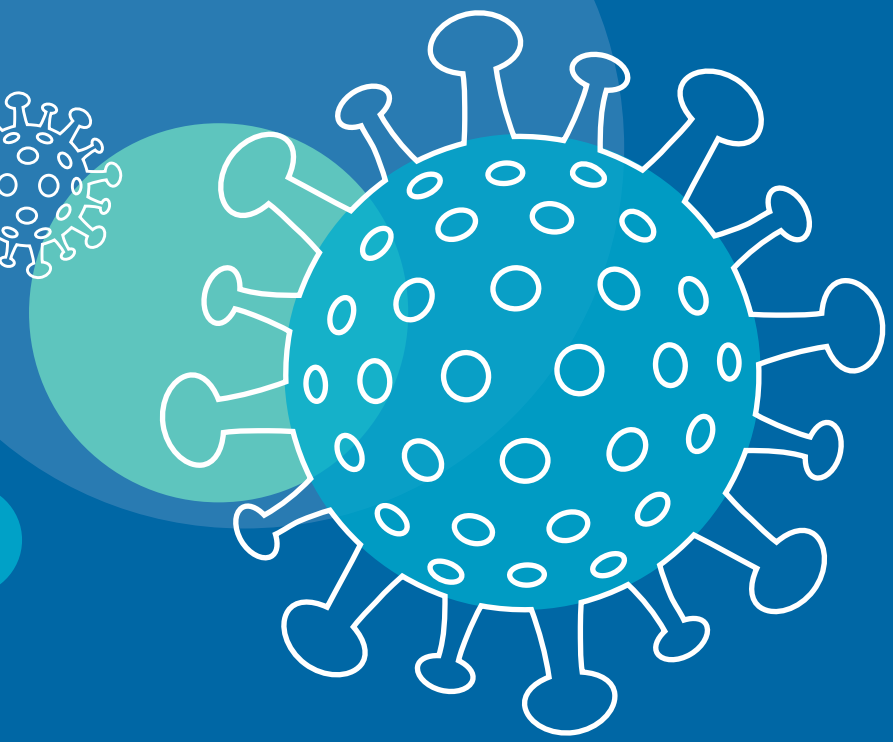
COVID-19

Impact on Supply Chain



Executive summary

For week commencing 18 May 2020

Around 200 countries have now been affected by Covid-19 with more than 4.7 million cases confirmed worldwide, circa 315,000 deaths and circa 1.7 million recoveries.

European countries continue to release restrictions with discussions taking place around oversea travel, reopening restaurant and shops and return to school.

The FTSE 100 has been trading up since its lowest point on 23 March 2020, getting closer to the 6,000-point mark. This week, a few announcements are expected with potential reactions from the market: March unemployment rate on Tuesday, followed by inflation for April on Wednesday and the Markit/CIPS Manufacturing PMI on Thursday.

While the Bank of England is looking at new policy tools to support the economy, the Chancellor of the Exchequer will be answering questions about the debt created in reaction to the Covid-19 impact on the economy. A focus on reducing debt could impact the speed of recovery for the economy[1].

The main supply chain risks remain:

- Shortages and delays to delivery of materials due to reduce stocks availability
- Reduced labour resources on site (employees, agency staff or subcontractor staff)
- Disruption to supply chain logistics and transportation
- Insolvency in the supply chain

[1] https://tradingeconomics.com/united-kingdom/

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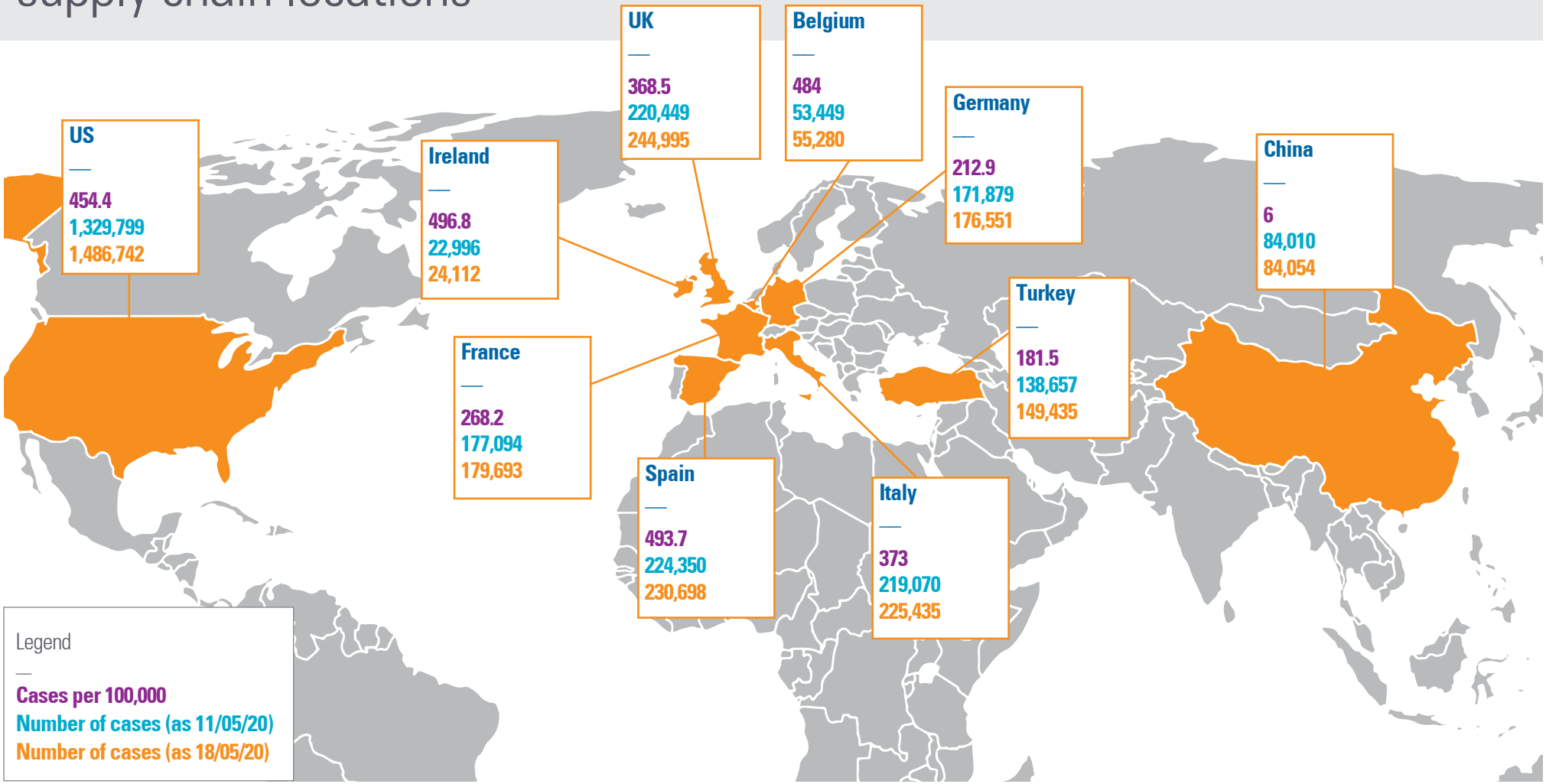
Impacted countries – supply chain locations[2]



For more information on the impact of Covid-19 per country, please refer to Financial Times article from 18/05/2020, here.

2 https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138

Impact by markets

Building merchants – no change since 11/05

» Our strategic building merchants are operating a reduced capacity and service at between 25% to 75% capacity across UK. Overall market demand mirrors this capacity.

» Other building merchants branches have re-opened as of 11 May 2020.

Quarry products and surfacing – updated 19/05

» Our quarry and surfacing supply chain partners are operating between 30% (ready-mix & concrete) and 80% (aggregates & asphalt and contracting) capacity across UK, with geographical variations depending on customer demand.

» Our supply chain has established a 'Critical Network' of assets with the purpose of providing access to materials across UK.

» Forecasts for return to pre Covid-19 volumes are fluid; currently ranging from Q4 2020 to Q2 2021.

» It is critical that Balfour Beatty shares project needs. This will enable the supply chain to help manage their assets.

Subcontractors – updated 19/05

» Concerns have been raised across the industry regarding the medium to long term impact on subcontractors. SME are particularly at risks of bankruptcy however Government funds have started to be released but this still remains a risk.

» There is potential to have supply issues in earth-moving sub-contracts towards 2021 due to high profile work (HS2) taking capacity in plant operatives and earthwork supervisors specifically.

» Currently there are no capacity issues in the market.

Modern Slavery – no change since 11/05

» The Home Office has issued new guidance on Modern Slavery during Covid-19 which would relate to the escalation in risk within all subcontractors[3].

Steel Reinforcement – updated 19/05

» Demand is down c. 80% and new business is down c. 90%. Current framework rate for Cut & Bent reduced to £480 from £500 per tonne, as a result of normal winter down-turn exacerbated by Covid-19 lockdown.

» Prefabricated supply chain is fully operational with lead times between 15 to 20 working days. Overall demand is down by c. 60%.

» Supply chain expects to see an influx of delayed projects starts along with planned projects in 2020. This will likely result in significant price increases of c. 15 to c. 20%.

Building Fabric and Envelope – updated 18/05

» Key Drylining manufacturers are open on a reduced capacity and in line with anticipated demand and government guidelines.

» Suppliers are returning to increased capacity towards the end of May 2020.

» Drylining and insulation distributors continue to operate at reduced capacities however more branches are opening steadily as demand increases. Distributors are committed to prioritising supply to critical projects and deliver to non-critical sites where capacity and availability of materials allow.

» For plasterboard and plaster, Distributors describe the allocation to be 20% of pre-Covid-19 material volumes creating a challenge although this is likely to increase as supply increases.

» Timber material suppliers continue to run at a reduced number of branches open across the UK. Direct contact by phone or email is required with national sales teams or local branches prior to placing orders on a delivery only basis. PEFC or FSC wood specifications sources are available through select building merchants.

» Aluminium curtain walling, windows and door profile manufacturers continue to operate and supply materials; some at a reduced capacity. Minimal impacts to projects are expected as manufacturers have good levels of stock (built up for Brexit) and continue to supply operating fabricating subcontractors.

[3] https://balfourbeatty.sharepoint.com/sites/SustProc/SitePages/Home-Office-issues-new-guidance-on-modern-slavery-during-the-covid-19-pandemic.aspx

PPE and hygiene products – updated 19/05

» PPE and hygiene products have been impacted by the requirement to support the NHS. Certain dusk masks such as FFP2 are easier to secure although guidance is to continue to social distance 2 metres.

» Face coverings are now advised for working in enclosed spaces where social distancing is not possible. Face coverings can be made at home. Made from cloth, they cover the nose and mouth, and are intended to protect others against inadvertent transmission of the virus from coughing or sneezing – not the user.

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» There is potential to have supply issues in earth-moving sub-contracts towards 2021 due to high profile work taking capacity in plant operatives and earthwork supervisors specifically.

» Currently there are no capacity issues in the market.

FM, Plant & Fleet – no change since 11/05

Plant – The plant industry continues to operate and support the industry.

Fuel – Brent Crude Oil rose slightly week on week and is now sitting at $32 per barrel.

Labour – no change since 11/05

» Our key vendors are requesting access to post Covid-19 lockdown planning including details on which projects are opening and the timelines associated.