

Appendix 1

SUSTAINABLE DEVELOPMENT RISKS AND OPPORTUNITIES 2018

Our aim: to become a sector leader in sustainable development by mitigating risks and maximising opportunities.

As a responsible business we identify potential risks to our business so that we can put in place mitigating actions. Addressing potential risks early creates opportunities for us to improve what we do and helps us stand out from the crowd.

RISK	POTENTIAL CONSEQUENCES	MITIGATION IN PLACE	POTENTIAL OPPORTUNITIES AND BENEFITS
OUR PEOPLE			
<p>Failure to attract, retain, develop and promote high calibre people who are representative of the communities in which we work</p>	<p>A workforce with insufficient skills, knowledge and experience to meet the needs of an evolving market</p> <p>Lower quality work and higher turnover</p> <p>Poor engagement with our people leading to lower productivity and poor customer service</p>	<p>We continue to ensure that our terms and conditions remain attractive and competitive</p> <p>Our work on gender diversity is helping us be an employer of choice for both men and women</p> <p>We are maintaining investment in L&D and offering industry-leading, accredited training and development to our people at all stages of their careers</p> <p>We promote the construction sector to young people as an excellent career choice</p>	<p>By protecting our business from industry skills shortages, our engaged, skilled and diverse workforce will give us a competitive advantage</p> <p>To be an employer of choice that values loyalty with high retention rates – company values lived throughout Group</p> <p>Competitive advantage resulting from better decision-making by diverse and complementary teams</p> <p>Increasing the pool of talent from which we recruit, helping to mitigate the current</p> <p>To make a difference to the lives of young people by promoting our industry as a great place to work</p>
<p>Failure to protect the health, safety and wellbeing of our people and those with whom we work</p>	<p>Increased insurance premiums and costs associated with legal action</p> <p>Increased levels of sickness absence</p>	<p>We have comprehensive health and safety programmes in place</p> <p>Our health and safety performance is reported regularly to our Company Boards</p> <p>We have a range of benefits and initiatives in place to support the wellbeing of our people and are constantly seeking to improve these</p> <p>We have a safeguarding policy to make sure that those of our people working with children and vulnerable adults have the necessary checks in place</p>	<p>A raised reputation as a responsible contractor</p> <p>Improved health and well-being of our people and our supply chain partners.</p>

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OUR SUPPLY CHAIN PARTNERS			
Failure to nurture and develop a supply chain with the skills, capacity and engagement to deliver projects to the standards we set	Loss of loyal supply chain partners, lower standards on our projects	<p>We already offer better payment terms than the industry average</p> <p>We recognise excellence in our supply chain through local awards schemes and are building better, more collaborative relationships with our supply chain partners, through delivery of our Supply Chain Strategy</p> <p>We continue to encourage our supply chain partners to develop skills and knowledge through the Supply Chain Sustainability School</p>	<p>Opportunity to work more closely with supply chain partners and have greater control over some supply chain practices</p> <p>Stronger relationships should improve our resilience to labour shortages</p> <p>Supply chain partners prepared to go the extra mile and deliver outstanding work for our customers</p>
Shortage of skilled labour	<p>Increased labour costs and risk of modern slavery</p> <p>Project delays or inability to deliver</p> <p>Fines and loss of reputation resulting from use of illegal labour</p>	<p>We carry out robust checks on site personnel and potential supply chain partners are training our people to recognise the signs of modern slavery</p> <p>We have signed up to the GLAA construction sector protocol and become a Project Sponsor of the Stronger Together/CIOB Construction Sector project</p>	<p>To work more closely with our supply chain partners</p> <p>To extend our use of mandated supply chain agreements</p> <p>To be seen as an industry leader in addressing modern slavery in our supply chains</p>
Failure to procure goods and services responsibly	<p>Fines and loss of reputation if we are found to be sourcing goods and services illegally or unethically</p> <p>Increased costs for finite or scarce resources</p>	<p>We procure in line with our Sustainable Procurement Policy</p> <p>We preferentially procure products which demonstrate compliance with a recognised responsible sourcing scheme</p> <p>We collaborate with our competitors to drive out unsustainable products and raise standards</p>	<p>Improved product differentiation and added value enable us to become a supplier of choice</p> <p>To reduce reliance on imported resources and support local markets</p> <p>To innovate to find alternatives</p>
OUR CUSTOMERS			
Failure to meet customers' expectations	<p>Loss of repeat business</p> <p>Loss of reputation with partners and stakeholders</p>	<p>We agree project goals early through inception workshops</p> <p>We report regularly on agreed contract and sustainability frameworks' performance indicators</p>	<p>To be a contractor of choice for our astonished customers</p> <p>Increased competitiveness in bids and tenders</p> <p>To lead the industry in innovation, business models</p>

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		We invest in R&D and continue to review our offering to meet the evolving needs of our customers	and use of new technologies
OUR PRODUCTS			
Failure to ensure that our projects perform as intended and are resilient to the effects of climate change	<p>Dissatisfied customers, and reputational damage, cost of legal action and remediation</p> <p>Inability to win new work as a result of loss of reputation</p> <p>Buildings fail in extreme weather-related events, leading to loss of reputation and market share</p>	<p>We consider life cycle costing, heating, cooling, water stress, flooding and resource scarcity on our projects</p> <p>We agree customer aims and project objectives early through inception workshops</p> <p>We carry out post-occupancy evaluations on the "as built" performance of our projects so we can learn from what we do and close the performance gap.</p> <p>We have significant systems and processes in place to protect against project failures</p>	<p>Increased awareness of whole life costing, life cycle analysis, healthy building solutions and as-built performance, leading to more sustainable investment decisions and resilient built environment</p> <p>Improved quality of the UK's built environment and increased market share</p> <p>Some customers are selecting based on 'best value' rather than lowest cost</p>
OUR ENVIRONMENTAL IMPACT			
Failure to minimise and mitigate our impact on the natural environment	<p>Increasing cost of waste disposal, water resource and materials' costs</p> <p>High costs associated with remediation and rectification, legal action and increased insurance premiums</p>	<p>We are reducing our environmental impacts through compliance with our 10 Point Plan, by delivering our Sustainable Development Strategy and headline targets, our Energy and Carbon Management Strategy and our Biodiversity Strategy.</p> <p>We report progress against our headline targets monthly to our Holdings Board</p>	<p>Reduced operating costs and environmental impact of our operations, our products and their performance in-use</p> <p>To enhance our reputation as a leader in sustainable construction operations and increased shareholder value through improved margins</p> <p>We continue to research and adopt new products, techniques and technologies</p>
OUR INDUSTRY LEADERSHIP			
Lack of participation in industry issues and proposed legislative changes affecting our sector	<p>Loss of profile and reputation as a leader in sustainable development</p> <p>Loss of opportunity to influence market conditions</p>	<p>We engage with a range of advocacy groups, including Aldersgate Group, UK-GBC, Forum for the Future</p> <p>We regularly respond to Government consultations and engage with key decision makers on issues affecting the sustainability of the built environment</p>	<p>Increased profile whilst other organisations may withdraw from addressing agenda due to diluted UK policy position</p> <p>Opportunity to demonstrate our commitment to sustainable development and social value to our people, customers and suppliers</p>
OUR GROWTH			

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Challenging UK economic environment impacts on our profitability	Government focus on reducing the deficit will reduce public spending Increased costs though wage inflation and exchange rate inflation	Our approach to community investment and sustainable buildings are all part of the considerable added value that we can offer customers Our innovative approach to funding and land deals is helping to unlock capital projects for our public sector partners We continue to seek efficiencies through improved systems and processes	Rises in earnings and disposable income increase opportunities and business confidence, boosting demand throughout the industry Focuses our business on the need for innovation and new ways of working
Changes in public procurement – for example, reduced payment terms and removal of retentions – as Government responds to financial failures of other contractors	Impact on project finances	We are financially prudent and transparent in reporting We emphasise financial probity in reports/dealings with customers	Increased use of established procurement frameworks such as Scape Procurers move away from lowest price to best value
Failure to embrace modern technologies and construction methods	Failure to win public sector work, as, from 2019, many government departments will favour the use of modern construction methods Loss of market share	We have innovation and improvement teams in place We are currently looking at the legal implications of using a range of modern technologies and making recommendations for their use	Modern technologies can help us address some of our key risks, and build better buildings more quickly, cheaply and reliably Virtual and augmented reality applications are increasingly available to help engage with customers and other stakeholders By embracing modern construction methods we can mitigate the risk of a number of key issues, including skills shortages, materials efficiency, and improve the quality of our offering to customers
Failure to adapt to changing business models	We lose market share to more disruptive companies New business models can increase financial risk, and failure to meet contractual obligations will result in financial and reputational penalties	We have delivered some significant as-built performance-contracted buildings including Leicester University's Centre for Medicine Defect Free Projects now being delivered	Innovative service models provide attractive de-risking contracts for customers Re-presenting our products as services that customers require may enable us to identify innovative and unique business models

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OUR VALUES			
<p>We fail to manifest our company values through our actions and decisions</p>	<p>Loss of unique position as an industry leader in environmental and social sustainability</p> <p>Stakeholders lose trust in our business</p>	<p>We are well on the way to achieving the headline targets in our Sustainable Development Strategy</p> <p>We report transparently on our performance</p> <p>There is mandatory training for all our people on key issues such as bribery and corruption, competition law and sustainability, and our manager training helps managers champion company values to their teams</p> <p>Communications regularly reinforce company values to our people</p>	<p>Reinforcing our commitment to company values helps to differentiate us in the marketplace</p> <p>Builds trust with customers, supply chain and other key stakeholders</p>
<p>Lack of transparency of reporting performance against compliance obligations and voluntary commitments</p>	<p>Reputational damage, disengagement of our people and supply chain partners</p> <p>Reputational risk if we compare poorly with competitors, or are unable to evidence due diligence</p>	<p>All performance data is published in the annual SD Review and Annual Report and Accounts and this data is independently verified</p> <p>We continue to scan the horizon for changes to reporting obligations and develop action plans for areas where we need to improve</p> <p>We engage with government departments and key stakeholders so that we report in a timely and accurate manner</p>	<p>We have one of the most robust systems in the industry for gathering, collecting and reporting data, giving us the chance to be seen as an example of best practice</p>
OUR BUSINESS RESILIENCE			
<p>Failure to plan for extreme or unusual circumstances</p>	<p>Extreme weather, fire, or flu pandemics could lead to loss of productivity and increased costs due to programme extensions</p> <p>Supply chain partners and subcontracted trades unable to sustain performance in weather extremes</p>	<p>We have project environmental plans in place which ensure contingencies are in place in case of extreme weather</p> <p>We have business continuity plans in place</p>	<p>Tested business continuity plans will minimise our exposure to financial risk and will maintain strong customer relationships</p>
<p>Failure to secure our data</p>	<p>Business interruption and</p>	<p>We are working hard on cyber security and have just</p>	<p>Cyber security is a direct enabler to winning</p>

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and information	<p>consequent financial losses as a result of ransomware / phishing / hacking and scams</p> <p>Significant fines, reputational loss and loss of high security contracts</p>	<p>been awarded the Cyber Essentials accreditation</p> <p>The General Data Protection Regulations will be a high priority for our public sector customers. We are developing training for our people on the new legislation and will be able to demonstrate to customers what we are doing to protect data</p>	<p>business. Ever more market sectors and potential customers expect their suppliers to provide certificated evidence of cyber security</p>