarding jobs and supporting job creation programmes

Management actions to protect our financial strength

Our team, partners and clients have been outstanding in their response during the pandemic



COSTAIN

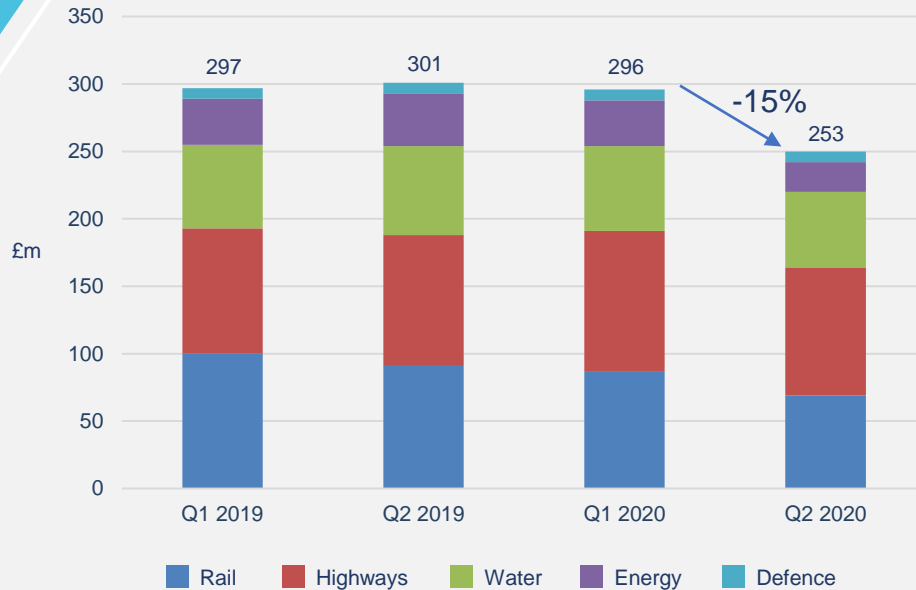
Tony Bickerstaff

Chief Financial Officer



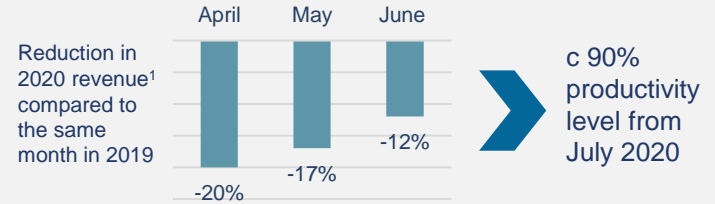
Revenue

Revenue¹ by sector



Total H1 2020 adjusted revenue¹ down 8.4% at **£548.7m** (H1 2019: £599.2m)

COVID-19 impact reducing month on month:



Revenue change Q2 2020 versus Q1 2020



Revenue £m	% change
Rail	-23%
Highways	-9%
Water	-8%
Energy	-32%
Defence	-

COVID-19 impact and actions taken

Impact: disruptions to productivity

Paused activities on several projects

Restrictions to personnel on site due to social distancing requirements

Delays to the award and start of new contracts

Additional costs for maintaining social distancing and safety equipment

Costs of re-planning activities to new operating procedures

Costs relating to support of furloughed employees

Actions taken

Utilised Government CJRS*, successfully safeguarding jobs

Almost all 360 furloughed employees have returned to work

PAYE and VAT deferred (PAYE paid July 2020, VAT due March 2021)

£1.6 million recovered through CJRS* to 30 June 2020

No Government loan schemes utilised

Salary reductions of 10%-30% for three months to 30 June 2020

Segmental income statement

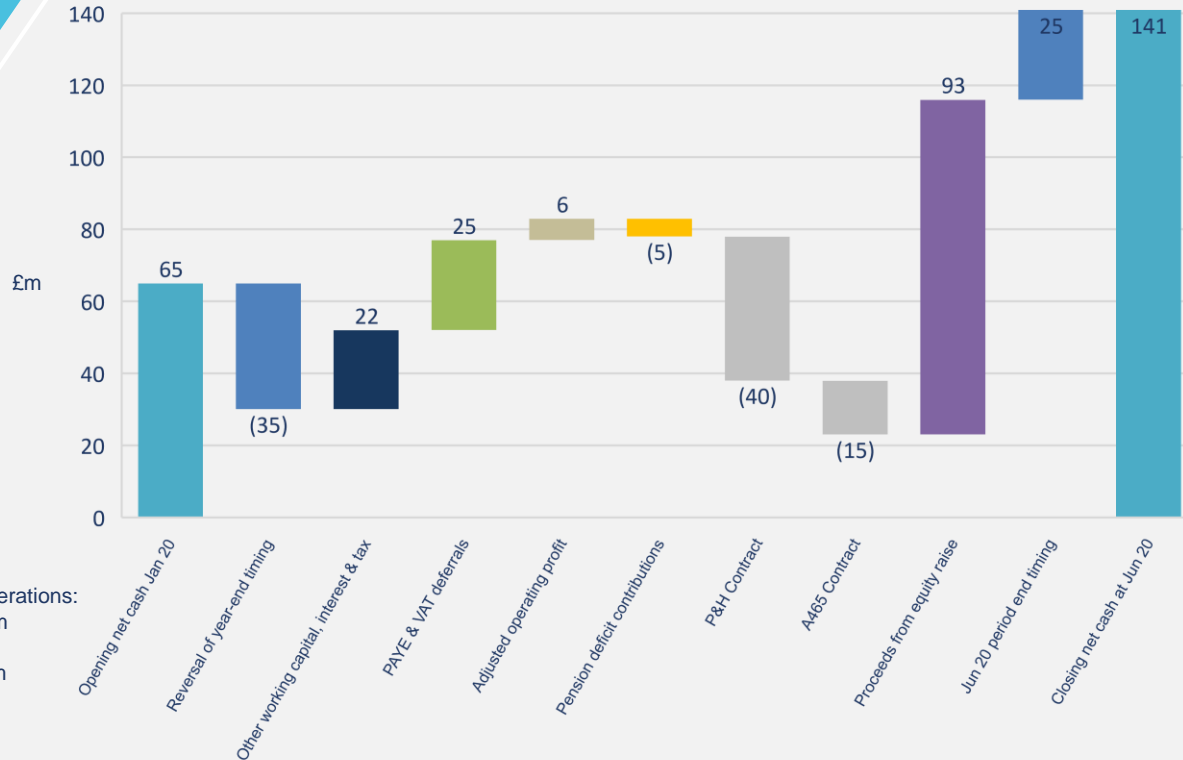
	H1 2020			H1 2019			FY 2019		
	Adjusted revenue ¹	Adjusted operating profit ²	Margin	Adjusted revenue ¹	Adjusted operating profit ²	Margin	Adjusted revenue ¹	Adjusted operating profit ²	Margin
	£m	£m		£m	£m		£m	£m	
Transportation	353.2	5.1	1.4%	380.2	14.6	3.8%	742.9	29.7	4.0%
Natural Resources	194.5	4.5	2.3%	216.0	9.2	4.3%	434.4	15.4	3.5%
Alcaidesa (Spain)	1.0	(0.1)		3.0	(0.1)		5.6	(0.7)	
Central costs		(3.8)			(2.5)			(6.5)	
Adjusted operating profit²	548.7	5.7	1.0%	599.2	21.2	3.5%	1,182.9	37.9	3.2%

Reconciliation to statutory reported figures

	Adjusted ³	P&H	A465	Other items	Statutory reported
	£m	£m	£m	£m	£m
Revenue, including share of joint ventures and associates	548.7	-	-	-	548.7
Less: share of joint ventures and associates	0.4	-	-	-	0.4
P&H contract adjustment	-	(42.0)	-	-	(42.0)
A465 contract adjustment	-	-	(45.4)	-	(45.4)
Revenue	547.3	(42.0)	(45.4)	-	459.9
Operating profit before other items	5.7	-	-	-	5.7
P&H contract adjustment	-	(49.3)	-	-	(49.3)
A465 contract adjustment	-	-	(45.4)	-	(45.4)
Other items	-	-	-	(1.4)	(1.4)
Group operating profit/(loss)	5.7	(49.3)	(45.4)	(1.4)	(90.4)
Share of results of joint ventures and associates	0.1	-	-	-	0.1
Group profit/(loss) from operations	5.8	(49.3)	(45.4)	(1.4)	(90.3)
Net finance expense	(2.0)	-	-	-	(2.0)
Group profit/(loss) before tax	3.8	(49.3)	(45.4)	(1.4)	(92.3)
Taxation	(0.7)	9.4	8.7	0.2	17.6
Profit/(loss) after tax	3.1	(39.9)	(36.7)	(1.2)	(74.7)
Basic earnings/(loss) per share	2.1p	(26.6)p	(24.6)p	(0.8)p	(49.9)p

Other items	£m
Impairment of Alcaidesa marina (on sale)	(0.6)
Impairment of legacy investment in hotel business	(0.6)
Profit on sale of Zimbabwe property holding	1.0
Capital raise refinancing advisory fees	(0.7)
Amortisation of intangible assets	(0.5)
Total other items	(1.4)

H1 2020 cash bridge



Average month end net cash¹
£56.3m
 (H1 2019: £63.7m)

Year end net cash¹ expected:
 c **£70-80m**

H2 2020 movements include:

- timing unwind
- PAYE payment
- P&H & A465 cash out

Average supplier payment in
38 days
 Invoices paid within 60 days:
90%

Note:
 Cash in joint operations:
 Opening = £84m
 Closing = £85m
 Average = £83m

Strengthened balance sheet

	30 June 2020	30 June 2019	31 December 2019
	£m	£m	£m
Assets			
Non current assets (excluding pension net surplus)	128.8	136.5	112.3
Trade and other receivables	234.8	312.9	254.4
Cash and cash equivalents	202.9	130.5	180.9
Current assets	437.7	443.4	435.3
Total assets	566.5	579.9	547.6
Current liabilities	(334.7)	(328.6)	(328.9)
Total assets less current liabilities	231.8	251.3	218.7
Non current liabilities (excluding pension net liability)	(64.4)	(76.6)	(65.9)
Pension surplus net of deferred tax	12.1	3.7	4.9
Total equity	179.5	178.4	157.7

Banking facilities of
£183m

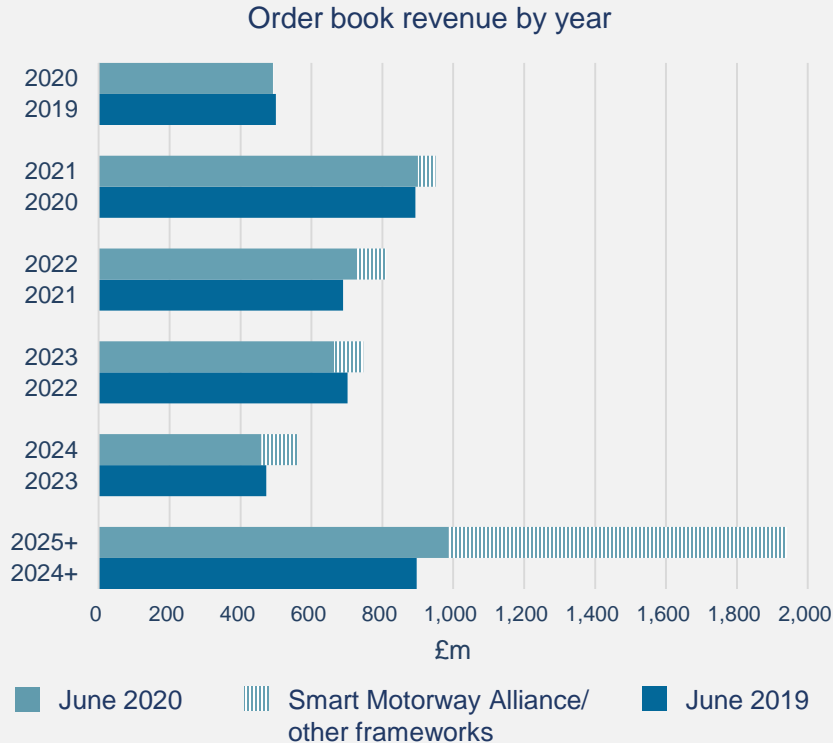
Bonding facilities of
£320m

Maturity date of
Sept 2023

Target balance sheet measures	Position at June 2020
Net assets > £200m	£180m
Current asset ratio > 1.3	1.31
High positive net cash	£140.9m
No structural debt	✓

- ➔ New capital raised
- ➔ Enhanced financial strength
- ➔ Increased client confidence

Strong order book



Order book of **£4.2bn** at 30 June 2020
 plus over **£1bn** from Smart
 Motorway Alliance and other frameworks
 (£4.2bn order book at 30 June 2019)

Over **£2bn** of contracts and framework
 positions confirmed and secured in H1
 2020

c **£900m** of work secured for 2021 plus
 additional contribution from frameworks
 (c £900m secured for 2020 at H1 2019)

The COSTAIN logo consists of the word "COSTAIN" in white, uppercase, sans-serif font, centered within a solid blue rectangular box.

COSTAIN

Alex Vaughan
Chief Executive Officer

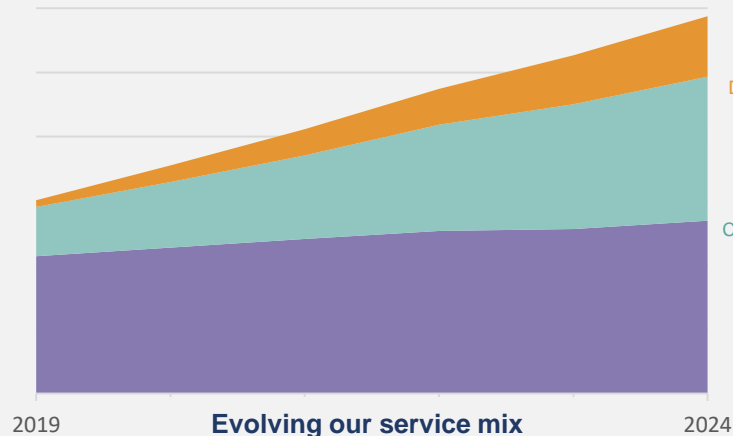
Meeting our clients' changing needs



↔ **Transportation**
Highways | Rail | Aviation



Natural Resources
Water | Energy | Defence



Digital technology solutions



Consultancy and advisory



Complex programme delivery

Focusing on complex programme delivery, consultancy and digital services

Increasing the proportion of higher margin services

Increasing divisional margins to 6% - 7%



Our core markets

TRANSPORTATION



- Highways England RIS2 and Network Rail CP6 investment programmes continuing
- HS2 progressing the procurement of the next elements of the programme
- Accelerative measures being developed as part of the Government's Project SPEED
- Aviation clients and TfL impacted by COVID-19

WATER



- Water companies progressing approved AMP7 investment programmes
- Some impact to year 1 due to challenging regulatory determination and COVID-19 response

ENERGY



- Oil price decline has deferred many conventional energy investment programmes
- Government progressing pathfinder schemes looking to increase zero carbon energy

DEFENCE



- Clients continuing to progress their critical defence equipment related programmes

£600 billion

UK Government
commitment to
infrastructure
investment over 5
years



£23 billion per annum
addressable market



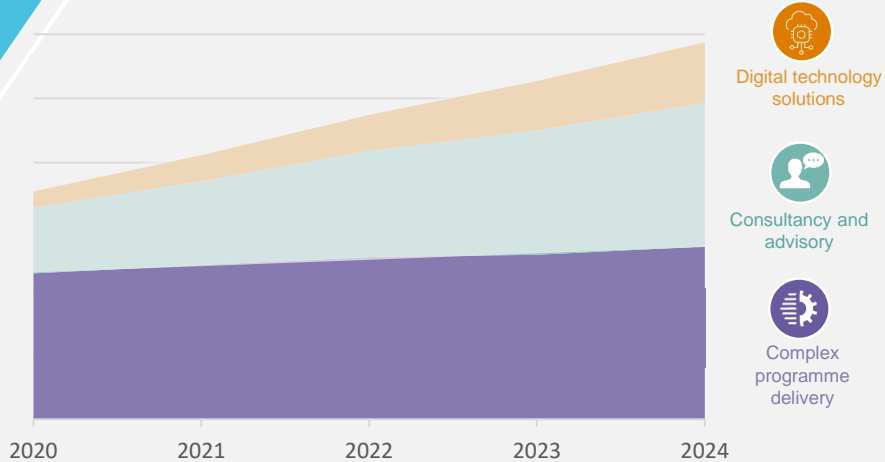
Investment priorities evolving to
focus on increased capacity,
improved resilience, efficiency,
decarbonisation and enhanced
customer service



Changing client spend; greater
proportion of consultancy and
digital tenders

Complex programme delivery

Focused on strategic long term investment programmes

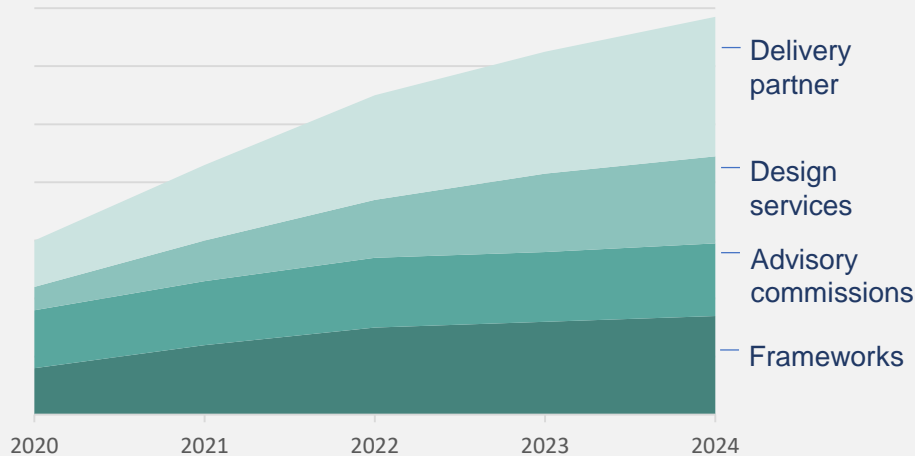


Our strong secured foundation (H1 wins):

- **Anglian Water Strategic Pipeline Alliance**
- **Highways England Smart Motorway Alliance**
- **HS2 Main Works contract**
- **Highways England A30 upgrade**
- Thames Tideway tunnel
- United Utilities managed services programme
- AMP7 capital programmes
- Highways England routes to market
- Network Rail Gatwick rail station
- East Sussex CC highway services
- Lancashire CC Preston distributor road
- Highways England maintenance contracts.

Consultancy and advisory

A 'disruptive' partner adding value with implementation bias



Our growing position (H1 wins):

Delivery partner

- **Cadent CMO**
- AWE

Design services

- **Pale Blue Dot CCS**
- Sellafeld DDP
- Network Rail design services framework

Advisory commissions

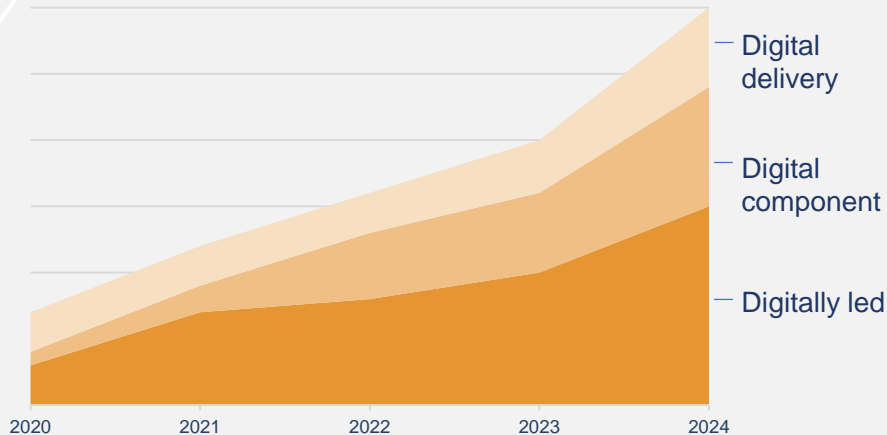
- **Bradford Smart Street Lighting**
- **Thames Water PMO**
- EDF project controls
- Dreadnought Alliance

Long term frameworks

- **Yorkshire Water Technical Services**
- **Highways England SPaTS2**
- National Grid professional services
- South Staffs Water asset management.

Digital services

Optimising performance by integrating leading digital solutions



Step changing performance (H1 wins):

Digitally led

- Thermal imaging cameras at London Heathrow
- DfT Intelligent Infrastructure Control Centre
- Level crossing enhanced safety solution
- Highways England TMTii framework
- Cooperative Intelligent Transport Systems

Digital as a key component

- Anglian Water SPA – digital twin
- SMA – stopped vehicle detection
- United Utilities managed services programme

Digital delivery

- Smart delivery platform, GIS mapping, BIM 4, U-Route, ANNIE.

Creating a stronger mix of business

Smart Motorway Alliance



Client: Highways England
Framework value: £4.5bn
Term: 10 years

- Delivering critical safety and capacity improvements across England's strategic road network
- Greater emphasis on technology and increased efficiency
- Costain to deliver the Northern programme

SPaTS2 Framework



Client: Highways England
Framework value: £300m
Term: 4 years

- Providing a range of specialist technical consultancy services
- Supporting strategic objectives including delivery of road network which is safer, more reliable, more integrated, greener and digitally enabled

Digital railway safety solution



Client: Network Rail
Contract value: £7m
Term: 2 years

- Designing and developing a digital solution to enhance pedestrian safety at remote level crossings.
- Commencing implementation of the 'Meerkat' solution at level crossings – phase 1 in the UK

Strategic Pipeline Alliance



Client: Anglian Water
Framework value: > £350m
Term: 8 years

- Providing a range of integrated services including strategic programme management, digital technology expertise and complex programme delivery
- Supporting Water Resources Management Plan

Programme Management Consultancy



Client: Cadent
Contract value: £160m
Term: 10 years

- Providing strategic planning and programme management of Cadent's capital investment programme
- Blending expertise in asset optimisation, digital systems and complex programme delivery



Transportation



Natural Resources

2020 strategic progress

Progress Leading Edge strategy and accelerate deployment of higher margin services



- Over £2 billion of contracts and framework positions secured incorporating our consultancy and digital capabilities

Enhance contract risk management



- Focus on long term investment programmes
- New Operational Excellence model in place
- No Energy EPC contracts

Improve operational efficiency to deliver £20m of annual efficiencies within 3 years



- £7m of efficiencies secured for FY20
- On track for £12m of annualised efficiencies by FY21

Focus investment and recruitment to enhance competitive proposition



- Strengthened leadership team including appointment of Sue Kershaw, MD transportation
- >50% of work winning investment on higher value services.

Our path to delivering the strategy

Strategic milestone	Run rate by December 2021	FY2024
Increase margins	Margin progression across both divisions c. 3.5% - 4%	6-7% divisional margins
Consistent profitability in complex programme delivery	New (Q3 2019 to date) secured contracts delivering 3% - 5% divisional margins	All contracts delivering divisional 3% - 5% margins
Grow higher margin services	>40% profits from higher margin services (6% - 8%)	55% profits from higher margin services (6% - 8%)
Improve efficiency	£12m annualised efficiency	£20m annualised efficiency
Enhance Group capabilities	Secure two further delivery partner programme positions	Delivery partner on five major programmes

Summary and outlook

- All contracts now operational following impact of COVID-19
- Addressing the A465 and Peterborough & Huntingdon contracts. Actions taken to mitigate other contract risks
- Strengthened balance sheet
- Over £2 billion of contracts and framework positions secured in H1
- Good momentum towards delivery of strategic objectives
- Strong pipeline of opportunities in our core markets
- Confident in delivering significant growth in profit for 2021 and beyond.

Q&A



Appendices

Ensuring a sustainable future



Our H1 achievements:

- Climate change action plan launched
- Reduction of 39% in carbon impact from travel
- Exceeded targets for spend with SMEs, voluntary, community and social enterprises
- Supported our communities with PPE, food bank donations and volunteering
- Maintained focus on diversity and inclusion, including 'Let's talk about race' workshops
- Job creation through traineeships, graduate and apprentice programmes.

Net cash position

	H1 2020	H1 2019	FY 2019
		£m	£m
Net cash ¹ at beginning of period	64.9	118.8	118.8
Cash from operations	(81.6)	20.0	26.0
Changes in working capital (excluding pension deficit contributions)	74.7	(66.0)	(33.2)
Cash flow from operating activities	(6.9)	(46.0)	(7.2)
Pension deficit contributions	(5.4)	(10.9)	(16.3)
Dividends	-	(10.0)	(13.5)
IFRS 16 leases	(6.5)	(8.0)	(13.6)
Share capital, interest, tax, fixed assets, investments and currency	94.8	(3.1)	(15.1)
Alcadesa sale	-	-	11.8
Net cash ¹ at end of period	140.9	40.8	64.9
Net cash reconciliation:			
Cash and cash equivalents at end of period	202.9	130.5	180.9
Less bank overdrafts/borrowings	(62.0)	(89.7)	(116.0)
Net cash ¹ at end of period	140.9	40.8	64.9

Other items and tax

Other Items

- Impairment from loss on sale of the Group's remaining non-core assets in Spain of £0.6m (completed in August 2020)
- Profit on sale of the Group's non-core legacy assets in Zimbabwe of £1.0m
- Impairment of the Group's non-core minority equity in a hotel company of £0.6m to a carrying value of £nil, reflecting the significant impact of COVID-19 in that sector
- One-off costs of £0.7m associated with advice received in renegotiating the Group's bank facilities alongside the new capital
- Amortisation of acquired intangible assets of £0.5m (H1 2019: £1.1m)

Tax

- The Group has a tax credit of £17.6 million for H1 2020 (H1 2019: £0.9 million charge). The tax credit includes permanent non-deductible items which offset the rate change recognised in respect of the Group's deferred tax assets resulting in an effective tax rate of 19% in line with the statutory corporation tax rate.

Legacy pension obligation

Legacy defined benefit pension scheme (closed fully to future accrual in 2009)

- As at 30 June 2020, the Group's pension scheme surplus in accordance with IAS 19, was £14.9 million (30 June 2019: £4.5 million). The position of the scheme has improved in the year due to the Company contributions and a liability reduction from using more recent mortality tables more than covered increases in net liabilities due to market movements.
- Full actuarial valuation carried out as at 31 March 2019, £99 million deficit on prudent actuarial basis
- Deficit recovery plan agreed with the Trustee at £10.2 million per annum (increasing with CPI) to 2029
- Additional contribution to match total of annual dividend

	30 Jun 2020	30 Jun 2019
	£m	£m
Fair value of scheme assets	860.2	815.1
Present value of defined benefit obligations	(845.3)	(810.6)
Recognised asset for defined benefit obligations	14.9	4.5

IFRS 16 impact

Balance sheet impact	£m
Fixed assets opening adjustment	29.7
Additions in H1 2020	12.1
Disposals in H1 2020	(3.1)
Depreciation	(6.5)
Fixed assets closing adjustment	32.1

Opening increase in current liabilities	(12.8)
Opening increase in non-current liabilities	(17.2)

Closing increase in current liabilities	(12.6)
Closing increase in non-current liabilities	(19.7)

Income statement impact	£m
Decrease in operating costs	7.0
Increase in depreciation	(6.5)
Increase in finance costs	(0.3)
Net impact on income statement	0.2

Notes

Page 8 – Revenue

1. Including share of joint ventures and associates and excluding P&H and A465 contract adjustments.

Page 10 – Segmental income statement

1. Including share of joint ventures and associates and excluding P&H and A465 contract adjustments
2. Before Peterborough & Huntingdon and A465 contract adjustments and other items; amortisation of acquired intangible assets, employment related deferred consideration and other one-off costs as shown on the income statement. As detailed in note 3 to the interim financial statements

Page 12 – H1 2020 cash bridge

1. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings

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.