COSTAIN

# Engineering Tomorrow | Costain Group PLC

## Results for the year ended 31 December 2016

# Unique strategy driving results

- Another strong performance with significant growth in both revenue and profit
- Major customers committed to spending £ billions on essential infrastructures
- Accelerating growth both organically and by targeted acquisition
- Our world is changing rapidly and fundamentally, driven by technology
- Increase in dividend reflects confidence for the future

**Costain is improving people's lives by deploying technology-based solutions to meet urgent national needs**

# Financial Review

**Tony Bickerstaff** | Finance Director

# Another strong performance

- Revenue, including share of joint ventures and associates, increased to £1.7bn (2015: £1.3bn)
- Underlying[1] operating profit up 24% to £41.1m (2015: £33.2m)
- Underlying[1] profit before tax of £37.5m (2015: £29.9m)
- Underlying[1] basic earnings per share of 31.5p (2015: 25.1p)
- Net cash position[2] of £140.2m (2015: £108.2m) reflecting positive timing of receipts at period end
- Recommended final dividend of 8.4p (2015: 7.25p) if approved, total dividend for 2016 up 15% to 12.7p (2015: 11.0p)

Notes:
1. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration
2. Net cash balance is cash and cash equivalents less interest bearing loans and borrowings

# ‘One Costain’ philosophy

- Focus on blue chip customers through long-term strategic relationships
- Delivering required broad range of integrated services
- 90% target cost based contracts
- Longer term, lower risk, more collaborative
- Ability to adapt to customers’ rapidly changing needs, driving significant levels of repeat order business

**Two reporting divisions:**

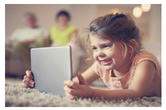
Infrastructure
Natural Resources

BUT

**Executive investment panel:**

Allocation of resources determined by opportunity

**£20 billion annual addressable market**



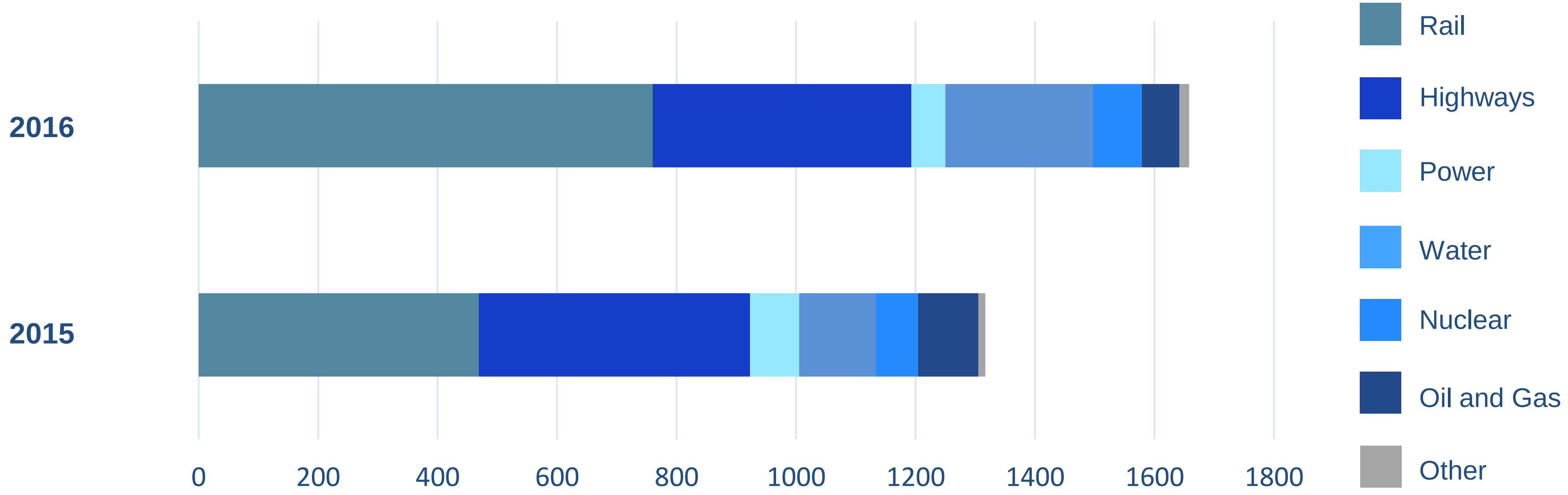
**Energy**

**Water**

**Transportation**

# Revenue growth reflects 'One Costain' philosophy

Revenue split by market (£m)

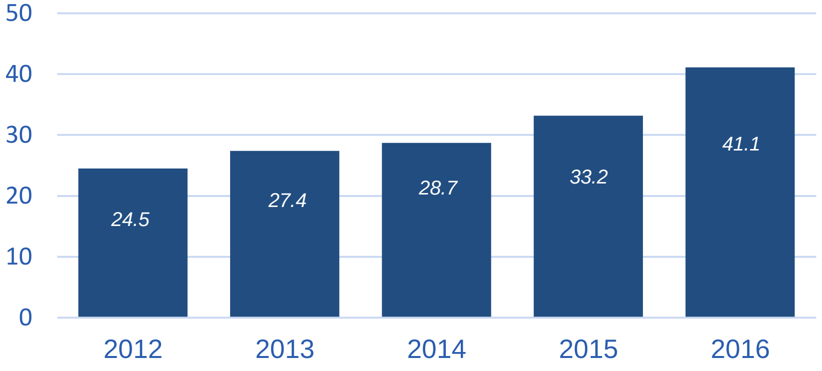



'One Costain' philosophy ensures resource focused on most attractive opportunities

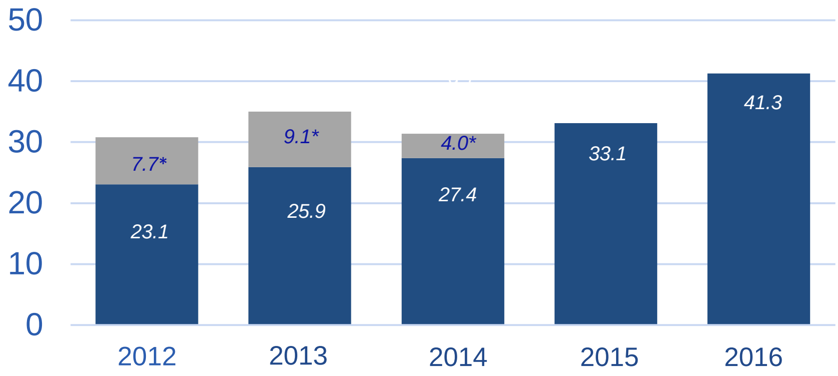
- Significant continued growth in Rail to modernise aging infrastructure
- Growth in Water reflecting AMP6 investment cycle
- Major Smart Motorways investment programme by Highways England

# Increasing profitability

## Group underlying operating profit (£m)[1]



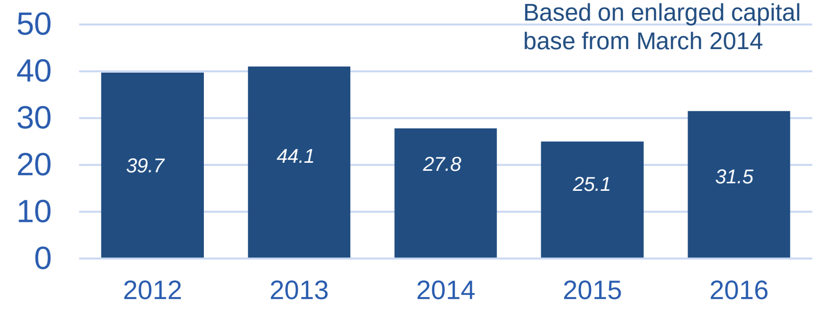

## Group underlying profit from operations (£m)[1]




* PFI & investments sales and in 2012 net of one-off costs resulting from pensions scheme liability management

## Underlying EPS (p)[1]

Based on enlarged capital base from March 2014




| Weighted average number of shares (m) | |
|---|---|
| 2016 | 102.8 |
| 2015 | 101.7 |
| 2014 | 94.6 |
| 2013 | 66.3 |
| 2012 | 65.3 |

Note:
1. Before other items; amortisation of acquired intangible assets and employment related and other deferred consideration and in 2013 exceptional transaction costs

# Segmental income statement reflects targeted resource allocation

| | 2016 Revenue[1] £m | 2016 Underlying[2] Operating Profit £m | 2016 Margin | 2015 Revenue[1] £m | 2015 Underlying[2] Operating Profit £m | 2015 Margin |
|---|---|---|---|---|---|---|
| Infrastructure | 1.276.1 | 56.6 | 4.4% | 996.1 | 50.9 | 5.1% |
| Natural Resources | 377.3 | (8.6)[3] | (2.3%) | 317.6 | (11.1) | (3.5)% |
| Alcaidesa (From 1/7/15) | 4.6 | (0.7) | | 2.8 | (0.5) | |
| Central costs | - | (6.2) | | | (6.1) | |
| Total | 1,658.0 | *41.1* | | 1,316.5 | *33.2* | |
| Alcaidesa (JV to 30/6/15) | | - | | 0.9 | (0.4) | |
| Other JVs | | 0.2 | | | 0.3 | |
| ***Underlying profit from operations***[2] | | 41.3 | | | 33.1 | |
| Net interest expense | | (3.8) | | | (3.2) | |
| **Underlying profit before tax**[2] | | 37.5 | | | 29.9 | |
| Underlying basic earnings per share[2] | | 31.5p | | | 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. In 2016 Natural Resources underlying operating profit was £6.5m before impact of Greater Manchester Waste costs and provision of £15.1m

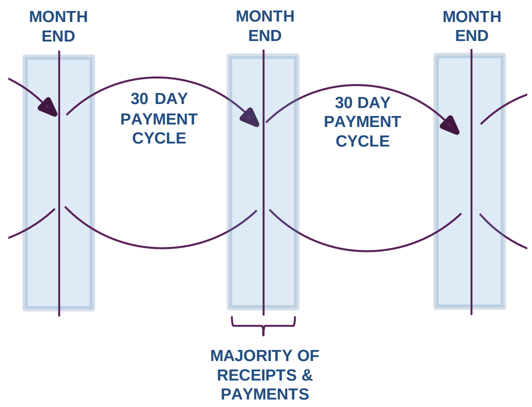
# Greater Manchester Waste contract update

- Contract awarded in 2007 as part of GMWDA PFI scheme
- All 46 facilities are operational and processing waste
- Final Acceptance of all facilities targeted in 2017
- Further works when access is available in accordance with the operational running of the plants under an agreed schedule to 2019
- Total costs and provisions taken in 2016 of £15.1m in relation to the completion of the contract
- No other contracts of this type

# Two key elements driving cash flow

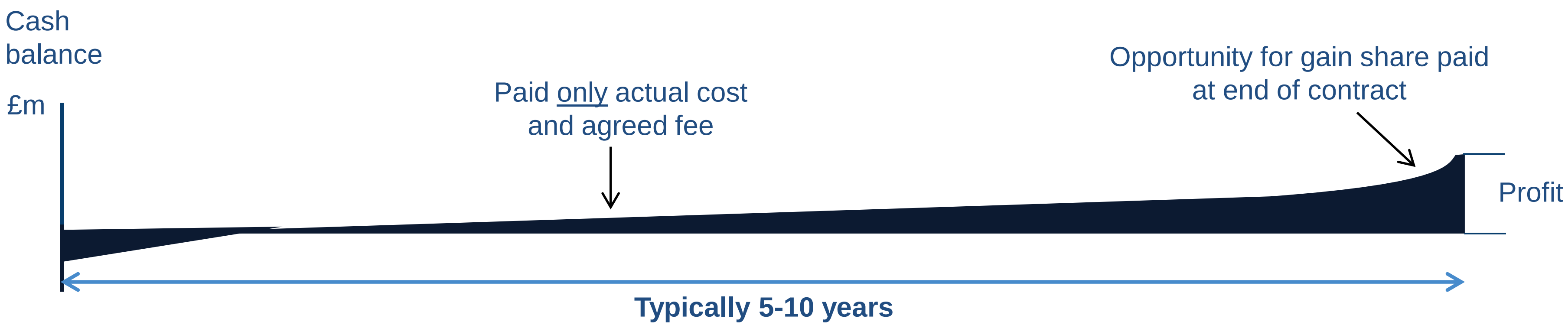
1. Net cash timing due to:

- Thirty day payment cycle
- Year end balance benefited from positive working capital due to timing of receipts including several early receipts
- Average month end balance more reflective of underlying cash position




2. Target cost, cost reimbursable contracts:

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



# Strong net cash position at year end

| | 2016<br>£m | 2015<br>£m |
|---|---|---|
| **Net cash at beginning of period** | 108.2 | 148.5 |
| Cash from operations | 49.6 | 38.2 |
| Changes in working capital (excluding pension deficit contributions) | 36.0 | (10.0) |
| Cash flow from operating activities | 85.6 | 28.2 |
| Pension deficit contributions | (14.3) | (10.0) |
| Acquisition consideration | (18.3) | (35.4) |
| Alcaidesa debt restructuring | - | (8.1) |
| Dividends | (11.0) | (9.4) |
| Issue of ordinary share capital | 2.5 | - |
| Interest, tax, fixed assets, investments & currency | (12.5) | (5.6) |
| **Net cash at end of period** | 140.2 | 108.2 |
| Net cash reconciliation: | | |
| Cash and cash equivalents at end of period | 210.2 | 146.7 |
| Less: bank borrowings | (70.0) | (38.5) |
| **Reported net cash** | 140.2 | 108.2 |

- Year end timing impact on working capital
  - positive benefit in 2016: c.£60m
  - reversal of timing benefit from 2015: c.£25m
  - net benefit in 2016: £35m
- Average month end cash balance of £69.1m (2015: £103.7m)
  - full year impact of acquisitions on 2016 average cash: Rhead: £18m; SSL: £9m
- H1 2017, year-end positive timing likely to unwind
- June positive timing less pronounced
- Small underlying working capital outflow, in line with contract terms, expected in 2017
- Average cash balance in 2017 expected to be at a similar level to 2016

# Robust balance sheet
# and increased banking facilities

| | 31 December 2016 £m | | 31 December 2015 £m | |
|---|---|---|---|---|
| Assets | | | | |
| Non current assets (excluding pension deficit deferred tax) | | 119.3 | | 103.7 |
| Trade and other receivables | 302.7 | | 274.7 | |
| Cash and cash equivalents | 210.2 | | 146.7 | |
| Current assets | | 512.9 | | 421.4 |
| **Total assets** | | 632.2 | | 525.1 |
| Current liabilities | | (441.6) | | (372.2) |
| **Total assets less current liabilities** | | 190.6 | | 152.9 |
| Non current liabilities (excluding net pension liability) | | (31.5) | | (2.9) |
| Pension liability net of deferred tax | | (59.5) | | (29.4) |
| **Total equity** | | 99.6 | | 120.6 |

- Banking and bonding facilities increased to £555m (including £155m debt facility)
- Maturity date extended to 30 June 2021

# Managing legacy pension obligation

- Increase in accounting deficit primarily due to the reduction in corporate bond yields used as the discount rate for liabilities
- Agreed full actuarial valuation at 31 March 2016 and updated recovery plan
- Total amount of contributions is anticipated to be at same level as the previous agreed plan
- Contributions at £10m for 12 months to 31 March 2017 and then £9.6m per annum increasing with inflation until 2031
- In addition, as previously agreed, an additional top-up for total contributions to match annual dividend payments

| | 31 Dec 2016 £m | 31 Dec 2015 £m |
|---|---|---|
| Fair value of scheme assets | 754.0 | 650.7 |
| Present value of defined benefit obligations | (827.5) | (687.4) |
| Recognised liability for defined benefit obligations | (73.5) | (36.7) |
| Deferred tax | 14.0 | 7.3 |
| Net pension deficit | (59.5) | (29.4) |

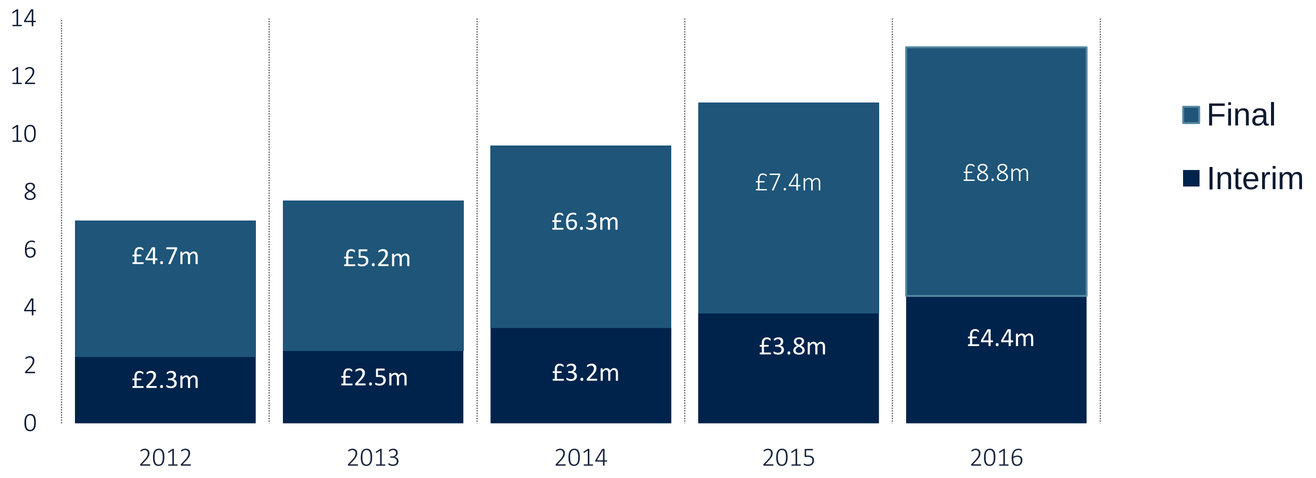
Notes

- 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

# 15% increase in recommended full year dividend

- Progressive dividend policy, targeting ongoing dividend cover of around 2 x underlying earnings
- Recommended final dividend of 8.4 pence per share (2015: 7.25 pence per share)
- Would represent a 15% increase in the total dividend for the year to 12.7 pence per share (2015: 11.0 pence per share)
- Final dividend, if approved, will be paid on 19 May 2017 to shareholders on the register as at 7 April 2017

**Total value of dividend pay-out (£ million)**



# Strategic Review

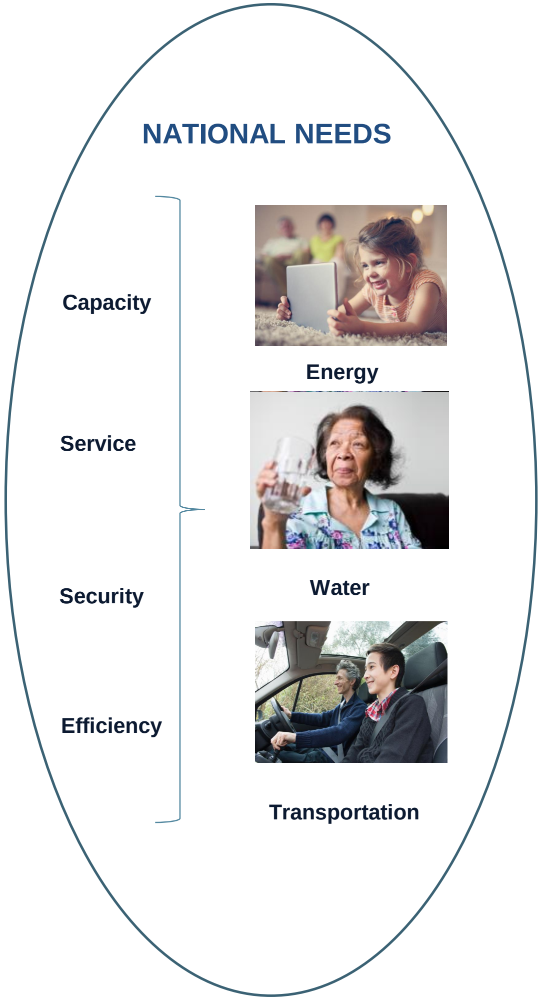
**Andrew Wylie CBE** | Chief Executive

# Our purpose:

**To improve people's lives by enhancing the UK's energy, water and transportation infrastructures**

# Our unique strategy: ‘Engineering Tomorrow’

# Targeting areas of urgent national need




- Circa £20 billion annual addressable market of committed spend
- Increasing Government and cross-party support
- Spend underpinned by legislation and regulation
- Performance bars being raised by regulators including Ofwat, Ofgem and ORR

> *"We must upgrade our standards of performance on digital, energy, transport, water and flood defence infrastructure, and better align central government infrastructure investment with local growth priorities."*
>
> HM Government, *Building Our Industrial Strategy*

# Regulators demanding more of our customers

**Increase capacity of existing networks** + **Improve consumer service** + **Ensure security of supply** **BUT** **No extra money – need to improve efficiency**

### Increase capacity of existing networks

***"The network is struggling to cope in the face of increasing traffic"***

**Highways England: *Strategic Business Plan Overview 2015-2020***

- Increase number of cars or trains
- Improve predictability and reliability
- Reduce service interruptions

### Improve consumer service

***"The level of service customers expect of us is rising"***

**Thames Water: Our five year plan**

- On-line services
- Improve choice and competition
- Real-time information

### Ensure security of supply

***"The UK energy sector is now facing a number of challenges in providing safe, reliable and secure energy"***

**National Grid: Price Control Review Consultations**

- Modernise power generation capacity
- Plan for climate change
- Mitigate geo-political risk

### No extra money – need to improve efficiency

***"Through our regulation, we aim to deliver...: Lower bills than would otherwise have been the case."***

**Ofgem: Corporate Strategy**

- Constraint of ticket prices and utility bills
- Constraint on taxation
- Public sector budget pressures

**Costain delivering solutions for our customers in this rapidly changing and increasingly complex environment**

COSTAIN

# Customer requirements are changing radically

## This is driving:

### Fundamental change in supply chain relationship

- Moving from transactional to long-term strategic relationships
- Placing larger, long-term contracts
- Consolidating their supply chains
- Demanding broad range of integrated services

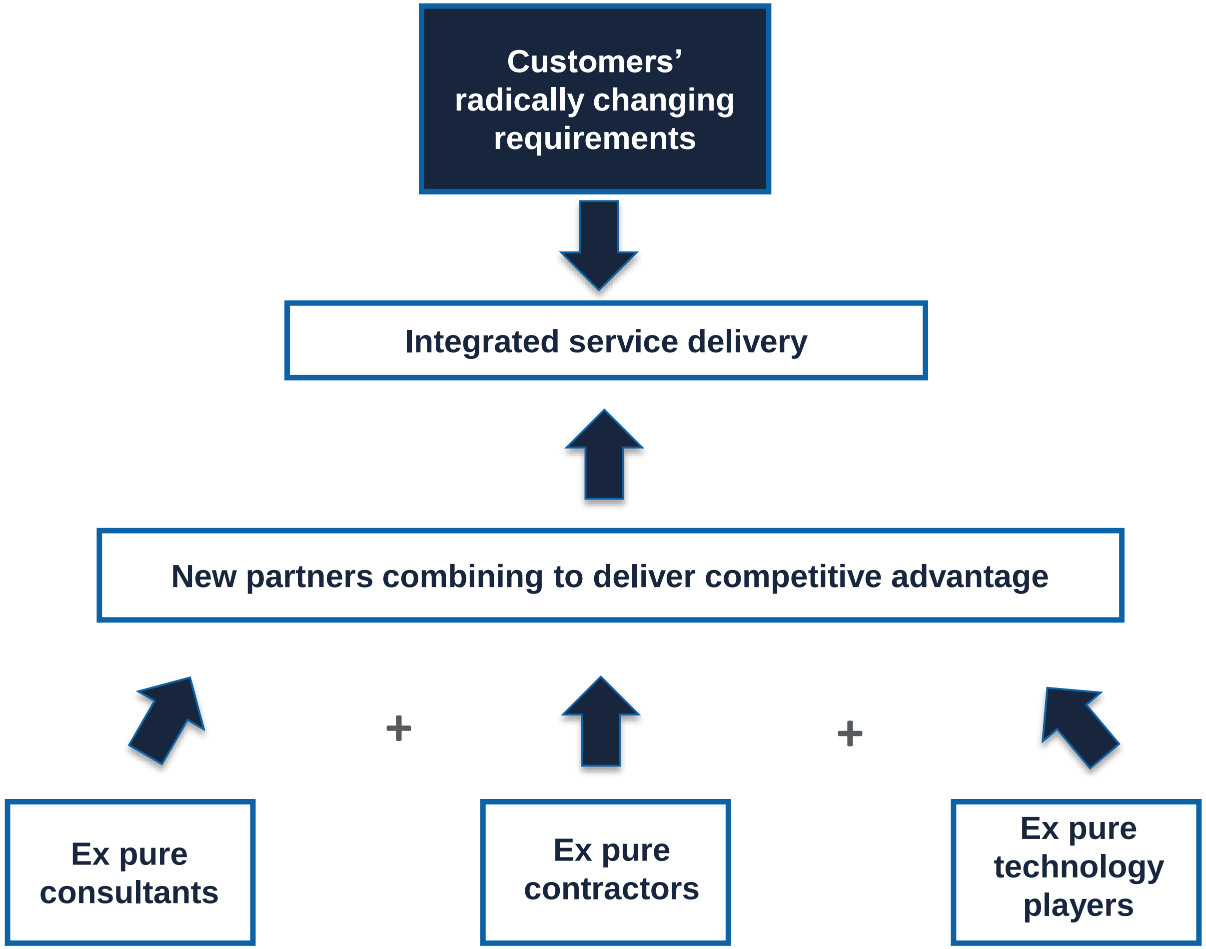
### Revolution in the use of technology

- Every contract will have a significant technology component
- Technology capability key to addressing customer requirements
- Need for real-time asset monitoring
- 24/7 data provision enabling enhanced customer service

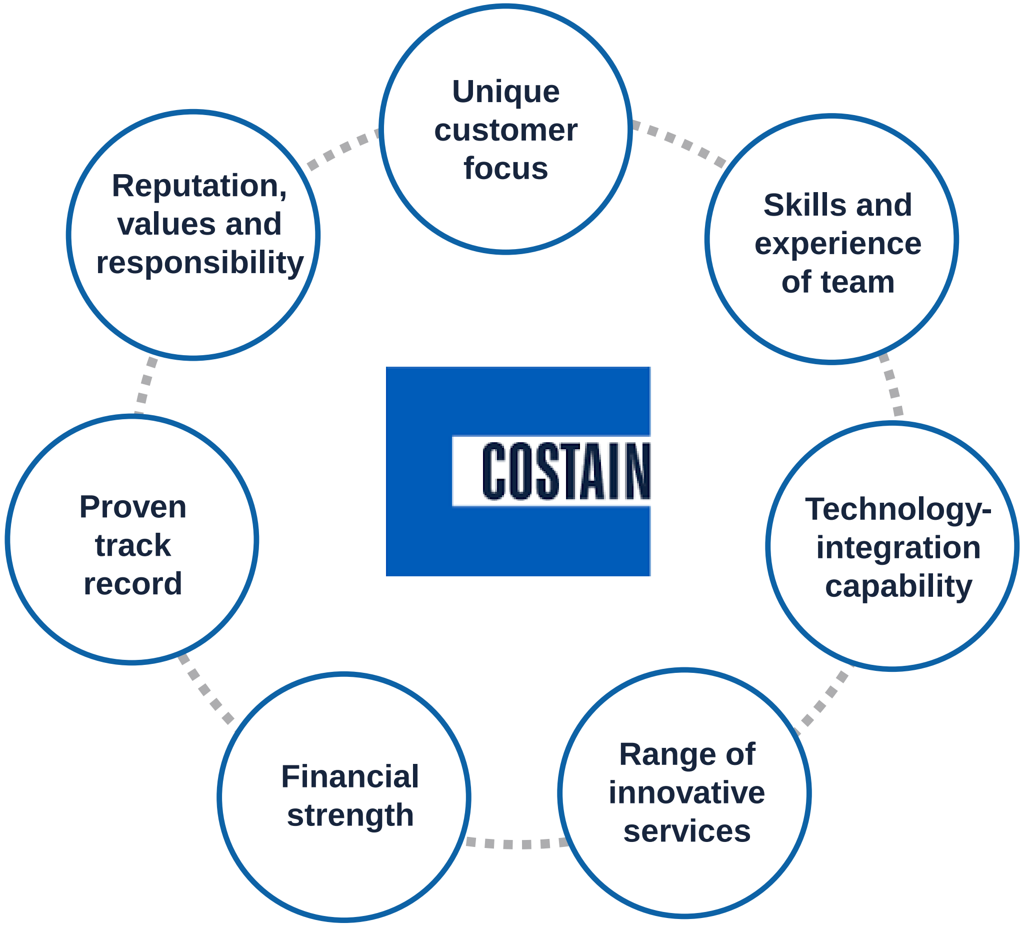
BLUE CHIP CUSTOMERS

# Our world is changing rapidly and fundamentally

- Every contract will have a significant technology component
- This is driving convergence of the supply chain to meet customer requirements
- Therefore we have:
  - New partners
  - New competitors
  - New opportunities



# Why customers choose Costain




**Our ability to meet all these requirements gives us competitive advantage, for example:**

- 90% repeat business
- 750 chartered professionals
- Acquisition of SSL
- Order book comprises broad range of services
- Strong cash position
- Order book £3.9bn
- Over 12,000 volunteering hours

# Continuing to develop the best team

## Investing in tomorrow's talent

- Over 950 new starters in 2016
- 200 graduates in award-winning development programme
- 120 apprentices across a range of disciplines
- 13 sponsored PhD students at leading universities

## Growing and evolving our team

- Total headcount of over 4,100 people
- Over 1,200 now in consultancy and advisory roles
- More than 750 chartered professionals across a wide range of disciplines

## Continuing professional development

- Every employee has a personal development plan
- Over 50,000 training and development hours in last 12 months

Highways Magazine Excellence Award: Best Use of New Technology in the Highways Industry

IOSH Present's Awards: services to Health and Safety, CiM6 Frameworks SHEQ Manager, Lawrence Webb

Offshore Achievement Awards: Young Professional of the Year - Hayleigh Pearson

NCE Top 100 Winner of the Technical Excellence category - Oliver Teall

National Undergraduate Employability Awards: Top 100 Undergraduate Employer

Royal Society for the Prevention of Accidents Awards: 2 Order of Distinction Awards, 4 Gold Medal awards and 7 Gold awards

# Delivering integrated technology solutions

**We are working on major national programmes, including:**

A leading provider of Smart Motorways for Highways England

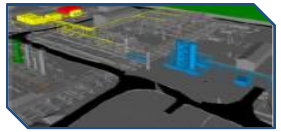
Network Rail's largest supplier

Strategic asset management partner to Thames Water, UK's largest water company

Programme Manager on Feeder 9 scheme for National Grid


**Examples of where we are deploying technology:**

**Advanced vehicle technology:** automatic recognition technology for the management of vehicles.



**Analytics and predictive services:** technology used to predict impact on infrastructure during extreme events.

**Deployment of workforce and workflow technology:** improving customer experience and efficiency through automated workforce management.

**Applying algorithms:** capturing asset data to optimise maintenance and operations.

**Aerial solutions:** using unmanned aerial vehicles to help cut surveying time.

# Acquisitions to enhance further our integrated service offering

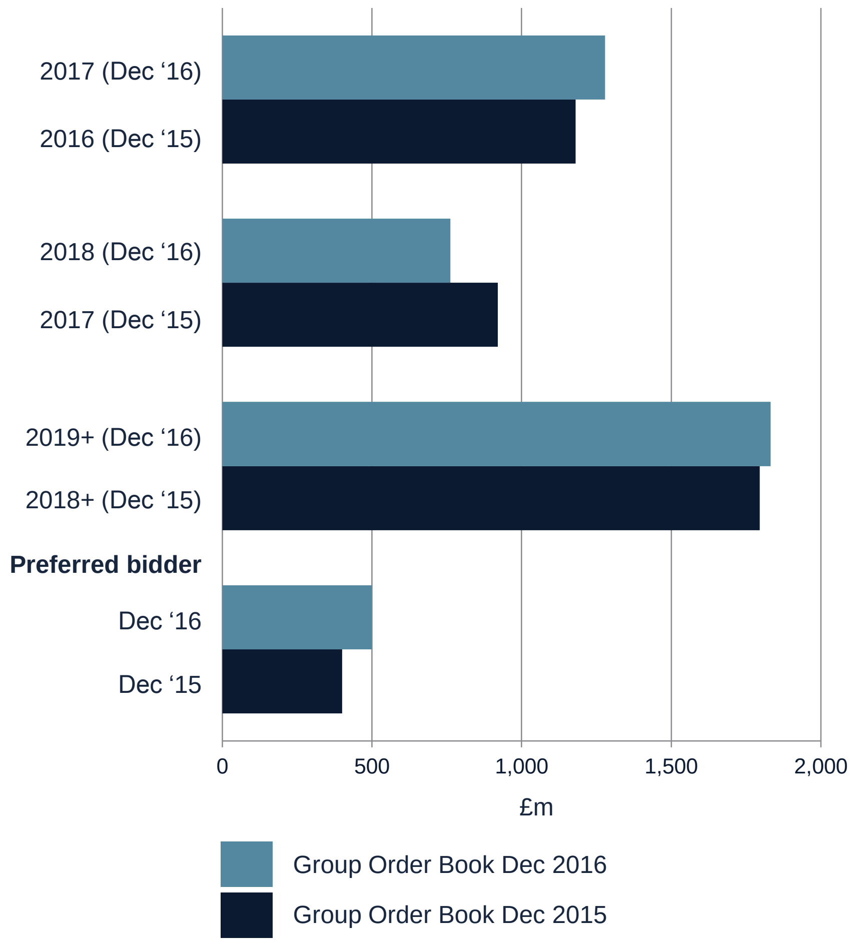
- Provider of innovative highways technology based solutions with potential application across the Group
- Acquired July 2016 for £17m
- Fully integrated, rebranded and performing well


- 550-strong professional services consultancy
- Acquired August 2015 for £36m
- Fully integrated, rebranded and performing well

# Enhanced range of services being delivered across a broadening contract portfolio

- **Sellafield** Decommissioning advice
- **Network Rail** West Cost Electrification
- **Crossrail** Paddington Station Development
- **London Underground** Bond Street redevelopment
- **EDF** Hinkley C Project Controls
- **Highways England** Digital asset consultancy
- **Welsh Government** M4 Corridor Upgrade
- **BAE Sy** Earnec manag
- **l Grid** sultancy
- **SSE** Consultancy support services
- **National Grid** Feeder 9 programme management
- **Thames Water** eight$_2$O Alliance
- **East Sussex CC** Highways maintenance services
- **MOD** Project management and controls
- **Highways England** Smart Motorway M1 J32-35A
- **Severn Trent Water** Amp 6 Programme
- **Crossrail 2** Consultancy services
- **HS2** Phase 2 consultancy
- **National Grid** St Fergus asset health advisory
- **Total** Edradour gas plant development
- **Network Rail** London Bridge station redevelopment
- **Thames Tideway** East Section
- **EDF** Hinkley C marine works
- **Nation** Tech Serv
- **rk Rail** GIP
- **Highways England** Area 12 asset support
- **National Grid** Technical support
- **Scottish Water** Shieldhall tunnel
- **Network Rail** Crossrail Anglia
- **Crossrail** Bond Street station development
- **Rolls Royce** Project management and controls
- **Welsh Government** A465 upgrade

# ‘Engineering Tomorrow’ strategy continuing to generate a record order book




- Order book maintained at record £3.9bn level
- Over £1.2bn of revenues already secured for 2017
- Over £2.7bn of revenues secured for 2018 and beyond
- Over 90% repeat business
- Order book is combination of new orders, extensions and scope increases

# Summary

- Another strong performance as a consequence of our 'Engineering Tomorrow' strategy
- Customers committed to spending £ billions on essential infrastructures
- Our world is changing rapidly and we are well-positioned
- Good visibility giving confidence for the future

**Costain is improving people's lives by deploying technology-based solutions to meet urgent national needs**

# Engineering Tomorrow | Costain Group PLC

## Results for the year ended 31 December 2016

# Appendix

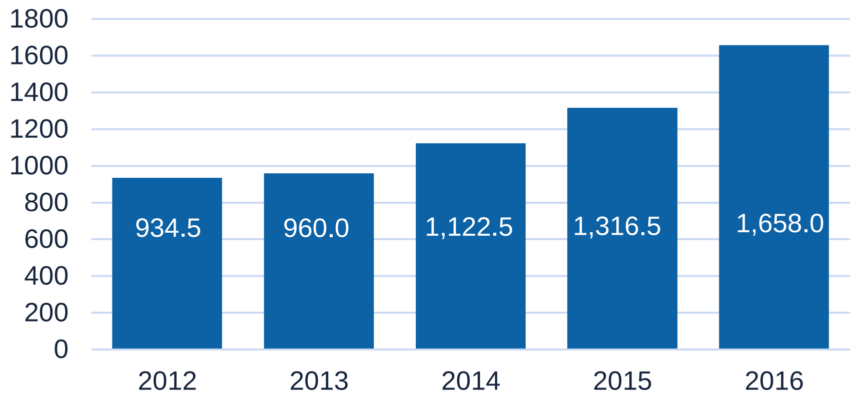
# Costain financial review

## Key historic financial information (£m)

| Year end December, £m | FY12* | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|
| Revenue including share of joint ventures and associates | 934.5 | 960.0 | 1,122.5 | 1,316.5 | 1,658.0 |
| Underlying operating profit | 24.5 | 27.4 | 28.7 | 33.2 | 41.1 |
| margin[1] | 2.6% | 2.9% | 2.6% | 2.5% | 2.5% |
| Underlying profit from operations[1] | 30.8 | 35.0 | 31.4 | 33.1 | 41.3 |
| Profit before tax (Reported) | 24.7 | 12.9 | 22.6 | 26.0 | 30.9 |
| Cash generated/(used by) operations** | (22.3) | (32.9) | 43.6 | 18.2 | 71.3 |
| Cash and cash equivalents | 107.4 | 84.3 | 148.5 | 146.7 | 210.2 |
| Net cash | 105.7 | 57.7 | 148.5 | 108.2 | 140.2 |

**Source** Costain company reports
**Notes:**1. before other items
* FY12 Restated for revised IAS 19 Employee benefit accounting standard
** Pre-interest and tax

## Revenue, including share of JVs & associates (£m)



# Other items and tax

## Other Items

Amortisation of acquired intangible assets – £4.6m (2015: £3.2m)

Employment related and other deferred consideration – £1.6m (2015: £0.4m)

- 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
- SSL – 3 years from acquisition date

## Tax

- 2016 tax rate at 14.6% on adjusted profit before tax (2015: 14.6%)
- Includes benefits of R&D tax relief and positive timing differences
- Normalised rate expected to be c. 18-20% on non JV profit

# 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 £26.3m (currency risk hedged)

Assets regarded as non-core