The value of Costain

Founded 1865

COSTAIN

'ENOUGH IS ENOUGH'

Time to Create a Sustainable Future from a financially unsustainable Past

Based on
Financial Strength
&
Honest
Financial
Reporting

Financial statement fraud is the deliberate/intentional misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements to deceive financial statement users, particularly creditors and investors.

ACFE Fraud Examiners Manual

Time for Costain to be acquired by a financially stronger Group

Private & Confidential

Produced by Greg Malpass
www.thinkbigpartnership.com
June 8th, 2022

Analysis & Offer of Advisory Services
Without Prejudice

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Executive Summary

Times have been hard for the construction sector over recent years. Since the Carillion bankruptcy- with Brexit and Covid-19 - there have been further companies going into administration including Interserve. Other 'Majors' like Kier, Galliford Try, Costain and Amey have been forced to sell off profitable divisions or seek new financing to survive.

Costain never fully recovered from its near financial demise in the early 1990's and had to sell all its higher margin businesses to survive. Ever since, net cash flow generation from operations has been relatively weak, negative in 14 of the last 30 years, with problem contracts burdening year on year cash flow. Poor operating cash flow continued to be substantially negative (£220m) in six of the last fifteen years, negating the cumulative positive cash flow of £313m in the other nine years While only £93m of net operating cash has been generated in the last 15 years, Costain has survived by generating cash from the £64m proceeds of asset sales in the last 15 years, and three Rights Issues generating £239m in cash. Non-operating cash generation has totalled £303.6m in 15 years (£20m per year on average compared to £6.2m from operations). Meanwhile cumulative declared Group Losses over 30 years were £311m, although with some improvement and declared Profits before tax amounting to £196m over last 15 years. While consecutive CEO's (with cumulative remunerations totalling in excess of £15m over the last 15 years) have arguably been efficient in overseeing operations, they have proven to be disingenuous in consistently misrepresenting Profit Levels in bad years to maintain confidence when Operating Cash Flow was negative, causing further damage to the share price when inevitable Cash Calls/Rights Issues have subsequently been necessary to restore finances and survive as a 'Going Concern'. Meanwhile Market Value has dropped by £63m in last 15 years, from £170m in 2007 to £107m in 2022.

The current Costain Chairman Paul Golby is resigning from the Board during 2022, and the CEO, Alex Vaughan, is a career Costain man and was a key player during the Stuart Doughty/Andrew Wyllie lack lustre period. He is unlikely to represent the leadership required to turn Costain around and provide the radical new strategy required. Costain in its current under-capitalised form, with its current senior management, as a Listed PLC likely remains an unsustainable model without future financial support from shareholders. 'Back to the Future' of declaring profits when problem contracts and negative cash flow inevitably arise to appease shareholders is an unattractive option. Costain should be backed into a larger player that can absorb one-off losses, and preferably avoid them with stronger management.

In terms of market opportunities, Boris Johnson has announced a £600bn infrastructure spending spree over next 10 years, and Balfour Beatty, Laing O'Rourke and Morgan Sindall are the only three groups who are currently financially fit enough to bond up major projects and entertain ambitious growth. Nevertheless, on the bright side for Costain, it is a major player in most key investment sectors (Transport, Energy, Utilities and Defence) – and post 2019 Rights Issue, liquidity has improved, net cash levels are circa £100m, and Book Value/Market Capitalisation ratio has increased from 0.2 in 2007 to 1.8 in 2022, indicating that the stock price is likely currently under-valued.

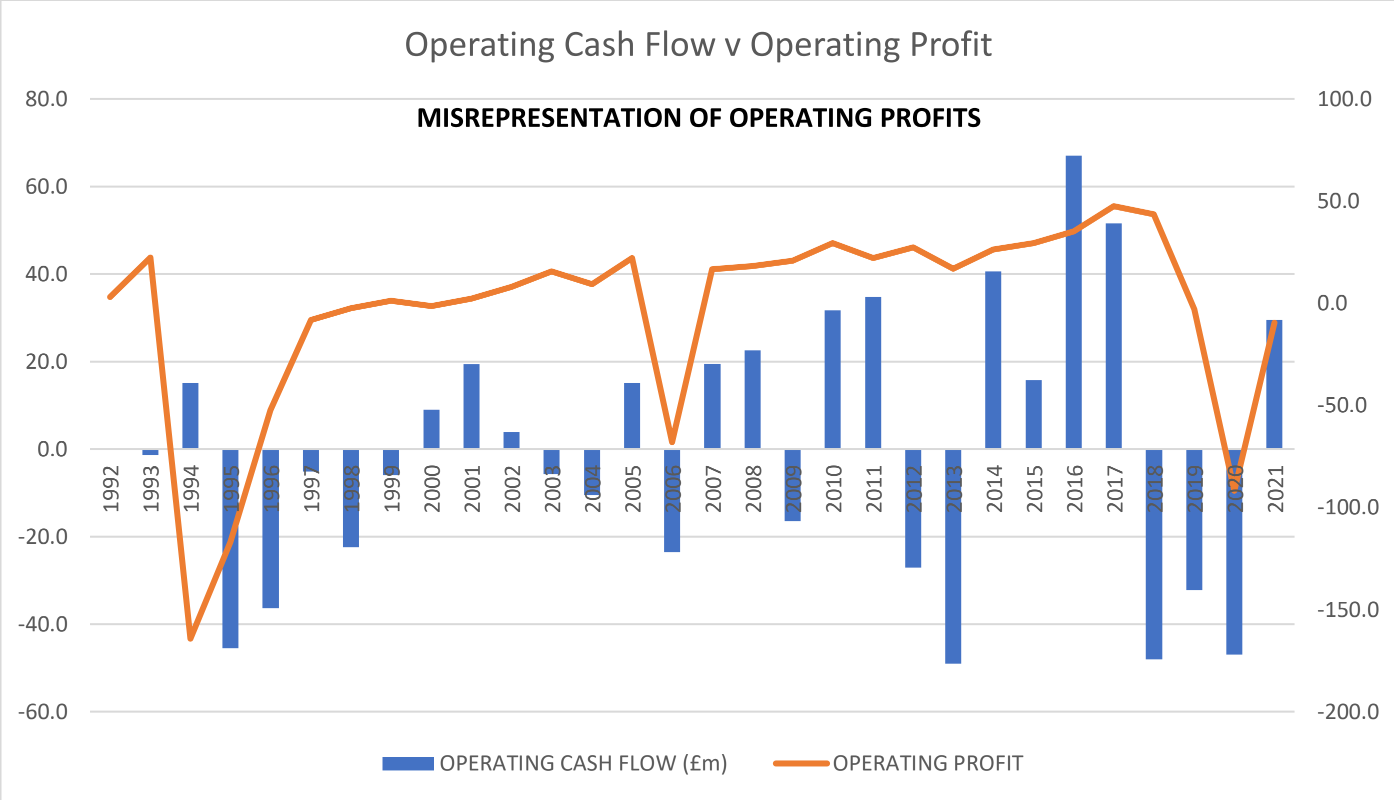
Think Big Partnership's considers that it is currently the most opportune time for a non-UK contracting entity, or overseas investor, to make a strategic investment or seek a strategic alliance to establish a significant position in the future UK construction sector. Costain is a prime target. It is time to 'clear the decks' and seek a financially strong majority shareholder/acquirer who sees the value in Costain and can back its growth strategy with investment and strong leadership. Taking Costain private in the process is an option (with a subsequent re-listing after turnaround), or a Reverse Takeover of Costain Plc is another. Attempts by Think Big Partnership to approach 15% shareholder ASGC with proposals for the latter were rejected during May 2022. Dialogue with other potential investors continue.

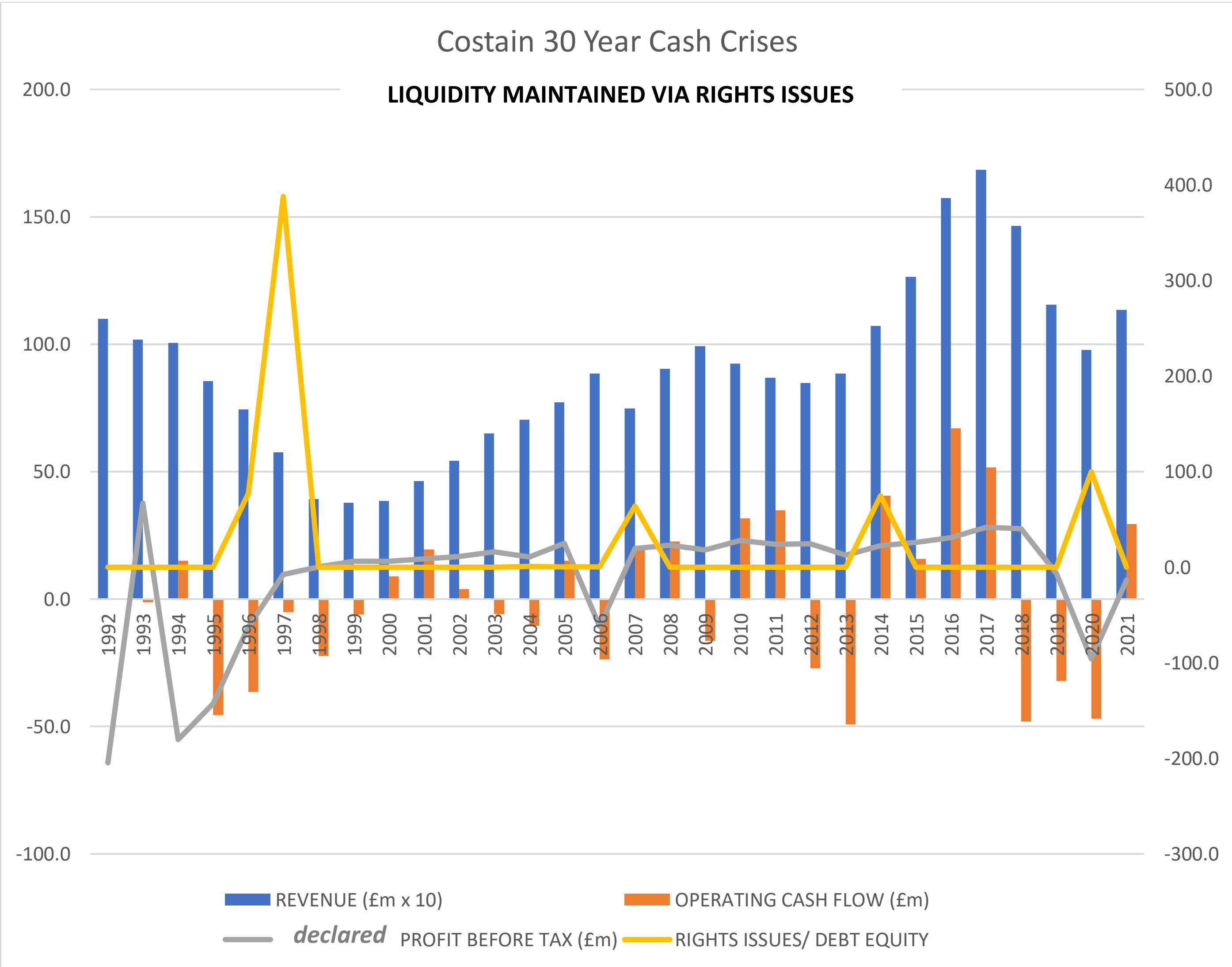
Offer of Think Big Partnership Services

The Think Big Partnership is offering its corporate advisory services directly to the Chief Executives of potential investor companies, on an exclusive basis and on terms of strict confidentiality, under contract and to an agreed timescale with its UK and European based President and Managing Partner acting as 'Retained Consultants' in the roles of 'Acquisition Team Strategy Advisors' during the pre-acquisition and due diligence period, and as Interim Chief Executive (CEO) and Chief Strategy Officer (CFO) during the period of strategy implementation and turnaround post-acquisition.

Greg Malpass
Managing Partner, Europe
www.thinkbigpartnership.com
June 8th, 2022

The Story in Graphs





“Rights Issues R-US”

Introduction

Costain Group plc is a British construction and engineering company headquartered in Maidenhead, England. Founded in 1865, its history includes extensive housebuilding and mining activities, but it later focused on civil engineering and commercial construction projects

In the 1980s, recognising that exceptional Middle East profits could not continue, Costain sought to redeploy its extensive cash balances into coal mining, international housing and commercial property. However, over expansion in the end of the 1980s led to high gearing just as international markets were turning down, problems exacerbated by a disastrous explosion which killed ten people in 1989 at a Costain owned coal mine in the United States, for which the firm was fined $3.75m in February 1993

In the meantime, in 1985, Costain was part of the Trans-Manche Link consortium that constructed the Channel Tunnel.

Substantial losses were incurred in the beginning of the 1990s, and asset sales followed, leaving Costain as a predominantly construction-oriented business. At a dramatic low point in April 1995, the demise of Costain was predicted, incorrectly, by broadsheets in the United Kingdom. It was not expected to survive as an operating company by the end of the century. In 1999, Brewer Gold Mine, a U.S. subsidiary of Costain, abandoned a gold mine in South Carolina, which had been closed, and ceased performing its remediation duties

Under Andrew Wyllie, CEO from September 2005 to May 2019, Costain invested in technology and consultancy staff, which in March 2018 comprised a third (1,300) of the company's then 4,000 employees. Alex Vaughan succeeded Wyllie as CEO in 2019.

In June 2019, a gloomy trading update following delayed and cancelled projects, led to Costain shares slumping over 35%. In December 2019, a court ruling increasing Costain's liabilities on a Welsh road project led the firm to cut its full year profit forecasts; its share price fell a further 19% in early trading.

On 11 March 2020, Costain announced a £100m rights issue, aiming to strengthen its balance sheet after it suffered a £6.6m pre-tax loss on revenues of £1.16 billion in 2019; the news sent Costain shares down another 34%, with the plunge continuing the following day, dropping below £1 to 88p. The company was also affected by the COVID-19 pandemic shutdown with major projects (amounting to a third of operating revenue) suspended. As a result, the board and senior leadership team agreed a 30% reduction in salaries and fees for up to three months, while also making other short-term economies. In early May, Dubai-based contractor ASGC Construction said it planned to invest £25m in Costain's £100m rights issue, giving it a 15% stake in the group. The rights issue was concluded in late May 2020, with ASGC becoming Costain's biggest shareholder.

The writer has believed for over 15 years that Costain would thrive better as a subsidiary of a financially stronger player and expressed that view to the Chairman of Costain in 2014. With Costain’s low share price and high Book Value to Market Capitalisation – it is considered the most opportune moment to secure a change in ownership structure and management, and it is proposed that a Reverse Takeover/Merger of ASGC’s Dubai operations with Costain’s UK listed business as the best way forward. Costain also has a long history in the development of Dubai dating back to the early 1970’s.

History of Financial Struggle

Costain’s shares were suspended in November 1996, after disastrous events and losses totalling £657m between 1992 and 1996. In the period 1995-1997 £180m cash was raised from business and asset sales, followed by £130m of cash from Rights Issues in 1996/97, and a £336m Bank Debt for Equity conversion. Under new management, shareholding, and business model – Costain continued to trade as a pure contractor after its financial re-structuring.

But by 2006 it was clear that in the 10 years since re-financing the Group Cash Flow Performance had been far from impressive, and again the Group needed re-financing. The writer undertook a study in 2007 while in Hong Kong. That study report was shared confidentially with the Chairman, CEO/CFO and selected Board Directors of Costain Plc.

The writer was instructed by the Chairman (while in Kuala Lumpur) not to share the findings of the study or report with any other parties.

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	10Yr Total	10 Yr Av
Group Cash Flow (Last 10 years since refinancing in 1996)													
Operations													
Cash from Operating Activities		-5.1	-22.4	-6	9	19.4	3.9	-5.8	-10.5	15.1	-23.6	-26.0	-2.6
Interest/Tax Paid		-7	-1.6	-1.8	-1.5	-0.5	-0.8	-0.7	-0.3	-0.1	-0.5	-14.8	-1.48
Investment Activities													
Sale of Assets/Businesses		41.2	1.1	2.1	3.5	1	0.1	0	0	0	7.3	56.3	5.63
Interest Recd		2.4	4.1	2.2	3.1	2.8	2.4	2.2	2.6	2.4	2.6	26.8	2.68
Dividends/ Capital Repayments Recd		0	0	0	0	0	0	6.4	4.6	0	6.1	17.1	1.71
Other Investments/ Loans to Assoc		-5.4	-5.1	-2.9	-2.5	1.9	-1.6	-1.9	-5.1	-7.2	-13.1	-42.9	-4.29
Financing													
Issue of Shares	77.6	52	0	0	0	0	0	0.9	0.9	0.5	0.3	132.2	
Issue Costs		-4.5	0	0	0	0	0	0	0	0	0		
Movement in Loans		-45	-0.9	-2.8	-3.1	-2.9	0	0.3	0	0.4	0.9	-53.1	-5.31
Net Cash Flow		**28.6**	**-24.8**	**-9.2**	**8.5**	**21.7**	**4**	**1.4**	**-7.8**	**11.1**	**-20**	**13.5**	**1.35**
Cash (Loans/Lease/Forex)		52.2	0.3	2.6	3.9	3.4	0.5	-2.1	0.7	0.4	0		6.19
Cash at End of Year		61.4	36.9	30.3	42.7	67.8	71.3	70.6	63.5	75	55		57.45
New Equity Cash	-77.6	-52											
Cash Flow		-23.4	-24.8	-9.2	8.5	21.7	4	0.5	-8.7	10.6	-20.3	-41.1	
	-77.6	-75.4	-24.8	-9.2	8.5	21.7	4	0.5	-8.7	10.6	-20.3		
Assuming 8% COC NPV	-£149.03 LOSS												

(new shareholders have received no cash/dividend return on their £130m investment, capital gain/ market value of investment raised c. 40%)

"£130m of new equity cash in 1996/7 and £56m cash proceeds from the sale of assets/businesses have been used to fund a 10 year negative cash flow from operations of £26m, repay £53m of legacy loans, and invest £43m in new ventures, including loans to associate companies, the value of which was written down in 2006. The development of the PFI/Property asset businesses are crucial to the health of the business, unless Costain can deliver a sustainable operating cash flow from its contracting operations going forward. Outside Civil Engineering which represents 80% of the Order Book, it is unlikely that Building/COGAP will deliver the required cash flow without merging with another company to achieve synergy and performance levels. 1992-2006 Total Net Cash Flow from Operations, Investment Activity & Financing was £13.5m. However Cash levels have fallen £6.4m (£61.4 - £55.m), and Overall Net Assets have fallen 26.8m from £19.7m to £7.1m (excluding the 2006 £48.1m Pension Liability). The major problem that Costain has faced is a Net Negative Cash Flow in its Contracting Operations which needs to be addressed in the Forward Order Book/Strategy. More Civil Engineering Projects such as the M25 / A13 are likely to be target type contracts. Water, Waste & Highways will be the sectors of focus."

Circumstances and Analysis leading up to <u>2007 Rights Issue</u> (Profit declaration – Alleged Misrepresentation) including a 15-Year Analysis Post <u>1996/97 Rights Issues</u>

The writer undertook a complete 15 Year Case History/ Cash Flow Review (prior to the third proposed Major Rights Issue/ Cash Call in 2007)

COSTAIN **2007 HONG KONG REVIEW**

" Operating Performance Is the Builder of Both Profits and Brands"

Lefty Panayiotou

There is no doubt that a good brand inspires trust. Why do I always rent a car from Hertz, eat Weetabix for breakfast or fly Virgin or BA as opposed to a cheaper foreign carrier.

A trade mark is a trust mark, which customers believe guarantees the quality of the product or service they are purchasing. The new Dettol hand-wash liquid soap has been named 'Product of the Year' when in reality it is probably no more powerful in fighting bacteria than the generic products from Sainsbury or Tesco. Some brands are so strong that they become part of our vocabulary. My mother used to 'hoover' the carpet. She never vacuumed it. Americans put 'Band-aids' on minor abrasions rather than plasters.

Integral to a service provider brand is the consistency of its quality, and this can only come from the intellectual capital of its workforce and the strength of its internal processes that ensure consistency of approach across all divisions and departments.

In the UK construction sector, there have been significant changes in brand perception over the last twenty years. Back in the late eighties, the strongest brands were Bovis, Costain, Laing, Taylor Woodrow, Trafalgar House, Tarmac, and Wimpey. Amec was struggling to find a new identity after the merger of William Press & Leonard Fairclough, Balfour Beatty, was simply the construction division of BICC, Ray O'Rourke was an Irish concrete subcontractor, Morgan Sindell was a much smaller player, internationals like Lend Lease, Skanska and Bouygues hadn't arrived, and names like Carillion, Rok, Connaught, Midas and Ardmore would have been dismissed as irrelevant.

So why has there been such a change over these last two decades? Principally, because of changes in financial performance and this has had a catalytic effort on all the other resources these companies have been able to draw on.

Mergers that never realised synergies, quickly lost investor support, customers wavered and key employees jumped ship. This led to poorer performance, which meant more lost confidence and further staff turnover. Once a company is on a downward spiral it is very difficult to get off it and the end usually comes swiftly with either liquidation or wind down, or a sale or merger.

However the underlying financial strength of a construction company comes only from its site performance. Nothing else matters. Gone are the days when a smart commercial department could outwit a client and eschew additional revenue to offset its own company's self induced errors, omissions and under-performance.

By definition the construction sector are principally contractors, and therefore the terms and condition under which work is undertaken are paramount, but for every expert that will support the contractor's position, there seems to be a lot more who will side with the client. So doing a good job is far better than trying to argue that a bad job was in effect a good job if only the client would accept it.

Construction companies are effectively in the risk and overhead business. The numbers of disputes over quality are relatively small, when measured against the number of contractual disputes over terms and site conditions, because things didn't work out as the contractor intended. No two buildings (with the probable exception of residential house building), or engineering projects are the same. They might be similar but something will be different and perhaps unforeseen.

Overheads is where a company spends the money its made on site. But as it can only spend what it has made, a large support structure cannot be financed out of poor site performance otherwise investors will ask for changes. As overheads is a step function of volume, a large organisation can be very vulnerable to poor site performance and find that its overhead structure will need to be unravelled every time there's a downturn.

What I'm alluding to is that unless the underlying business units are sound no amount of employee or client perception initiatives will alleviate the stress and put the business on a firmer footing. It might make senior management feel good that they have embraced a number of such initiatives, but sad though it is, social corporate responsibility, employee involvement, supply chain management, will not turn a loss making business into a profitable one.

To retain staff, knowing that your employer reviews your performance annually is encouraging, so is having a fully expensed car and a pension plan. But at the end of the day, in today's environment, employees have little loyalty to their employer and vice versa. A downsizing will not be held up because the workforce is against it and if employees can earn more by working for the competition, they will move without hesitation.

Supply chains are fickle. It's definitely easier for any organisation to have to deal with fewer suppliers, but everything is price driven, as both supplier and customer are only responsible for their own 'bottom lines'

So what about customers? A contractor is only as good as his last job so repeat business comes from developing a client relationship that will withstand the recriminations of a bad job. Budgets are tight everywhere, so everyone needs to perform well.

So much for generalities.....When Costain lost it's 'financial shirt' in the mid- nineties, through its disastrous north American coal mining venture, it lost all it's other resources as well, particularly in human terms. Sure the ones that would 'fight on the beaches' stayed, but they were a minority. The others that soldiered on were inevitably loyal but not the best. The best wanted to work for the best so they moved on. This is epitomised by the number of CEO's that have not really stayed in post long enough to make a difference. The company has therefore lurched forwards and backwards as ill thought through short term strategies were devised, simply because to do something, however irrelevant, was better than doing nothing.

All that has been done of recent has been well received both within and without the organisation, and the workforce and the City are probably encouraged that these initiatives, like being 'Number One' are a right move towards rebuilding the brand. But fundamentally, unless the business streams are profitable all this will be to no avail.

Today, Costain has an enviable reputation amongst the Water Utility companies; it has a good rapport with the Highways Agency and has a general competency for medium and large Civil Engineering projects. Building is seen as being only fair, PFI's are an unknown quantity, but not seen as mainstream, and the other smaller division largely irrelevant. Only the investment in Alcaidesa is seen by external investors to be a jewel and worth more than its balance sheet carrying value.

It's ironic that overseas, where Costain was very strong, the brand largely lives on. A substantial amount of work, much of it high profile, was executed to great acclaim in territories where it is remembered with fondness. Here the historic financial performance issues don't seem to be of concern. Even in places where Costain has been inactive for a long time they are still revered. Perhaps these people weren't aware of the mid-nineties issues and still look at the brand through 'rose coloured spectacles'

The International business obviously lost the same quality in human terms, as did its UK counterpart, so the continuing overseas operations were not always managed by a skilful local and expat team. Hence their financial performance suffered and policies and procedures took a back seat in an effort to produce better results. This then became another downward spiral and eventually the company was forced to sell or wind up its overseas interests and focus only on the UK market with the limited resources it had available.

Now the balance sheet is hampering the company's desire for acquisitions, and the amount it can afford to spend on bidding new work. Improving the brand image will be of some benefit, even if largely intangible, but only a set of robust financial results will make any improved brand awareness sustainable.

The real effort must therefore be on getting to grips with the individual projects, finding out what works well in the field and who can manage it and then trying to replicate the 'best of the best. The introduction of the PMR form was a very good step in this direction and one that's had tangible results. I'm not convinced about the value of the other initiatives, other than perhaps they have stemmed the outflow of good people at a critical time.

July 2007

"Focus on Operating Cash Flow not Operating Profits___
Strong Operating Cash Flow is the Life Blood of Healthy Organic Growth"

Vol 1 December 19th 2007

Focus For the Future

" During 2007 we have completed a Strategic Business Review of all Costain's Core Businesses, Key Account Customers and Sectors to provide the focus for delivering our Strategy for 2008 - 2010."

Stephen Wells
Group Business Development Director

Company	Rank	3 Yr PBT	Sector	3 Yr PBT
Southern Water	1	13.7	Water	29.0
LUL/DLR	2	13.4	Highways	20.6
BNG Sellafield	3	10.0	Rail	10.0
HA	4	8.4	Waste	10.0
Tunnels	5	8.3	Oil & Gas	9.7
AWE	6	6.8	Nuclear	9.1
Viridor Waste	7	5.5	Educn	8.9
M25 DBFO	8	4.7	Marine	8.8
Waste	9	4.9	Health	8.3
BSF/DFES	10	3.8	Retail	5.1
Hutchison	11	3.7	Developer	4.1
Thames W	12	3.6		
United Utilites	13	3.6		
DoH P21	14	3.6		
Crossrail	15	3.5		
CCE	16	3.3		
Magnox	17	3.3		
Yorkshire W	18	3.1	Excluding PBT from M25 or AMP5	
INEOS	19	3.0		
Tesco	20	3.0		
Total		113.2		

Souce July 2007 Data Pack (Since Ammended)

Options

" Margaret Thatcher once famously said - If you're preparing a big dinner, clean up the kitchen first. 2006 Write Downs and 2007 Rights Issue affords Costain the platform to consider all its strategic options to build a sustainable future."

Greg Malpass

15 Year Review

An analysis of Costain's Cash Performance over the last 15, 10 and 5 years has been undertaken. The results are not positive. Costain is not alone amongst contractors who have suffered significant write downs of Work in Progress or Assets, and/or company failures in the last 15 years. Despite these problems Listed companies are under pressure to perform and demonstrate uniform consistent growth patterns, not least Costain who has had Major Shareholder representation on the Board and an inibility to pay these investors Dividends. It is always relatively easy to detect when all is not well in a contracting company as there will be a fairly evident disparity between operating profit and operating cash. Since its near demise and re-financing in 1996 this has been the case at Costain in 1998/99 and 2002-2005. In the latter the case for the disparity was cited as "the effects of taking on more framework contracts without advance payments." The reality would seem that Costain's project portfolio has been loss making and growth overall unprofitable. A closer examination of loss making projects should lead to refining project selection in future

It subsequently became clear that, during Stuart Doughty's stewardship as CEO during 2002-2005, there had been in excess of £50m of overstated profit taking and 'Claims to Value' and misrepresentation of Work-in-Progress/Working Capital valuation - leading to £50m of subsequent contract write-downs and £25m of extraordinary closure costs and 'Going Concern' problems. In 2007 there was indeed an urgent need for a further Rights Issue in order to restore the Balance Sheet.

CASH v PROFITS
1995 + 2005 Legacies

"THE DEVIL IS IN THE DETAIL"

	1992	1993	1994	1995	1996	1997	1998	1999	2000
	MELT-DOWN LEGACY LOSSES/ SELL-OFFs		CRISIS MANAGEMENT		CHAPTER 11	REFINANCE/ TURNAROUND			RECOVERY
Turnover & Profit v.Operating Cash Flow (GBPm)									
Contracting Turnover (incl JVs)	856.0	744.0	658.0	595.0	544.0	576.0	392.0	378.0	386.0
Group Operating Profit	2.9	22.3	-164.3	-117.0	-52.5	-8.2	-2.4	1.2	-1.5
Group Operating Cash Flow	0.0	-1.3	15.1	-45.5	-36.4	-5.1	-22.4 !	-6.0	9.0
Contracting Operating Cash Flow	-3.1	8.2	1.0	-6.2	-12.8	15.9	-14.9	0.2	9.0
Contracting Operating Profit (excludes Alcaidesa)	0.2	14.2	9.8	-31.9	-20.4	-2.4	-2.4	2.1	-2.8
Shortfall/ Difference between Contracting Operating Cash Flow & Operating Profit	-3.3	-6.0	-8.8	25.7	7.6	18.3	-12.5	-1.9	11.8
Shortfall/ Difference between Group Operating Cash Flow & Operating Profit	-2.9	-23.6 !	179.4	71.5	16.1	3.1	-20.0	-7.2	10.5
Group Trends									
Group Turnover	1,099.0	1,019.0	1,005.0	856.0	744.5	576.0	392.0	378.0	386.0
Group PBT	-204.6	67.1	-180.4	-142.6	-62.3	-7.4	0.5	6.4	6.5
Group Net Assets	75.0	227.9	101.7	42.8	-16.0	19.7	18.9	29.1	25.8
CEO	Costain	Costain	Costain	Lovell	Lovell	Armitt	Armitt	Armitt	Armitt
Salary(GBP '000s)	?	?	?	256.0	548 pay-off	152.0	210.0	312.0	352.0
Share Price (p)					39.0	26.0	20.0	15.0	10.0
Non Operating Cash Items									
Group Cash Call / Rights Issue/ Open Offers	0.0	0.0	0.0	0.0	77.6	52.0	0.0	0.0	0.0
Cash from Sale of Businesses/Investments/Assets	?	?	44.6	68.9	25.5	41.2	1.1	2.1	3.5
Cash from Net Interest Received/ (Payable)	-18.9	-23.7	-11.3	-12.5	-10.3	-1.5	2.5	4.0	6.1
Balance Sheet									
Net Current Assets (CA-CL)	28.4	126.1	64.6	92.4	87.9	55.3	34.6	27.3	-2.5
Amounts Recoverable on Long Term Contracts (Reserves)	?	?	137.8	108.9	73.4	84.5	61.0	43.0	36.0
% of Turnover			20.9%	18.3%	13.5%	14.7%	15.6%	11.4%	9.3%
Total Pension (Liability)/Asset									49.4
Working Capital by Sector (allocated assets only)									
Civil Engineering									-21.0
Building									
COGAP									
International									
Property									4.1
Central									
Operating Profit by Sector									
Civil Engineering	0.2	14.2	9.8	-31.9	-20.4 !	-2.4	-2.4	2.1	-2.8
Building									
COGAP									
International									
Property (Alcaidesa shown as PBT not PAT)	2.7	8.1	-174.1	-85.1	-32.1	-5.8	0.0	-0.9	1.3
Central Costs									
	US COAL= Costain's Black Hole								
Operating Cash Flow by Sector (excl JV/ Assocs)									
Contracting			1.0	-6.2	-12.8	15.9	-14.9	0.2	9.0
Mining			-24.4	-9.2	-8.6	-22.4 !	-2.3	-2.1	
Property			1.8	-11.7	-4.6	2.2	-3.1	-0.9	
Central Overheads/ Int			-16.9	-18.4	-10.2	-9.8	-3.1	-3.7	
Cash from Disposals			45.5	66.7	21.1	44.4	1.1	2.1	3.5
Land & PFI Investments/Assets									
Profit from Sale of PFI & Other non-Spanish Assets/Investments		68.5	-5.2	-0.1	2.9	0.6	0.4	1.2	1.9
Cash from Sale of PFI Asset									
Book Value Financial Commitments to PFI JVs									
PFI Asset Value									
Share of Alcaidesa Profit									
Alcaidesa Dividend									
Alcaidesa Net Cash Investment									
Alcaidesa Asset Value									
Nominal Interest Charge (@ 6%)									

2001 Operating Cash Flow due to High Job intakes, Increased T/O & Secured Claims Qatar & Hong Kong

Good Cash Flow
Prudent Profit Taking

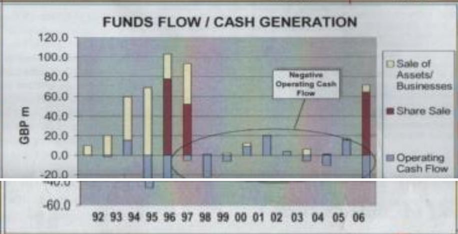
Profits from Sale of Businesses

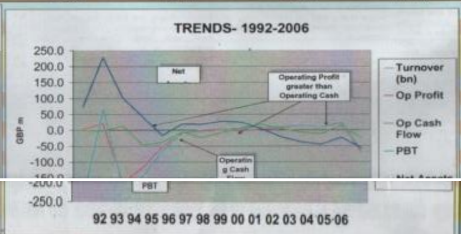
Over Valued Contract Receivables

Large Cash Advances in 1997 lead to Cash Out Flow in 1998

Pension Liabilities taken on Balance Sheet (Op Net Assets £3m)

Peer Group Average (2006)





PFI
Post Preferred Bidder Stage
Costs are Capitalised
Cash Re-couped
After Financial Close
eg. £8m Lewisham Dec 2007
(Profit derived from:
D+B Profits ; Share of SPV Profits ; Sale of Equity)

Relentless Drive to reduce Central Overheads

£ 29.6m +ve Operating Cash Flow despite 35% decrease in T/O to £386 m.

Division 2006	Turnover	Approx Overheads	Op Profit	Net Assets
Civils	488.1	22.0	10.3	-38.2
Building	298.0	12.0	-29.6	-46.6
PFI		1.0	3.6	9.3
COGAP	57.2	5.0	-19.5	-8.1
International	29.8	3.0	-27.3	-7.0
Spain	13.2	0.3	6.1	23.9
Central		6.0	-6.0	-1.0

Alcaidesa
Alcaidesa Dividends last 5 yrs= £ 17m
(compare 5 yr Group Op Cash Flow = - £ 21m)
£34m Net Wealth creation
(Reduced to £10m allowing for Interest on Cumulative Cash Investment)

15 Years of History, Strategy & Cash Flow

" An overall poor operating performance..."

COSTAIN

CALL THE COPS

" The need to show short term increases in profitability has impaired the focus/ need to generate a sustainable turn-around. Disparity between Operating Cash Flow and Operating Profits is prevalent in the mid, late 1990s and early 2000s.. Moving forward Costain should focus on stronger CASH, OVERHEADS & PROCUREMENT monitoring. These are drivers to improve the bottom line in support of good project acquisition and project management which always remain key to a profitable contracting business."

1992	1993	1994	1995	1996	1997	1998	1999	2000
1992 declared PBT Losses were GBP 205m due to write-down in the carrying value of its assets/businesses. Company has spiralled down since 1987 and its Debt peaked at GBP 450m. Lovell brought in as CFO by the Banks (Natwest & Morgan Grenfell) Company decides to focus on core Engineering & Construction businesses as strategy. Truth is that all asset business had to be sold to survive. Costain was in financial Melt-down due to Bad investment decisions & Operating Losses	*In 1993 Costain declared a profit of GBP 67m (GBP 68.5m from 'Sale of Non-Core Businesses') claiming to have put its troubles behind it. Nothing could have been further from the truth. Operating Cash Flow was negative, the TML Claim with ET was going nowhere and Costain contracting operation and was suffering due to badly judged investments in US Mining. This business and most others loss making in 1993. Core contracting operations struggling and need to find new financial backing/ investor in the business.*	*Net Borrowings GBP 97m and Group Operating Loss of GBP 164m. GBP 182m Operating Loss in Mining. An unrealistic/over-valuation of WIP averts Bankrupcy/ Going Concern problems.Lovell replaces Peter Costain as CEO to revive confidence with Banks. With Peter Costain in a non-executive role he is able to network in order to seek new funders for the Business; and potential purchasers for the Businesses to be divested.*	*Serious E&C GBP 31m Operating loss. Low Order intake. High start-up costs SE Asia. Marine losses in Malta & Middle East. GBP67m proceeds from sale of Mining, Waste Mgmt, GKN Kwikform, Building Products. Net Borrowings fell GBP 20m to GBP 76m. GBP40m Operating Loss in Property. Costain Marine established & GBP 74m Newbury Bypass awarded. Company expected to call in Receivers. Lovell takes reigns from Peter Costain, under scrutiny from the Banks.*	*Shares dropped (from high of 326p in 1987) to 39p in 1996 and are suspended in November 96. Open Share Offer raises GBP74m to reduce debt to GBP3m. Intria underwrite/ take 40% Share. Negative Operating Cash Flow in all divisions. Disposals order of the day. Signed MOU with Skanska. GBP 20m Operating Loss in Contracting due to Middle East jobs. Land & Marine sold. Share options issued to Kharafi. Peter Costain resigns. Cor Mgmt team consists of Lovell, Campbell CFO and Mohd Hussein of Intria/UEM. Neg Cash so Offloading Debt burden with disposals.*	*One off Strong Cash Flow of GBP15.9m from operations but recognised that down payments on new work will result in equal cash out flow in 1998. US Mining cash outflow of GBP13.4m in 1997, but business finally sold. Another Share Issue raising GBP50m and GBP336m Bank Debt to Equity swap. Skanska took 8% share with options to go to 40% (Intria looking to sell). Yr End Net Cash GBP 61m. Shares retrading on Stock Exchange by Nov 1997. Spitalfields sold to Intria affiliate Net Group CF - £5m.*	*Selective tendering sees Turnover drop from GBP 576m to GBP 392m. As expected a serious Operating Cash Out Flow in 1998 of GBP22m. Launch of 'Partners for Progress'. HK Airport completed. A50 Derby Bypass and Bahama Freeport won. Water partnering contracts with Welsh Water, Southern & Thames Water. Kings College PFI another award. Partnering & DBFO changing the Cash profile of Costain's projects portfolio. Financial crisis in SE Asia leads to withdrawal from Malaysia & Indonesia. Turnover down to 25% of 1990 level due to disposals & selective tendering.*	*Overheads reduced to 50% of 1997 figure. GBP 150m with Thames & GBP 124m A2/M2. Armitt drives down the estimate of recoverables from long term contracts. Down to a somewhat more conservative GBP 43m (11% Turnover) compared with GBP 138m in 1994 (21% Turnover!) Nevertheless Costain recovery still yet complete, and outstanding claims for COGAP in Qatar and International in Hong Kong.*	*With no borrowings, net cash at GBP 43m and Operating Cash Inflow of GBP 10m. 2000 was a good year. Extended terms were agreed with the Banks who were also issued new Warrants. Nevertheless there were some one-off large project losses. Skanska exited the Costain stock & sells to Kharafi and Raymond Intln. Claims on Tsing Ma Bridge & Landside Infrastructure were close to settlement to counter project losses in 2001. St Pancras was awarded as was GBP 120m package 240 Channel Tunnel Rail Link. AMP3 Works also ongoing and Armitt building a good share of this framework market. A turnaround in the fortunes of Spanish market leads Costain to reconsider Alcaidesa favourably.*

G J Malpass, Hong Kong, December 12th 2007

15 YEAR CASE HISTORY

2001	2002	2003	2004 (IFRS restated)	2005	2006	2007	1992-2006 15 Year Total	1992-2006 15 Year Average	2002-2006 5 Year Total	2002-2006 5 Year Average	1997-2006 10 Year Total	1997-2006 10 Year Average
RELATIVE STABILITY	UNPROFITABLE GROWTH/ POOR CASH FLOW			RE-ADJUSTMENT/ WRITE-DOWNS		RE-FINANCE	NEGATIVE OPERATING CASH FLOW OVER 15 YRS! THE FORWARD HEALTH CHECK WILL BE: WHAT IS 2007 CASH FLOW FROM OPERATIONS?					
457.0	525.0	629.0	690.7	728.2	873.0	880.0	9,031.9	602.1	3,445.9	689.2	5,634.9	563.5
2.2	8.0	15.5	9.3	22.1	-68.1		-330.5	-22.0	-13.2	-2.6	-21.9	-2.2
19.4	3.9	-5.8	-10.5	15.1	-23.6		-91.4	-6.1	-20.9	-4.2	-23.3	-2.3
19.4	3.9	-5.8	-10.5	8.1	-23.6	?	-11.2	-0.7	-27.9	-5.6	1.7	0.2
0.3	0.5	6.0	10.5	-0.4	-68.1		-84.8	-5.7	-51.5	-10.3	-56.7	-5.7
19.1	3.4	-11.8	-21.0	8.5	44.5		73.6	4.9	23.6	4.7	58.4	5.8
17.2	-4.1	-21.3	-19.8	-7.0	44.5		239.1	15.9	-7.7	-1.5	-1.4	-0.1
463.0	543.4	650.0	703.0	773.0	886.0		10,473.9	698.3	3,555.4	711.1	5,750.4	575.0
8.7	11.3	16.1	10.5	25.0	-61.7	19.5	-487.4	-32.5	1.2	0.2	15.9	1.6
4.3	-21.1	-36.6	-44.5	-22.5	-55.2	32.8		25.5		-36.0		-8.2
Armitt/ Doughty	Doughty	Doughty	Doughty	Doughty/ Wyllie	Wyllie	Wyllie						
463.0	316.0	403.0	447.0	422.0	430.0		3,763.0	250.9	2,018.0	403.6	3,507.0	350.7
13.0	24.0	35.0	48.0	55.0	65.0	26.0 (ex-rights)		23.3		45.4		31.1
0.0	0.0	0.0	0.9	0.5	0.3	64.0	131.3	8.8	65.7	13.1	195.3	19.5
1.0	0.1	6.2	0.2	1.3	7.3		203.0	13.5	15.1	3.0	64.0	6.4
6.5	3.3	0.6	1.2	-0.6	2.8		-51.8		7.3		24.9	
					15 Year New Cash	398.3	3 Year New Cash		80.8			
-1.8	-7.2	1.6	1.0	4.9	-60.7	9.3		30.7		-12.1		5.3
23.0	31.0	32.0	66.0	65.0	36.0	46		53.2		46.0		47.8
5.0%	5.9%	5.1%	9.6%	8.9%	4.1%							
13.5	-34.4	-77.8	-98.9	-99.3	-68.7	39.0		-18.5		-75.8		-31.6
										3 Year Av		
-69.6	-108.8	-125.7	-26.2	-7.3	-38.2					-61.2		
			-20.5	-40.2	-37.3					-19.6		
			0.8	2.1	-8.1					-1.0		
			4.1	6.3	-7.0					0.7		
6.1	16.4	18.5	12.9	26.5	23.9					19.6		
			-10.1	-15.7	-1.0					-5.4		

Despite 40% increase in Turnover £4m Reduction in Operating Cash?

97 203 £23m post 1996!

Unsustainable unless 2007/08 Operating Cash Flow improves!

Includes £5m Adv Pymt & 'Hot Cash' from Bldg increased T/O & Neg Working Capital

Up to £52m Overstatement of Profits

Contract Write Downs of £47m and Intln Charges of £25m reflected in Net Assets & Working Capital. Going Concern Issues

Cash Stumped Up by New Shareholders since 1996

incl 2007 Rights

Due to Heavy Debt Burden Late 1990s

Poor Cash Management in Growing Building Business?

Reduced more Equitable level of WIP Valuation

Non Prudent Increase in WIP Valuation (Unrealistic PMR End Vlaues/ Claims to Value)

Low Due to Op Losses & Poor Cash

Major Problem Can Retained Businesses Perform?

This Negative Working Capital plus GBP20m Overheads means Volume (Cash Levels) must be maintained. But are Op Profits achievable?

2001	2002	2003	2004	2005	2006	2007	15 Year Total	15 Year Average	5 Year Total	5 Year Average	10 Year Total	10 Year Average
									3 Years	3 Years		
0.3	0.5	6.0	18.4	16.0	10.3		17.9	1.2	44.7	14.9	46.0	4.6
			-0.1	0.8	-29.5				-28.8	-9.6	-28.8	
			-3.8	-1.0	-19.5				-24.3	-8.1	-24.3	
			-0.6	-2.9	-27.3				-30.8	-10.3	-30.8	
1.9	7.5	9.5	-0.8	22.5	6.1		-239.2	-15.9	27.8	9.3	41.3	4.1
			-4.1	-4.8	-6.0				-14.9	-5.0	-14.9	
									5 Years	5 Years		
19.4	3.9	-5.8	-10.5	15.1	-23.6				-20.9	-4.2	-7.9	-0.8
							-60.0				-17.8	
							-16.3				-1.8	
							-62.1					
1.0	0.1	6.2	0.2	1.3	7.3		200.5					
		0.0	0.0	3.5	3.6		77.3	5.2	7.1	1.4	11.2	1.1
					7.1		7.1	0.5	7.1	1.4	7.1	0.7
		0.1	4.3	9.5	9.3	9.3 / 30.0					23.2	2.3
		9.5	8.4	22.5	6.1		60.4	4.0	46.5	9.3	46.5	4.7
		6.4	4.4	0.0	6.1		51.5	3.4	16.9	3.4	16.9	1.7
	33.0	26.6	22.2	22.2	16.1	16.1 / 50.0						
	M Hunter's Figure											
	19.8	1.6	1.3	1.3	1.0	25.0						

Costain Core Businesses Star Profit Contributors Civils & Spain

The Poisoned Chalice

Non prudent Profit taking & non-profitable growth during this period seems to have ripped the heart out of the steady recovery Costain reqd. £52m of overstated profits + £34m overstatement of value in WIP = a time bomb.

Mining Hemorrhaging Cash prior to Sale

- £ 12.4m Operating Cash Out Flow despite 32% increase in T/O to £691m.

PFI
£7m Profits & £20m Net Wealth Creation
(Partly Offset by Related £ 29m Losses in Building Division)

2001	2002	2003	2004	2005	2006	2007
Change in Chairman & CEO. Net cash was GBP 68m, and healthy cash inflow of over GBP 20m. Despite this a prudent PBT of GBP 9m set the scene for Doughty. Strong cash was due to extra turnover, some advance payments and receipt of Claims money from Hong Kong/Qatar. Combined value of Channel Tunnel Rail contracts 240 & 105 was GBP 260m. Doughty Doughty sets strategy to grow Turnover and recruit 400 more people. Main focus was Asset Management and lower risk partnering. The higher proportion of asset management contracts was to start reducing the level of advance cash previously enjoyed.	Declared PBT was GBP 11m but Group Operating Cash Flow was only GBP 4m despite a 17% increase in Turnover which is expected to increase Cash on hand. Net Cash at year end was GBP 71m. New projects-eg. Roads GBP 39m A34/M4; AMP3 Contracts Portfolio building up and Hutchison Felistowe's Terminal for GBP28m. Mark Gordon appointed MD Building. Alcaidesa finally becomes the 'Jewel in the Crown' going forward. Total work in hand record GBP 1bn (85% framework). Net Assets just in the black at GBP 3m, only to meet with the requirement to take Pension Liabilities onto Balance Sheet resulting in negative Net Assets of GBP -21m. (Net Op Assets finally +ve at GBP 3m)	Turnover up another 20% to GBP 650m and despite claiming a GBP 16m PBT, the worrying trend of reduced Cash Flow continued with a GBP 6m Cash Outflow. Major success is the continued expansion of the AMP3 Programme and negotiations for AMP4 plus Project Aquatrine PFI. Charles Sweeney appointed MD COGAP. Predergast appointed International, Wells BD and Alex Vaughan appointed Africa Director. Alcaidesa is recognised as core business and starts to pay big dividends (GBP 6.4m). Master Plan approval La Linea	AMP4 successes in 4 Water Companies/Regions of UK despite high tender costs. Southern Water being the big one. BUT the increased level of framework contracts again blamed for the poor cash flow. Operating Cash Flow negative GBP10m yet a GBP 20m Operating Profit shown, despite another 10% increase in turnover. Declaring a GBP 34m increase in the value of Work in Progress (Receivables) was not prudent and exaggerated in Working Capital value. Gives rise to more than a suspicion of hidden operating losses on contracts. Pemex US$ 150 project awarded & Costa Azul US$ 170m in Mexico. Substantial & Misguided funding committed to Costain West Africa (all legacy problems for Wyllie to inherit). GBP 8.4m Costain share of Alcaidesa PBT. Doughty awarded CMG then asked to leave.	Wyllie appointed Sept 2005 and Water awards & M1 contract successes set a buoyant scene. A PBT of GBP 25m enjoyed a boost from Alcaidesa which contributed GBP14 PAT (GBP 22m PBT share!). Forward Order Book GBP 1.9bn. Charles McCole CFO leaves!?!. In fact the Amounts recoverable from Projects had been significantly over-valued with Claims taken to value and hidden losses and un-recoverable loans within Divisions. Increase in Building Turnover resulting in GBP40m of Negative Working Capital in that increased Turnover Division, with loss making projects. None of the Divisions made an Operating Profit and GBP 15m of Positive Cash Flow came from the Working Capital Changes and GBP 5m in advance payments. (Over accounting WIP, exposure to irretrievable inter-company loans and under priced contracts= time bomb)	Legacy Contract Write-downs of GBP 47m and International Project Closure Costs of GBP 25m breach the Bank Covenants. GBP 8m lost cash in CWA investment/ disposal, Botswana loses GBP 5m, Felixstowe Claim shortfall, Kingston Hospital, etc. Overall Operating Losses at Building, International & COGAP total GBP 73m and Only Sale of PFI (GBP 7m cash), Alcaidesa (GBP 6m cash) and Operating Profits from Civils (GBP 10m) stem the Cash Outflow and Losses. Net Operating Cashflow of negative GBP 24m for the year. With write-downs Net Assets drop to negative 55m and serious need to prop-up Balance Sheet to avoid liquidity/ going concern problems.	Rights Issue raises GBP 60m. But are provisions sufficient to cover Legacy Projects - Pemex, Costa Azul, Bradford, Lewisham, Hong Kong? Balance Sheet still too weak to become major PFI player. Building will struggle to deliver profit but must maintain its cash management. AMP5 must be won & all eyes on securing M25DBFO. Worries over Spanish Mkt. Costain should seriously consider its M&A options for consolidation. Change in Strategy required?

Future Strategy:

Moving Forward

* Costain needs to return to sustainable ' contracting' profitability & avoid loss making contracts
* WW Focus should be on Key Account Customers in Water, Waste, Highways & M25/A13/
* Outside M25 PFI , PFI Work Winning investment should be restricted in BSF, & possibly curtailed
* Building Division & PFI Division should report Cash Flow, Capitalised investments, Overheads & Returns as a Business Unit in BSF. BSF D+B losses must be stemmed.
* Costain should seek M&A Partners with critical mass in Building PLUS Asset Bases & Enterprise Values in excess of Market Caps/Equity Values to capitalise on Costain's low gearing & future Cash Generating capabilities within an expanded and diversified Group. Ideas tabled for consideration have included **Taylor Woodrow Construction & Spanish Housing**, and the privately held **Miller Group**
* Costain should focus less on "Brand" recognition/development & the glory of past accomplishments and engender a senior level culture of "innovation" and "creative problem solving" rather than process compliance & PMR monitoring. The focus should be in areas of current success-such as the strive to turn 4D into a World Class infrastructure deliverer. Costain was rather a plodder in the 80s & 90s in terms of embracing new trends (eg. Management Contracting, Facilities Management, PFI, etc). However, in (Water) Framework Partnering it is a Leader and should focus all resource on further capitalisation of this market position with innovation, rather than spreading Work Winning Resource across new Building Sectors where the certainty of volume or profit is low. Project Managers should focus on delivering Profitable Projects. Directors & Line Managers should direct their Businesses into areas of innovation and growth, not micro-manage.
* Costain Directors and employees have enjoyed continued employment for 15 years since the Company's near demise in the mid 1990s. Clients have enjoyed delivery of their Projects. However, long suffering shareholders have received no dividends or marked appreciation in the value of their investment. There has been a near GBP 100m Operating Cash Out Flow in the last 15 years and GBP 20m since the Company was recapitalised by the new shareholders. Net Assets dropped from GBP 20m in 1997 to GBP -55m in 2006 as a Pension Fund surplus moved from GBP 50m to a GBP 70m deficit. COGAP, Building & International have been loss making Businesses with poor management, performance and have little value. The stronger Civils (Water & Roads) cash flow businesses could be worth current Group Market Cap of GBP 165m. It remains Costain's core expertise and source of Operating Profits. PFI portfolio is worth c GBP30m? But its success is more difficult to assess as Building Operating Losses & Overheads are not accounted for in PFI sales & profits. The only new Added Value that Costain has added to its business in the last 10 years is c. GBP 40m in Alcaidesa. The strategy should be to merge Costain with a strong asset business with a Building capability and to grow the combined businesses through new Debt & Equity finance while ensuring new share holders don't benefit with quick dividend returns at the expense of Costain trusted long term share holders. Innovative funding/ reverse merger instruments should be explored

Sources: Annual Reports

Circumstances and Analysis leading up to 2014 Rights Issue (Profit declaration – Alleged Misrepresentation)

Further mismanagement of cash flow and lack of cash generation, failed acquisitions, and over-stated profit taking between 2009 and 2013, under the stewardship of new CEO Andrew Wyllie, had once again led to the need for a desperate 'Call for cash' and a further proposed Rights Issue ensued, at a considerable discount, potentially further diluting the interests of strategic shareholders UEM of Malaysia and Kharafi of Kuwait who were tired of investing ever more cash without returns. The writer's views, together with those of other analysts, led to the decision to write in March 2014 to the Company Chairman Davis Allvey, suggesting that Costain should seek an acquirer, copied below:

MARKET REPORT: Shares in civil engineer Costain fall following announcement it will raise £75m

By Geoff Foster

PUBLISHED: 22:14, 27 February 2014 | **UPDATED:** 08:43, 28 February 2014

There is no doubt that the management and advisers of many quoted companies take their shareholders for granted. In other words, they couldn't really give a monkey's.

For example, shares of civil engineer Costain crashed 54.5p or 17 per cent to 265p after announcing proposals to raise around £75milion, £25million is to be gained via a firm placing, with the remaining £50million being raised through placing an open offer at 225p – a near-30 per cent discount on Wednesday's prevailing price.

Costain's Arab shareholders who account for 41 per cent of the equity, cannot be happy.

Shares drop: shares of civil engineer Costain crashed 54.5p or 17 per cent to 265p after announcing proposals to raise around £75milion,

Costain's management said they expect the fundraising to 'enable Costain to take greater advantage of the opportunities in its chosen markets and thereby accelerate the group's medium and long-term growth prospects'.

It plans to use the cash to finance the costs of bidding for a number of big projects as well as making bolt-on acquisitions, among other things.

Costain failed in its attempt to go to another level when bids last year for Mouchel and May Gurney failed. Shareholders stood by its management only to be hit with a placing which will dilute their current holdings.

Accompanying the fundraising was news that underlying profits in the year to end-December rose 12 per cent to £27.4million on an increase in revenue to £960million from £934.5million.

Pre-tax profits declined to £12.9million from £24.7million but the final dividend is up 7 per cent to 11.5p a share. Its forward order book rose 25 per cent to £3billion.

Read more: http://www.thisismoney.co.uk/money/markets/article-2569691/MARKET-REPORT-Shares-civil-engineering-firm-Costcain-fall-following-announcement-raise-75m.html#ixzz2xA5tv0an
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Letter Exchange with Costain Chairman March 2014

Mr David Allvey
Addressee Only
Chairman
Costain Plc
Costain House
Vanwall Business Park
Maidenhead
Berkshire SL6 4UB

STRICTLY PRIVATE & CONFIDENTIAL

25th March 2014.

Dear David

Re: Costain £75m Capital Raising Plan

Prior to your AGM 7th May 2014, I would like to raise some issues/ queries, in total confidence and with positive intent, for your consideration/ deliberation. I write as a Costain Shareholder, an ex-colleague at Costain, and as an external independent M&A Analyst, and occasional Advisor/ Industry Specialist to Costain Investors via Conolink.

You may recall that I undertook an in-depth 25 year Financial Analysis of Costain Plc from 1992-2007, while in Hong Kong and Kuala Lumpur (where we met). I re-attach one of the Competitor Summaries, copied to you in July 2007, where the need for the first Major Re-financing requirement was raised.

I have since followed Costain's financial performance with interest, and with admiration at some of the operational improvements, under your and Andrew Wylie's leadership. I also led and promoted a detailed Acquisition Appraisal of Costain Plc for a major competitor in 2010.

You will recall at the end of 2006 that UEM and Kharafi, as long term loyal investors, had to consolidate their share of substantial unexpected losses of £60m+. UEM subsequently and reluctantly, after a long period of no dividend or capital gain, diluted their shareholding to 21% ("swallowing its tail in the September 2007 Rights Issue").

It's unfortunate that the Strategic attempts to acquire Taylor Woodrow Construction and Mouchel thereafter failed, and then the most recent one-off £18m costs incurred, including £3.7m associated with transactional costs for the aborted acquisition of May Gurney; all contributing to last year's £58m cash outflow.

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The proposed Capital Raising Plan has a further £4.8m transactional costs, and comes with the effects of a 29.6% discount and 11.1% dilution- and will see long suffering UEM's shareholding dilute to 13.8%, while Institutional Investors and Participating Directors stand to benefit from the discount which the Directors themselves agreed, should share prices rise after the Issue, at the expense of existing shareholders.

I believe a 'Change in Ownership of Costain' could create such a share price rise and enhanced shareholder value, and UEM and Kharafi will have reduced influence over such change after the Issue, to their potential loss. Since 2006 it has been my personal belief that it would be in existing shareholders best interests, and a better return for them, to seek an Acquirer with existing larger Capital and Operational Resource and synergies- but I can understand why incumbent management might not have wished to pursue such a strategy.

You can see that I do not share the Board's confidence in protecting minority shareholders' interests by pursuing such a discounted Issue and dilution. However, clearly those minority shareholders have their own advisers/ opinions. Should the Issue now continue un-opposed, but Costain's strategic direction change due to any senior executive management changes/step-downs for succession purposes, after the Issue I'm hoping in your capacity as Non-Executive Chairman, that you might consider putting forward my credentials to the Board to assist with the search for the right strategic M&A partner.

If the Board considers that the Status Quo is in tact for further continued growth after the Issue, without the need or benefit of such suggested M&A activity, I understand, and you will hopefully accept that I am only making my personal views known to you, and not intending to do so publicly.

In strictest confidence,

Kind Regards

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Malpass

COSTAIN

7 April 2014

Mr Greg J Malpass
4 Mountwood Covert
Tettenhall Wood
Wolverhampton WV6 8JB

Dear Greg

Thank you for your letter and concern for Costain shareholders, which is similarly, of course, the prime concern for the Board. In this regard, given I formally commenced as Chairman immediately following on from the rights issue you refer to, I can speak, and take responsibility, for the ensuing period.

We used the rights proceeds to replenish the balance sheet and immediately accelerated the evolved strategy to rebuild the business on a UK centric model. As well as ceasing overseas work, the strategy focussed on far fewer target sectors but, importantly, our intention was, and remains to be, a market leader in those chosen market sectors. The two major shareholders, UEM and Kharafi, who owned more than 50% of Costain, were both aware of and endorsed the rights issue, the go-forward strategy, and my proposed Board changes.

The "stabilise and rebuild" phase was successfully executed and enable us to recommence dividends as well as build cash and the order book. Indeed, we are now in the seventh year of progressive dividend payments.

The following phase built on the achieved platform, wherein we sought to re-establish growth but with even more focus on fewer activities. Crucially, however, we sought to broaden and deepen the content of our engineering solution offering to our target customer - buying in the required skill and competencies. In this latter regard, both Mouchel and May Gurney represented unique opportunities to add both scale and new capability. These were fully supported by both major shareholders (now 42% in aggregate) who similarly backed our judgement to withdraw when the price exceeded our estimates of appropriate value. This financial discipline is a core plank of our business approach and is acknowledged as a strength by market analysts.

Whilst neither of these sorties added to our resources, we have successfully completed three in-fill acquisitions, which were all earnings accretive from day one and have more than delivered on our pre-purchase performance estimates. They have, moreover, enabled us to form a new oil and gas division - Costain Upstream - which has many profitable growth opportunities.

In this latter respect, the market has further evolved for Tier 1 suppliers like ourselves. Given their much broader/deeper products, suppliers are being awarded much larger, long term relationship contracts by clients. These are, however, on a cost plus, reimbursable basis but with less risk and more stable margin for the supplier. This has resulted in a very different cash emergence profile for the industry - as you have noted from the 2013 accounts.

Execution of our strategy has enabled us to prosper through the lengthy economic downturn through to today. Our UK opportunities are now so great that, with the very public support of our two majors, we successfully raised GBP75m to provide further financial firepower to increase our work capture. Despite their further dilution, both UEM and Kharafi fully endorsed the capital raising transaction as essential for the successful continuation of Costain's growth journey. The stock market has also endorsed our strong market position and in consequence the Costain share price has benefitted from a significant positive upgrade.

In summary, and with respect, we see the above journey and current position, which is all available from public information, as being quite different to your view. We certainly do not consider that we have any need of a new strategic owner and our Board, which I have recently replenished, has a wealth of M&A expertise and experience. Purely for completeness, I should, however, add that we are most certainly not "precious" about ownership and will always consider and follow what is right for delivering appropriate value for our shareholders.

Please excuse my lengthy response but I considered your concerns warranted a fulsome answer.

Kind regards

David Allvey
Chairman
Costain Group PLC

Circumstances and Analysis leading up to 2020 Rights Issue (Profit declaration - Alleged Misrepresentation)

By 2020, under 6 more years of Andrew Wyllie's leadership, it seemed apparent to the writer that the cycle of *alleged* misrepresentation of accounts was occurring once again. Net Operating Cash Outflow for 2018-2020 was £127m, while £22.8m had been raised from asset sales in the same period. Net cash was at its lowest since the £64m Rights Issue in 2007, despite the £75m cash proceeds from the further Rights Issue in 2014.

The cumulative difference between Operating Cashflow and declared Operating profit for the period 2014-2018 was £54m deficit, rising to £83m by 2019. With all 'reserves depleted', the **£91.5m** difference between Operating Cashflow and declared Operating profit in 2018, had once again brought Costain to the brink when its share price crashed on the subsequent announcement of a cry for cash and a yet further discounted Rights Issue of £100m in 2020.

By March 2022 – There remained differing Analyst Views about Costain's prospects and value:

Younger readers may or may not have been born in May 1989. But on the 14th of that month, Costain's share price was £24.49. People think I am making it up when they looked yesterday (11 March) at a share price of £1.10, which is also 30% lower than Tuesday; and pretty much half of what it was at Christmas.

Yes, the UK equity market re-visited bear market territory on Monday (20% off its peak) due to COVID-19 but this is different.

Yesterday, Costain announced some dodgy figures and a £100m cash raising rights issue.

Taking these in turn, the underlying operating profit of £17.9m for calendar year 2019 is terrible, given it is down by two-thirds. This is to do with contract delays, a contract cancellation and the impact of the A465 contract arbitration outcome. But are not these just the normal hurly-burly of being a contractor?

Then, at the pre-tax level there is a reported loss of £8.6m, compared with a profit of £40.2m the year before. Does Costain have a sense of humour when it calls itself "the smart infrastructure solutions company"?

Meantime, on the cash raising, it is going to do it but not just yet. And no details have been divulged. Really?

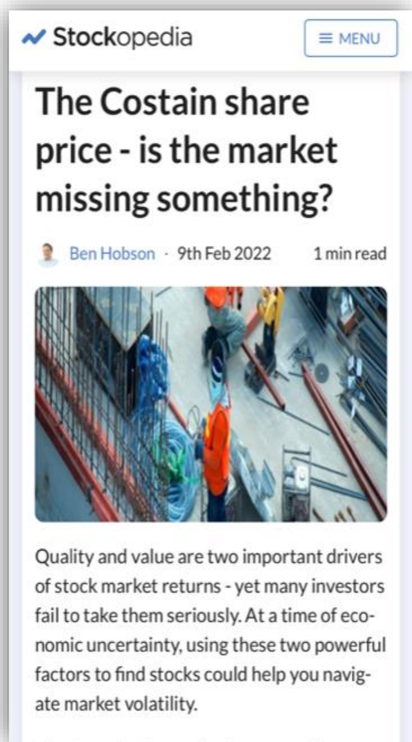
The company is asking for cash, too, when it has net cash on the balance sheet. Okay, some of it is spoken for and it has to add some coppers to its pension fund. But Costain is still paying a dividend.

What is more, it picked the worst week since Lehman Brothers went bust in September 2008 to raise money in the equity market, or at least saying that this was their plan. Is there something that they are not telling us? Otherwise it does not add up.

Tony Williams is CEO of Building Value

Analysts' Views

"Raising money in desperation does not reflect on the Quality and Value of Costain and its Operational expertise, but it does reflect on its management."



Stockopedia ≡ MENU

The Costain share price - is the market missing something?

Ben Hobson · 9th Feb 2022 1 min read

Quality and value are two important drivers of stock market returns - yet many investors fail to take them seriously. At a time of economic uncertainty, using these two powerful factors to find stocks could help you navigate market volatility.

The writer produced the following 30-year Cashflow and Financial Performance Analysis to put the whole factual chronological sequence of events and profit declarations into context:

30 Year Review of Performance

COSTAIN 30 year CASH FLOW AND FINANCIAL PERFORMANCE ANALYSIS (G J Malpass, June 1st 2022)

YEAR	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
PERIOD	MELT-DOWN LEGACY LOSSES/ SELL OFFS		CRISIS MANAGEMENT		CHAPTER 11	REFINANCE / TURNAROUND		RECOVERY RISK AVERSE MANAGEMENT		RELATIVE STABILITY	UNPROFITABLE GROWTH / POOR CASH FLOW GENERATION / CLAIMS TO VALUE			RE-ADJUSTMENTS / WRITE DOWNS	
CEO	Peter Costain	Peter Costain	Peter Costain	Alan Lovell	Alan Lovell	John Armitt	John Armitt	John Armitt	John Armitt	Armitt/ Doughty	Stuart Doughty	Stuart Doughty	Stuart Doughty	Doughty / Wyllie	Andrew Wyllie
GBP £m															
REVENUE	1099.0	1019.0	1005.0	856.0	744.5	576.0	392.0	378.0	386.0	463.0	543.4	650.0	703.0	773.0	886.0
OPERATING PROFIT	2.9	22.3	-164.3	-117.0	-52.5	-8.2	-2.4	1.2	-1.5	2.2	8.0	15.5	9.3	22.1	-68.1
OPERATING NET CASH FLOW	0.0	-1.3	15.1	-45.5	-36.4	-5.1	-22.4	-6.0	9.0	19.4	3.9	-5.8	-10.5	15.1	-23.6
DIFFERENCE OP PROFIT TO CASH FLOW	2.9	23.6	-179.4	-71.5	-16.1	-3.1	20.0	7.2	-10.5	-17.2	4.1	21.3	19.8	7.0	-44.5
CUMULATIVE NET GROUP OPERATING CASH FLOW	0.0	-1.3	13.8	-31.7	-68.1	-73.2	-95.6	-101.6	-92.6	-73.2	-69.3	-75.1	-85.6	-70.5	-94.1
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CASH FROM SALE OF BUSINESSES/ INVESTMENTS/ ASSETS	?	67.0	44.6	68.9	25.5	41.2	1.1	2.1	3.5	1.0	0.1	6.2	0.2	1.3	7.3
CUMULATIVE CASH FROM SALE OF ASSETS	0.0	67.0	111.6	180.5	206.0	247.2	248.3	250.4	253.9	254.9	255.0	261.2	261.4	262.7	270.0
GROUP PROFIT BEFORE TAX	-204.6	67.1	-180.4	-142.6	-62.3	-7.4	0.5	6.4	6.5	8.7	11.3	16.1	10.5	25.0	-61.7
CUMULATIVE DECLARED GROUP PROFITS BEFORE TAX	-204.6	-137.5	-317.9	-460.5	-522.8	-530.2	-529.7	-523.3	-516.8	-508.1	-496.8	-480.7	-470.2	-445.2	-506.9
NET ASSETS	75.0	227.9	101.7	42.8	-16.0	19.7	18.9	29.1	25.8	4.3	-21.1	-36.6	-44.5	-22.5	-55.2
MARKET CAPITALISATION	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
BOOK VALUE/ MKT VALUE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CASH IN BANK & AT HAND	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
NET CASH (CASH LESS DEBT)	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
DEBT / EQUITY SWAP	0.0	0.0	0.0	0.0	0.0	336.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CASH CALLS / RIGHTS ISSUES	0.0	0.0	0.0	0.0	77.6	52.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.5	0.3
CUMULATIVE CASH CALL	0.0	0.0	0.0	0.0	77.6	465.6	465.6	465.6	465.6	465.6	465.6	465.6	466.5	467.0	467.3
CEO REMUNERATION	na	na	na	0.3	0.5	0.2	0.2	0.3	0.4	0.5	0.3	0.4	0.4	0.4	0.4
CUMIULATIVE CEO REMUNERATION				0.3	0.8	1.0	1.2	1.5	1.8	2.3	2.6	3.0	3.5	3.9	4.3
COMMENT	Write down/ Sell Offs & £205m losses	£67m Profit on Asset Sales	Losses £164m and Debt at £97m. Going concern worries	£31m op losses . £67m proceeds from sale of mining	Shares suspended in nov. Rights Issue raises £74m. Op losses. New Shareholders enter	Op Cash Flow £16m with downpayment s.. Another Share Issue £50m and £336m debt to equity swap	Op Cash Flow reversal - £15m.	Reduced overheads and selective tendering- recovery underway	No Debt, net cash at £43m and OP cash flow at £10m	Armitt hands over to Doughty with Net cash £68m and op cash flow of £20m and prudent declared Profit	Oversdtated profits and WIP valuation, Weak Op Cash Flow. Reliance on Spanish Property contribution. Claims to Value. Pension Deficit taken onto Balance Sheet	Oversdtated profits and WIP valuation, Weak Op Cash Flow. Reliance on Spanish Property contribution. Claims to Value	£48m difference in Operating profit and cash flow over previous 3 years represents Doughty's 'poisoned chalice' to Wyllie	Wyllie takes helm. Order book £1.9bn. But over declared profits become apparent & Cash Flow includes advance payments	Write downs and Op losses £24m exaccerbate problems and Net Assets at -£55m require urgent Cash Call to avoid bankruptcy

COSTAIN

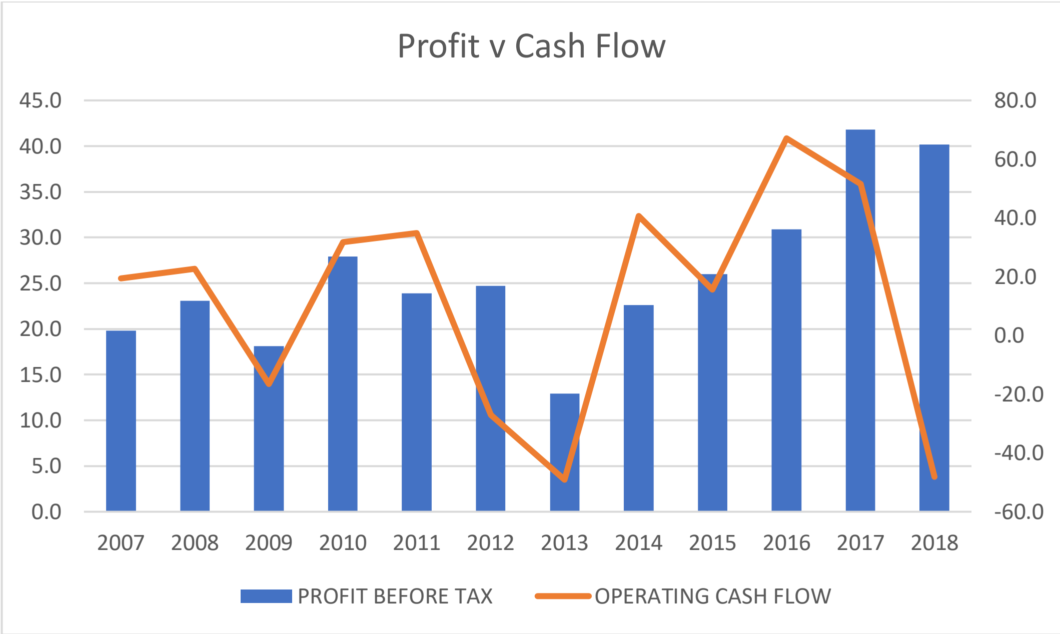
COSTAIN 30 year CASH FLOW AND FINANCIAL PERFORMANCE ANALYSIS (G J Malpass, June 1st 2022)

YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	NOTES
	RE-FINANCE / IMPROVED OP CASH FLOW		CONTRACT FIRE-FIGHTING	RE- FOCUSING BUSINESS ON CORE SECTORS		OPERATING CASH OUTFLOWS/ ASSET SALES & OVERSTATED		RE-FINANCE / CASH CALL	PRUDENT RISK AVERSE MANAGEMENT/ CASH RETENTION			PROBLEM CONTRACTS & CASH OUTFLOW & OVER-DECLARED PROFITS		CASH OUTFLOW/LOSSES & COVID INDUCED RE-FINANCE/ CASH CALL		PLAN B	
CEO	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Andrew Wyllie	Wyllie / Vaughan	Alex Vaughan	Alex Vaughan	Alex Vaughan	
GBP £m																	
REVENUE	748.0	903.0	993.0	925.0	869.0	848.0	885.0	1072.0	1264.0	1574.0	1684.0	1464.0	1156.0	978.0	1135.0		same turnover after 30 years
OPERATING PROFIT	16.5	18.3	20.8	29.4	22.0	27.4	16.9	26.2	29.5	35.1	47.5	43.4	-2.9	-91.8	-9.5		
OPERATING NET CASH FLOW	19.5	22.6	-16.5	31.7	34.8	-27.1	-49.1	40.6	15.7	67.1	51.6	-48.1	-32.2	-47.0	29.5		
DIFFERENCE OP PROFIT TO CASH FLOW	-3.0	-4.3	37.3	-2.3	-12.8	54.5	66.0	-14.4	13.8	-32.0	-4.1	91.5	29.3	-44.8	-39.0		Difference in Op Profits and Op Cash Flow indicate likely over-stated profits
CUMULATIVE NET OP CASH FLOW (30 yrs)	-74.6	-52.0	-68.5	-36.8	-2.0	-29.1	-78.2	-37.6	-21.9	45.2	96.8	48.7	16.5	-30.5	-1.0		zero net cumulative cash flow after 30 years
last 15 years	19.5	42.1	25.6	57.3	92.1	65.0	15.9	56.5	72.2	139.3	190.9	142.8	110.6	63.6	93.1		£93m net cumulative cash flow last 15 years
CASH FROM SALE OF BUSINESSES/ INVESTMENTS/ ASSETS	9.4	5.0	9.1	3.8	1.0	0.6	11.9	0.6	0.1	0.1	0.2	2.1	12.1	8.6	0.0		
CUMULATIVE CASH FROM SALE OF ASSETS (30 yrs)	279.4	284.4	293.5	297.3	298.3	298.9	310.8	311.4	311.5	311.6	311.8	313.9	326.0	334.6	334.6		£335m derived from sale of assets & investments
last 15 years	9.4	14.4	23.5	27.3	28.3	28.9	40.8	41.4	41.5	41.6	41.8	43.9	56.0	64.6	64.6		£64.6m derived from sale of assets & investments
19.5	19.8	23.1	18.1	27.9	23.9	24.7	12.9	22.6	26.0	30.9	41.8	40.2	-6.6	-96.1	-13.3		Over stated Profits always PRECEDE URGENT CASH CALL
CUMULATIVE DECLARED GROUP PROFITS BEFORE TAX (30 yrs)	-487.1	-464.0	-445.9	-418.0	-394.1	-369.4	-356.5	-333.9	-307.9	-277.0	-235.2	-195.0	-201.6	-297.7	-311.0		cumulative declared loss of £311 over 30 years
last 15 years	19.8	42.9	61.0	88.9	112.8	137.5	150.4	173.0	199.0	229.9	271.7	311.9	305.3	209.2	195.9		cumulative declared profit of £196 over 15 years
NET ASSETS	27.4	33.6	-3.8	37.6	30.8	31.8	43.3	111.0	121.0	100.0	154.0	182.0	158.0	157.0	199.0		increase in Net Assets by £172m in last 15 years after £239 new equity issues
MARKET CAPITALISATION	169.7															107.0	market capitalisation dropped £61m in last 15 yrs despite £239m from Rights Issues
BOOK VALUE/ MKT VALUE	0.2															1.8	Book Value to Mkt Cap 1.8 indicating Shares undervalued
CASH IN BANK & AT HAND	133.4	147.3	120.8	146.0	141.7	107.4	84.3	148.5	146.7	210.2	248.7	189.3	180.9	150.9	159.4		
NET CASH (CASH LESS DEBT)	132.8	146.6	120.5	140.1	140.0	105.7	57.7	148.6	108.2	140.2	178.0	119.0	35.0	104.0	93.2		Net cash reduced £39.6m in last 15 years despite £239m cash call and £65m in asset sales
DEBT / EQUITY SWAP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		Emergency Calls for Cash
CASH CALLS / RIGHTS ISSUES	64.0	0.0	0.0	0.0	0.0	0.0	0.0	75.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0		£239m raised from Rights Issues in last 15 years
CUMULATIVE CASH CALL (30 years)	531.3	531.3	531.3	531.3	531.3	531.3	531.3	606.3	606.3	606.3	606.3	606.3	606.3	706.3	706.3		£706m Cash/Debt write offs from Equity Issues
last 15 years	64.0	64.0	64.0	64.0	64.0	64.0	64.0	139.0	139.0	139.0	139.0	139.0	139.0	239.0	239.0		£239m cash call from Equity Issue in last 15 years
CEO REMUNERATION	0.7	0.7	0.7	0.8	0.8	1.1	1.3	1.4	1.4	1.1	1.7	1.6	0.5	0.4	1.0		£15m+ in CEO remuneration in last 15 years
CUMIULATIVE CEO REMUNERATION	5.0	5.7	6.4	7.2	7.9	9.0	10.3	11.7	13.1	14.2	15.8	17.4	17.9	18.4	19.3		
	Rights Issue raises £60m. Business propped up by Spain, PFI and AMP. Turnaround required again.	Selective tendering and closure/sale of overseas and building operations	Overstated profit while cut-backs and business disclosures completed	Two years of re-focus on core civils and AMP businesses and better cash management	Good year	Return to overstating profits	£76m two year cumulative negative operating cash flow.	Cash outflow adressed by another £75m Rights Issue at discount to detriment of UEM and Kharafi shareholders.	Year of prudent management	Year of prudent management	Year of prudent management	Radically over-declared operating profit with £90m difference in operating profit and operating cash flow - representing Wyllie's 'poisoned chalice'.	Delayed and cancelled and A465 projects worsen situation. 2 year difference in Op Profit and Cash flow peak at £121m. Going concern crisis looming.	Issue after £6.6m loss after £80m cumulative operating negative cash flow in 2018/19. £90m contract write offs and £40m cash outflow with 80% fall in share price.ASGC invests £25m for 15% stake.	Vaughan puts his recovery story to the market		

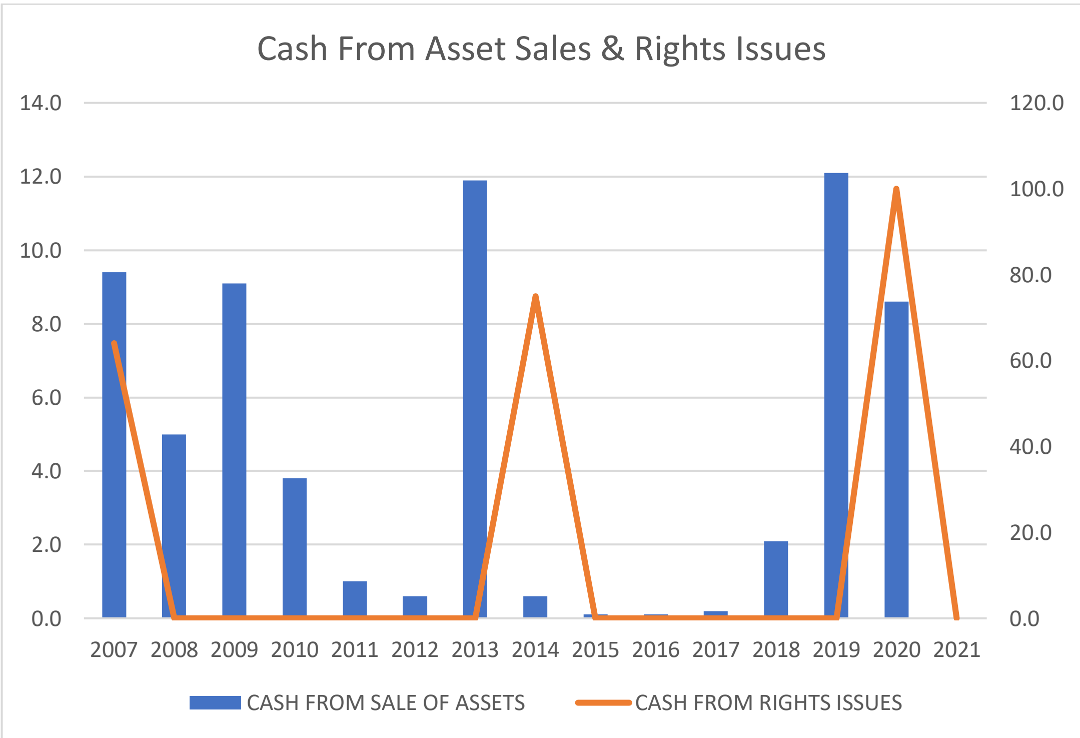
Source: Annual Reports

Summary/ Highlights

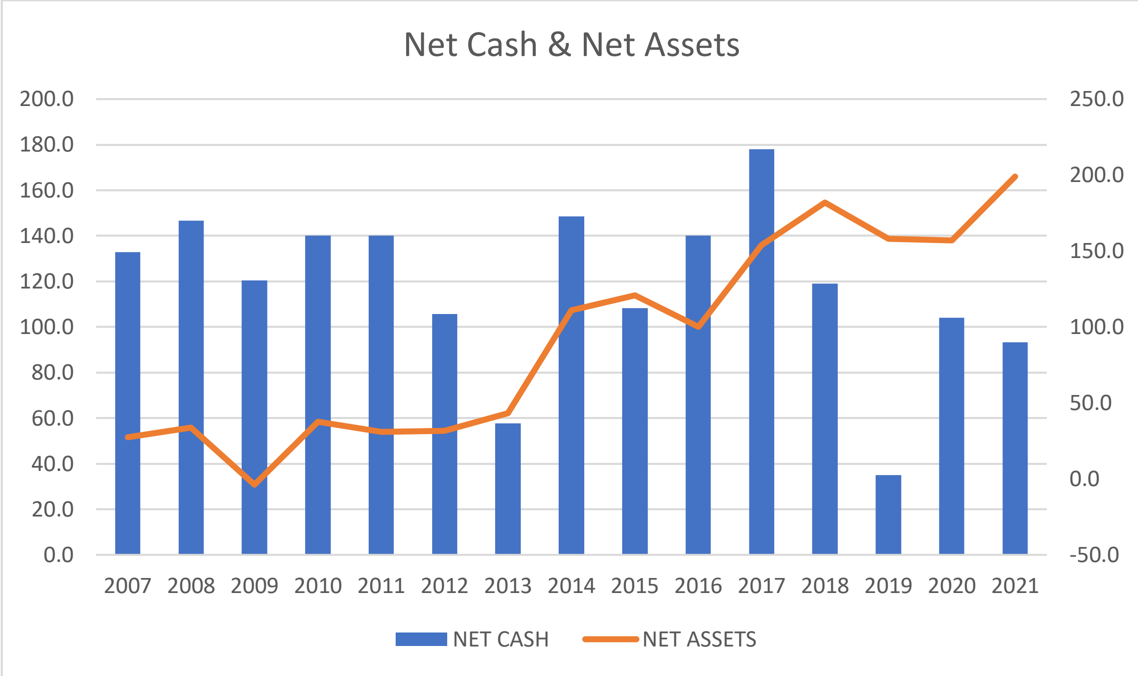
- Revenues- Turnover by 2021 at £1135m was lower than 1992's £1099m (30 years prior) in real terms
- Operating Cash Flow- Cumulative cash flow over 30 years totals just £1m; net cumulative net cash flow over last 15 years has been £93.1m
- Group Profit/ Loss- Cumulative declared Group Losses over 30 years are £311m, although declared Profits before tax amount to £196m over last 15 years



- Cash from Asset Sales- £335m cash/proceeds have been derived from sale of assets, subsidiaries, and investments, of which £64.6m have been received in last 15 years of disposals
- Cash from Rights Issues (and Debt for Equity swaps)- £706m in total cash/debt write off in 30 years, of which £239m has been raised from Rights Issues in last 15 years



- Net Cash- Net cash has reduced by £39.6m in last 15 years, despite £239m cash received from Rights Issues, and £65m proceeds from Asset sales in last 15 years
- Net Assets- Net Assets have increased by £172m in last 15 years, despite £239m of cash raised from new equity issues



- Market Capitalisation- Market Value has dropped by £63m in last 15 years, from £170m in 2007 to £107m in 2022
- Book Value/Market Cap- Book value/Market Capitalisation has increased from 0.2 in 2007 to 1.8 in 2022, indicating that the stock price is likely under-valued
- Operating Profit v. Operating Cash Flow- Where there are discrepancies in the value of Op Profit to Op Cash Flow it is often a sign of too little cash generation to warrant the profit taking, where changes in value of Working Capital, Work in Progress and Monies Receivables on long term contracts can't be explained. Where there have been significant unexplainable differences at Costain (eg. 2003/4; 2012/13 and 2018/19) then calls for cash/rights issues have followed within 1-3 years (2007; 2014; 2020)
- CEO Remuneration - CEO Remunerations have totalled over £15m in last 15 years, despite £61m fall in Market Capitalisation, £39.6m fall in Net Cash and only a £172m rise in Net Assets despite £239m of new equity/cash raised.

Conclusion

Costain never fully recovered from its near financial demise in the early 1990's and had to sell all its higher margin businesses to survive. Ever since, net cash flow generation from operations have been relatively weak, with problem contracts burdening cash flow. While only £93m of operating cash has been generated in the last 15 years, Costain has survived by generating cash from the £64m proceeds of further asset sales in the last 15 years, and three Rights Issues generating £239m in cash. Non-operating cash generation has totalled £303.6m in 15 years (£20m per year on average compared to £6.2m from operations). While consecutive CEO's have been efficient in overseeing operations, they are alleged to have been knowingly disingenuous in consistently misrepresenting reported Profit Levels in bad years to maintain confidence when Operating Cash Flow was seriously waning, causing further damage to the share price when inevitable Cash Calls/Rights Issues have subsequently been necessary to restore finances and survive.

Costain in its current under-capitalised form as a Listed PLC has proven itself to be and remains an unsustainable model without financial support/ cash calls from existing and future shareholders. Nevertheless, current liquidity, and Net Assets (Book Value) to Market Capitalisation are favourable in 2022 with a strong order book. It is considered by the writer - time to 'clear the decks' and seek a financially strong majority shareholder who sees the value in Costain and seeks to grow from an establish position in the UK construction sector, acquiring local skills and expertise and existing order book. Taking Costain private in the process is an option, a Reverse Takeover of Costain Plc is another.

Costain is an Undervalued Stock and potentially has considerable extra value under new Management and Ownership

In 2022, Net Assets of £199m underpin a low Capitalisation of £108m, £3.4bn Order Book, and c.£100m Net Cash mean the Enterprise Value of £15m is an attractive starting price for acquisition by a larger group, taking Costain private in the process. As an alternative a Reverse Merger Costain offers ASGC, or any new shareholder via share purchase up to 30%, a cheap and quick way to a UK Listing, a recognised Brand and reputation, experienced staff and a balanced portfolio in the UK infrastructure sectors. In the event of a Takeover or Reverse Merger a new (Interim) Senior Management team would need to be installed to ensure progress is made in reforms.

The following section summarizes insights on Costain Group PLC's Book Value / Market Cap:

Performance Summary

- Costain's latest twelve months book value / market cap is 1.9x.
- Costain's book value / market cap for fiscal years ending December 2017 to 2021 averaged 0.9x.
- Costain's operated at median book value / market cap of 0.9x from fiscal years ending December 2017 to 2021.
- Looking back at the last five years, Costain's book value / market cap peaked in December 2021 at 1.9x.
- Costain's book value / market cap hit its five-year low in December 2017 of 0.3x.
- Costain's book value / market cap increased in each of the last five fiscal years from 0.3x in 2017 to 1.9x in 2021.

Book Value v Market Value

Current Market Capitalisation

£108.38m
Enterprise Value (£108.4m – £93.2m) = £15.2m

Current Ownership

60.8% Ownership is held by ASGC (15.2%) and nine institutional investors (45.6%)

Shareholders

Name	Equities	%
ASGC Construction LLC	41,666,666	15.2%
J.O. Hambro Capital Management Ltd.	27,250,190	9.91%
Ennismore Fund Management Ltd.	19,534,640	7.10%
Hargreaves Lansdown Stockbrokers Ltd.	16,298,000	5.93%
Gresham House Asset Management Ltd.	15,018,286	5.46%
Gresham House Asset Management Ltd. (Investment Management)	12,622,832	4.59%
Northern Trust Global Investments Ltd. (Securities Lending)	10,315,000	3.75%
Artemis Investment Management LLP	8,469,850	3.08%
Hargreaves Lansdown Asset Management Ltd.	8,282,000	3.01%
KBI Global Investors Ltd.	7,528,503	2.74%

∑60.77%

Potential for Takeover of Costain Plc

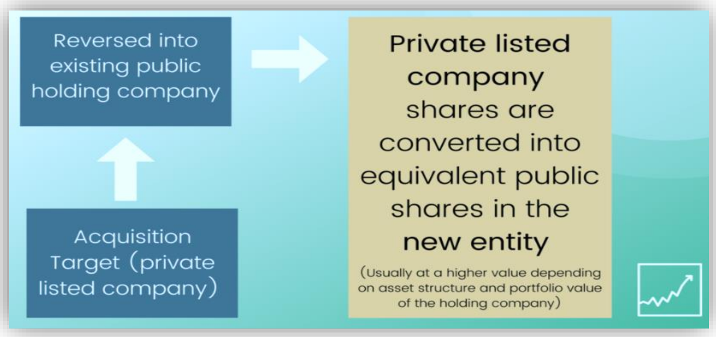
Costain is open to a General Offer from an existing or future shareholder, and Think Big Partnership is in contact with overseas interest parties, seeking a position in the UK construction sector, and an under-valued listed company with an established reputation. It is unlikely that a UK based competitor contractor would see value in acquisition of Costain, and Costain's internal cash generating capabilities make it an unlikely candidate for a Management Buyout, Leveraged Buyout, or acquisition by Private Equity. Nevertheless, post-acquisition, turnaround, and expansion – could make Costain an attractive stock for re-listing or share price growth in the event of a Reverse Takeover/Merger.

Potential for ASGC to agree a Reverse Merger and assume control of Costain and its UK Stock Exchange Listing

Costain is vulnerable to a takeover by a larger group, but a 'reverse merger' is an alternative. This involves a process in which a public company (eg. Costain) effectively acquires a private company (eg. ASGC) which then becomes the public company. The reverse merger involves an asset swap. The reverse merger also requires a capitalization restructuring of the company that is acquiring. In simple words, it just means that the assets and capitalization of both the acquiring and acquired company are swapped.

It allows the private company to bypass the lengthy and regulatory complex IPO process. The shareholders of ASGC would get a substantial amount of ownership in Costain Plc. ASGC would also get control of Costain's board of directors. When the two companies merge to make a single company Costain-ASGC, the resultant company is a larger publicly traded enterprise, with enhanced value.

Special purpose acquisition companies (SPAC) can also be used to enact the transactions required for the private company to become public. The SPAC becomes the 'financial product' that can also be used to do the reverse merger (eg. Potential use of INNOVO Holdings Ltd for this purpose?).



The Reverse Merger Process

- **Buying of more shares**
  At the start, ASGC could conduct further buying of Costain shares. The goal would be to gain greater control of the target company as an influential shareholder/ partner company, without triggering a mandatory general offering (30%). It would also enhance the shareholding by ASGC in the eventual merged group.

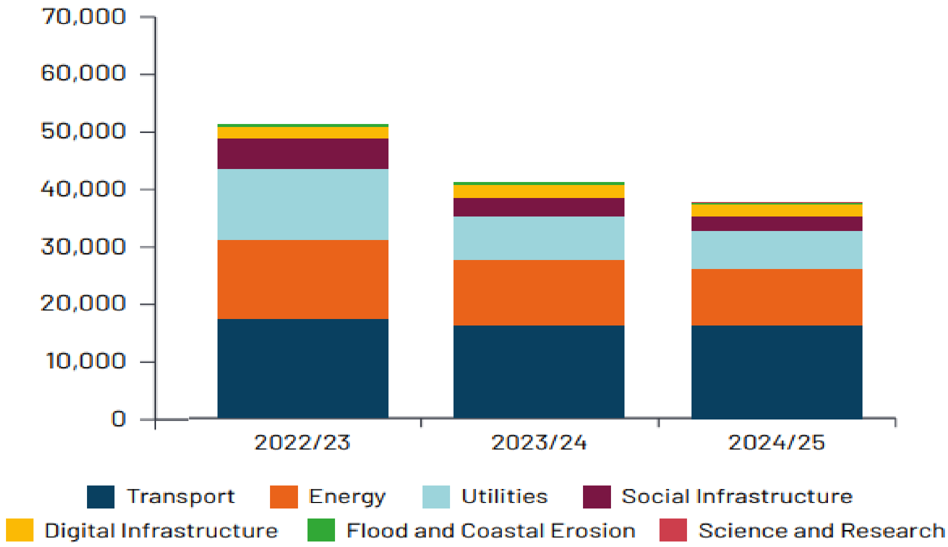
- **Shareholders-shares-buy activities**
  This is the phase that leads to the merger and public listing. The process involves ASGC shareholders engaging actively in the exchange of its shares with those of Costain, the public company. Depending on the agreed valuation of ASGC (to be conducted independently), the public company (Costain) cedes a large majority of its stock shares to ASGC, the private company's shareholders, along with control of Costain's board of directors. ASGC effectively pays for Costain with its own shares to retain a significant share of the merged listed group, while the existing institutional minority investors would retain smaller holdings, but in a substantially enhanced group.

Note: Attempts were made by www.thinkbigpartnership.com to make contact with the CEO of ASGC Bishoy Azmy during May/June 2022, but the company declined to reply.

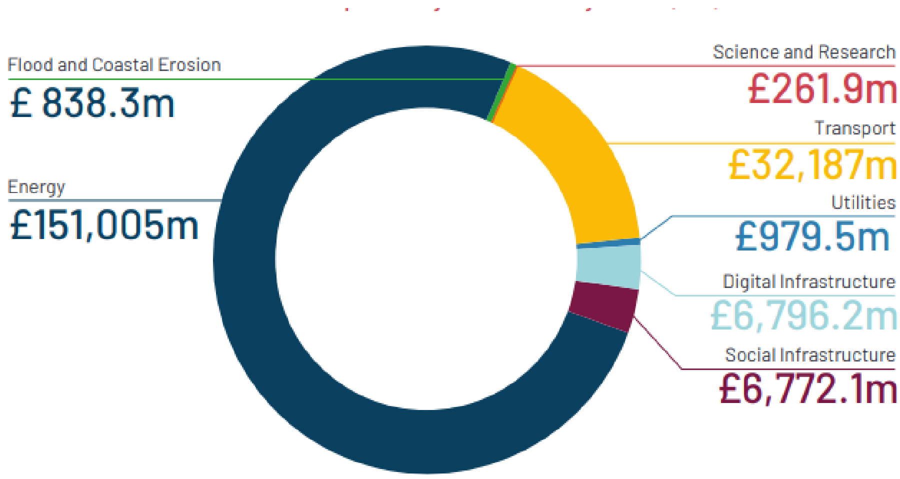
Fundamentals of Market Opportunities

An assessment of the future UK market prospects requires an analysis of the national infrastructure & construction pipeline. The Construction Industry in the United Kingdom creates about £123 billion in buildings and infrastructure every year. This means that it is contributing around 7% of GDP. Despite the effects of Covid-19 and Brexit, the outlook for the sector is looking very bright with Boris Johnson's government announcing last year that it would spend £600bn on infrastructure over ten years. It is therefore considered an opportune moment to make strategic investment in the UK construction sector while companies (active in these sectors) remain relatively poorly capitalized, and under-valued, compared with European competition.

<u>Annual Profile of Planned Pipeline by Sector (£m)</u>



<u>Planned Investment in the Pipeline Beyond 2024/25 by Sector (£m)</u>



Source: Infrastructure & Projects Authority Published August 2021

Target Sectors 2021-2025 are: Transport (£70bn), Energy (£51bn) & Utilities (£42bn). And the Investment Target Sectors 2024 and beyond are: Energy (£151bn) & Transport (£32bn).

Next Steps

1. Think Big Partnership solicits:
    - Interest of overseas companies in a takeover/ acquisition of Costain Plc
    - Interest of ASGC and/or other potential future strategic shareholders in a Reverse Merger/Takeover of Costain Plc
2. Think Big Partnership agrees a ‘Retained Consultancy Role’ and ‘Confidentiality Agreement’ with interested investor, to act exclusively on behalf of the potential investor *in helping with* valuations, formulation and implementation of strategy, appointment of independent advisors, and formation of a ‘Takeover and Interim Management Team’, contact with Costain management, presentation of benefits of merger to Shareholders, etc. - all under the leadership/instruction of the potential investor’s nominee - who would ultimately probably become the CEO elect of the combined/merged international construction group Costain Newco.

Post-acquisition under new management and with renewed financial strength and diversification strategy - Costain would enter a new era of growth in turnover, cash flow, net profit and market value - as a Tier One contractor and ever more diversified UK construction group, with international ambitions.

Greg Malpass, Spain June 8th 2022.

Attachments:

1. **Copy of Think Big Partnership- Press Release, October 25th, 2021**
2. **Copy of Think Big Partnership- Introduction Letter to Investors/Advisors, October 19th, 2021**
3. **Link to Think Big Partnership- Information Memorandum- Project Alpha-Beta, Acquisition Opportunities in UK Construction Contracting Sector, November 17th, 2021**
4. **Link to Think Big Partnership- Power Point Presentation, Acquisition Strategy Costain Plc, June 9th, 2022**

Attachment 1 - Copy of Think Big Partnership Press Release, October 25th, 2021

www.thinkbigpartnership.com

PRESS RELEASE

October 25th, 2021

"Time for leadership in UK Construction Consolidation and M&A"

All calls for domestic M&A to strengthen the sector have fallen on deaf ears since 2017, and it's probably now too late in the day.

Since Carillion's compulsory liquidation in January 2018, Interserve went into administration little more than a year later. During 2019 Construction News reported on a further 22 contractor administrations worth over £1.2 billion prior to the advent of Brexit and Covid-19 in the UK by the end of January 2020.

Since 31st January 2020 there have been further strains on companies partly related to the effects of Brexit and Covid-19. Major construction firms like Kier, Galliford Try, Costain, Amey and Interserve (in administration) have been forced to sell off profitable housing and equipment divisions or seek new financing essentially to survive.

Then on 11th March 2020 Boris Johnson announced plans for £600bn of infrastructure investment spending over the following 5 years.

"Now is the most opportune time for a foreign entity to make a strategic investment to establish a position in the future UK construction sector", concludes Aleks Petrovich, Managing Partner based in the Americas.

Think Big Partnership has been lobbying for UK construction industry consolidation since January 2016 to align a few re-capitalised contractors for future diversification and growth. In January 2017 Think Big Partnership issued a 360-page industry research report calling for UK contractors to merge between 2017-2020.

That initial call for consolidation was supported by industry veteran Sir Neville Simms, chairman of Thames Tideway, and previously chief executive of Tarmac Group and Chairman of Carillion, who wrote in the foreword: "British contractors are in danger of missing out on major international projects in the future, if they lack the financial muscle and diversity of say a £15bn-a-year contractor to handle the more complex projects."

On the premise that further consolidation in the industry "..must and will take place..", Sir Neville went onto predict that "..increased market share, more innovation, improving profitability and more certain returns to shareholders should lead to a construction sector that in the future is both financially and operationally stronger."

Greg Malpass, Managing Partner based in Europe, states "Company executives disagreed or rejected approaches in 2017 and 'die-hard' boards have continued to ignore the signs. As a result, neither consolidation nor a stronger construction sector have prevailed. Apart from a few notable exceptions at the top of the league such as Balfour Beatty and Morgan Sindall, most listed construction companies are considerably weaker and valued less now than they were in January 2017. The message was clear- 'Merge or die!' And several have. Now is the time to provide leadership in the drive to strengthen the sector. In Think Big Partnership's view sources of external capital will most likely come to bear in the process."

Think Big Partnership has now produced its own 'Summary of Opportunities' as an independent 'Industry Opinion' and is being issued to stakeholders as an 'Information Memorandum' canvassing interest from China; Southeast Asia and

Australasia; Sovereign Wealth Funds and Corporate Conglomerates in the Middle East; Private Equity Firms; and European Majors in the Construction Sector seeking to secure a post-Brexit position in the UK market.

"What's the benefit? Well, while we are not currently tied to specific players, we can express an independent view and seek foreign investment, it's not too late for that. It's not handholding, it's taking the initiative, and there has already been one expression of interest from a large international infrastructure company. If and when we receive confidential and serious 'Letters of Intent' from potential investors, strictest confidentiality will of course be maintained, and only then will client appointments be sought with the intent to make confidential introductions to move forward, probably early in 2022."

For more Information contact:

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Related Links:

Information Memorandum
https://nebula.wsimg.com/92fd86e75b8473f169b01b085e469737?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1

Think Big History
https://nebula.wsimg.com/1e1a95b2dca8fba414cebbd73e5de99c?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1

Construction Consolidation Report
https://nebula.wsimg.com/b1bbc824518c202504ba1ff201496d5b?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1

Attachment 2- Copy of Think Big Partnership Introduction Letter to Investors/Advisors, October 19th, 2021

think big PARTNERSHIP
www.thinkbigpartnership.com

November 5th , 2021

Dear Potential Investor/ Strategic Partner/ Advisor

Reference Acquisition Opportunities in UK Construction Sector 2021/22

Since the Carillion bankruptcy- with Brexit and Covid-19 - there have been further companies going into administration including Interserve. Other 'Majors' like Kier, Galliford Try, Costain and Amey have been forced to sell off profitable divisions or seek new financing to survive.

But Boris Johnson has announced a £600bn infrastructure spending spree over next 10 years, and Balfour Beatty, Laing O'Rourke and Morgan Sindall are only three groups who are currently financially fit enough to bond up major projects and entertain ambitious growth. Meanwhile company market valuations remain very depressed.

Think Big Partnership's view on all this is that 'Now is the most opportune time for a non-UK contracting entity to make a strategic investment or seek a strategic alliance to establish a significant position in the future UK construction sector'.

The opportunities are wide but there may be particular interest from Sovereign Wealth Funds or Corporate Conglomerates in the Middle East; Private Equity Firms; or European or International Majors in the Construction and Related Sectors seeking to secure or consolidate a post-Brexit integrated position in the UK contracting market.

Think Big Partnership has established links into would-be International Investors/ Partners, the CEOs of the main UK Construction Companies, and their Advisors. Where there is investor and/or Seller appetite, we are the best route to make confidential approaches, without first declaring the identity of the interested parties from either side.

Best Regards

Greg Malpass

Managing Partner, Europe

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Attachment 3- Link to Think Big Partnership Information Memorandum- Project Alpha-Beta, Acquisition Opportunities in UK Construction Contracting Sector, November 17th, 2021

<u>Related Link:</u>

Information Memorandum
https://nebula.wsimg.com/92fd86e75b8473f169b01b085e469737?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1

Attachment 4- Link to Think Big Partnership- Power Point Presentation, The Value of Costain - Acquisition Strategy, June 9th, 2022

<u>Related Link:</u>

Power Point Presentation
https://nebula.wsimg.com/908a1a412c8b5fcf1d1292c3e1095938?AccessKeyId=95B6737F98B38E354D56&disposition=0&alloworigin=1

The value of Costain

COSTAIN