



Chain Reactions

Fourth supply chain temperature check

Balfour Beatty



Foreword

Balfour Beatty delivers, operates and maintains some of the largest most complex projects in the world, from those critical to national infrastructure to the smaller but no less important schemes at the heart of local communities. Fundamental to our success in delivering all of these is our world-class supply chain, made up of trusted supply chain partners. Our annual 'Chain Reactions' survey is your opportunity to tell us, frankly and anonymously, how we are doing in achieving our aim to become your customer of choice and how you are dealing with some of the key challenges facing the sector.

We are really pleased that responses to the survey questions we use to measure how easy we are to work with have improved since we started doing these surveys - and continue to do so, showing that we are listening to what you tell us and reacting effectively. We continue to streamline our processes with digital processes and tools including Jaggaer, ConstructionLine, Tradex and Docusign to ensure that you are being paid on time and supported and that our sustainable procurement requirements are being met and tracked. Your opinion of these tools is strongly positive: for example, 64% of tender respondents using the e-procurement platform Jaggaer feel it's an improvement on other ways of tendering goods and services – a figure we hope will continue to improve as we embed these platforms. This is exactly the type of modernisation which represents the future for our sector, to ensure our mutual continued success.

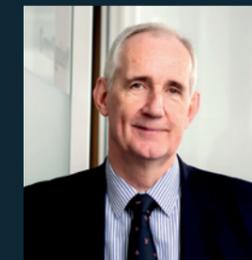
I know you recognise this: one of the key findings from our survey was that an overwhelming 98% of you are investing in innovation and new technologies: in fact, a massive 70% of those surveyed are investing up to 20% of profits specifically in low or zero carbon innovations, while 19% are investing over 20%, showing just how high it is on your business' agenda. Given the construction and infrastructure industry's significant carbon footprint and the important role innovation will play in helping us reduce it, that's an incredibly positive finding. We all know that innovative and digital approaches are reshaping the construction and infrastructure industry, helping us take out cost and reduce carbon emissions. Balfour Beatty is keen to nurture and unlock innovation wherever possible, with the goal of staying ahead of the curve - improving the efficiency, safety and delivery of our work for the customer. We want to work with you to develop your ideas and innovations and take them to the next level and we'll be rolling out a new approach in the coming months

to make sure we can do that in a way that is as slick and beneficial to both sides as possible.

Finally, in the past year and a half we've navigated some difficult times together. We are extremely proud that 99% of you felt supported by Balfour Beatty during the COVID-19 pandemic, particularly the first lockdown. Ensuring that you felt secure and especially that you were paid quickly formed one of our four strategic objectives during that period. The other three were keeping people safe, continuing to build and maintain the infrastructure the country relies on, safely and in line with Government guidance; and retaining capability – the skilled workforce the sector relies on. Your feedback tells us that we met those objectives.

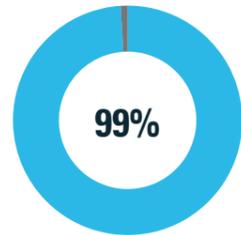
Thank you to all of those who took the time to respond to the survey. As ever, we'll take the findings and learn from them, using them to drive further improvement in the way we work with you, always measuring ourselves against our goal of being your customer of choice.

I look forward to continuing to work with you.

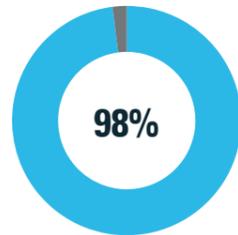


Leo Quinn
Group Chief Executive,
Balfour Beatty

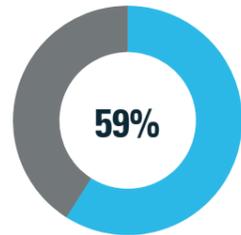
2021 Survey Headlines



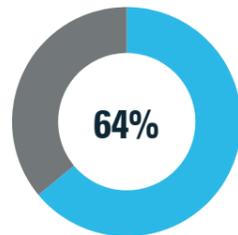
of respondents felt supported by Balfour Beatty as a customer During the Covid-19 pandemic, in particular during periods of national lockdowns.



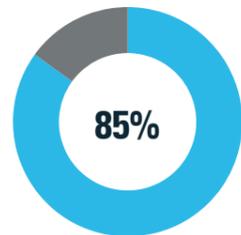
of those of you surveyed say you are investing in innovation and new technologies, which is a slight increase on the 96% in 2020.



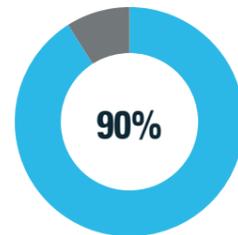
of those who took the survey have submitted a response to a tender via the e-procurement platform Jaggaer.



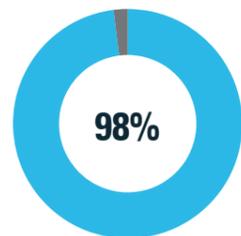
of those feel this is an improved way of tendering goods and services compared to how Balfour Beatty has historically operated, which is a really positive endorsement of this approach.



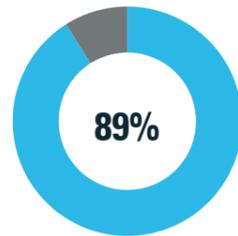
of those who responded described their businesses as being happy with the amount of contact they have with their Balfour Beatty procurement or commercial manager. A positive increase on the 74% figure in the 2020 survey.



of our strategic supply chain partners agree that Balfour Beatty is both committed to social value and making realistic demands of our supply chain in delivering social value outcomes.



of respondents agreed that the UK construction industry is committed to high health and safety standards.



We are pleased that 89% of those of you who responded to the survey believe that the UK construction industry currently demonstrates a commitment to diversity and inclusion. This is the same figure as 2020.



- > While many of our supply chain partners feel that the Tradex platform has **improved** how quickly their business is paid and given them a greater understanding of the process surrounding their invoices and payment, 8% of respondents remain to be convinced of the benefits, which is something we will continue to work to improve. (See Paying our Supply Chain Partners)
- > Only 2% disagree that DocuSign has made it easier to contract with Balfour Beatty, demonstrating the benefit that this easy-to-use, secure platform has quickly begun to offer.

- > While a significant proportion of those surveyed felt that ConstructionLine is an improvement on the previous system, 9% were of the view that there was still work to do. This is a significant improvement on the 22% of respondents who felt that there remained some points to iron out in 2020. We will continue to work with ConstructionLine and our suppliers to ensure that this works as seamlessly and transparently as possible.

Paying our supply chain partners

Balfour Beatty works with c.12,500 supply chain partners across the UK, processing around 500,000 invoices every year. We know how important it is to our supply chain partners that we pay them on time and to mutually agreed terms and we remain focussed in our efforts to do so. As signatories to the UK Government's Prompt Payment Code, we comply with the principles of the Code.

Since 2015, we have visibly streamlined and improved the systems and tools used in the planning, delivery, progress tracking and payment of supply chain partners with the introduction of Tradex, which provides an e-invoicing platform, supplier invoice status portal and Constructionline. We continue to embed these digital processes and tools, which also include Jaggaer and Docusign, to cut the red tape, improve reliability and speed up payment, to ensure that supply chain partners are being paid on time and supported and that our sustainable procurement priorities and requirements are being met and tracked.

The use of these electronic invoicing and approvals has seen the percentage of invoices paid within 60 days increase to 92% from 91% as reported in December 2020.

These processes and systems are helping us to continue to improve our payment days and enhance our accuracy and transparency including the implementation of catalogue software for a number of key supply chain partners, moving the supply chain partners onto payment terms of 60 days or less and, from 1 July 2021, paying organisations with less than 50 employees in 30 days or less.

Our digital transformation and our supply chain partners

Balfour Beatty's digital transformation journey began in 2015 as a critical element of our Build to Last strategy and ensuring that our business is future-ready and agile. Over the past six years, we have honed our approach. From using it initially as a way of improving our financial transparency through 'project on a page', to being fully embedded in our operations through collaborations such as Tradex, providing a Digital platform for all invoice payments across the supply chain, or Msite, providing each employee with a digital identity that enables contactless entry to site using biometrics. Our strategy has matured, proving its worth as we responded with agility to the COVID-19 pandemic and delivering increasing benefits to our customers, employees, supply chain partners and to Balfour Beatty.

Supply chain partners who embrace digital change, upskill their own workforces and prepare for a digital future will ultimately be the ones who help us achieve our own objectives. Bridging the digital divide with our supply chain partners is therefore a central element of our digital strategy. 98% of those of you surveyed say you are investing in innovation and new technologies, which is a slight increase on the 96% in 2020. We are keen to have early access to new products, services, ideas, and technologies so we can help you develop and pilot them and, if they are successful, roll them out as widely as possible.

Slick digital processes including Jaggaer and Constructionline ensure that our responsible procurement priorities and sustainability requirements are being met and tracked, and that our supply chain partners are being paid on time and supported.

Creating a single version of our performance with dashboards that process and present this information empowers our decision-makers to pinpoint bottlenecks and resolve emerging issues, while aggregate data allows us to understand trends and similarities, to effectively benchmark – and to quickly spot and address disparities.

Going forward, our aim is to use common coding and other digital tools to reach a point where we and our supply chain partners operate as one, virtual organisation with a continuous, seamless two-way flow of real-time information: turning the functional silos of the past into an integrated set of connected networks. We're working with the industry standards bodies to have our Common Coding adopted and incorporated. In many cases we're light years ahead of our peers in this space and will share our learnings so that the entire value chain finds it easier to integrate datasets between parties.



COVID-19

From March 2020 onwards, Balfour Beatty kept a firm grip on the priorities we set out at the beginning of the COVID-19 crisis:

- > Keeping those who work for and with us and the general public safe
- > Playing our part in keeping the UK going and supporting the NHS frontline
- > Delivering for our customers
- > Maintaining the liquidity of our supply chain partners

During this period, we have worked with our supply chain partners more closely than ever before, innovating at pace to ensure the industry could safely keep essential operations running, supporting jobs and economic growth at a time when this was desperately needed. In what was a time of anxiety, stress and personal sacrifice, we were grateful for the support of our supply chain partners to help us keep vital infrastructure moving. We, in turn, were determined to support you and we were therefore very pleased that 99% of respondents felt supported by Balfour Beatty as a customer During the Covid-19 pandemic, in particular during periods of national lockdowns.



Working with Balfour Beatty

Balfour Beatty is constantly seeking opportunities to improve how we communicate and collaborate with our supply chain partners. A key plinth of our approach is to phase out manually intensive, unreliable or slow processes and to streamline, standardise and automate them, using modern integrated tools. We want processes to be efficient and information to be readily available and shareable in both directions in real-time.

Your survey responses tell us that things are moving in the right direction. 59% of those who took the survey have submitted a response to a tender via the e-procurement platform Jaggaer. 64% of those feel this is an improved way of tendering goods and services compared to how Balfour Beatty has historically operated.

However, while many of our supply chain partners feel that the Tradex platform has improved how quickly their business is paid and given them a greater understanding of the process surrounding their invoices and payment, 8% of respondents unfortunately remain to be convinced of the benefits. Our aim is that, as we continue to embed Tradex, that remaining 8% is reduced. In the interim, we encourage you, where you have specific issues or concerns, to raise these with your relationship managers.

One of the most noteworthy components of the digital supplier journey is DocuSign – a digital tool for remote, online contract signing. Where contracts were once signed on paper and copied multiple times for relevant parties sent via the postal system, this has now been taken online, increasing the speed of completion and reducing paper waste. In 2020, 2,600 contracts were digitally signed with 82% signed within 48 hours and some even being returned within the hour. This significant improvement shows the true benefits of maintaining momentum around the digitisation of manual processes for advantages in time saving and efficiency as well as further developing our relationship with our supply chain partners. Only 2% of those surveyed disagree that

Midland Metropolitan University Hospital

DocuSign has made it easier to contract with Balfour Beatty – a really positive endorsement of the benefits it brings.

Balfour Beatty undertakes performance management of its supply chain partners as a way of helping both sides help each other continuously improve. We hold our supply chain partners to the same expectations and standards of performance we abide by ourselves. One of the key ways we do this is through ConstructionLine, a governance tool we use to verify the capability and compliance of supply chain partners. While a significant proportion of those surveyed felt that ConstructionLine is an improvement on the previous system, 9% were of the view that there was still work to do. This is an improvement on the 22% of respondents who felt that there remain some points to iron out in 2020. We will continue to work with Constructionline and our suppliers to ensure that this works as seamlessly and transparently as possible.

Last but not least, you rated us an average of 7 out of 10 in terms of ease of working with us – the same as in 2020. 85% of you told us that you are happy with the amount of contact you have with your Balfour Beatty procurement or commercial manager. An increase from 74% in the 2020 survey. We are keen to hear from you tangible suggestions for how we can improve on this figure so we can improve against our objective of becoming your customer of choice.



Sector wide issues

In parallel with this survey, we undertook one specifically on decarbonisation in relation to the upcoming 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 31 October – 12 November 2021. The results were fascinating. 74% of those surveyed believe that the Government’s push to net zero by 2050 is a positive opportunity for their business (13% view it as a risk) and 87% are already implementing or are developing a carbon reduction strategy.

74% of those surveyed believe that the Government’s push to net zero by 2050 is a positive opportunity for their business

In terms of how much businesses are investing in new, low or zero carbon products, materials or services, 70% of those surveyed are investing up to 20% of profits; 19% are investing over 20%. Only 11% are not investing anything. These figures are really encouraging and we would be interested to hear about any of your innovations in this area that we could help bring to fruition.

More worryingly however, 78% of those who responded believe that the sector does not have enough of the right skills available to support both individuals and businesses in the transition to a low-carbon economy. In terms of how well-prepared is the built environment sector overall is to meet the Government’s 2050 net zero target, while 22% feel that it is well-prepared, 64% believe that the sector is not ready to meet the Government’s 2050 net zero target and must to more to prepare, with a range of barriers cited to doing so, including: a lack of skills in the workforce to bring about change; cost still being the deciding factor in many schemes; the lack of availability of low or net zero carbon materials; and the need for earlier interaction leading to collaboration and design change before a bid is submitted.

64% believe that the sector is not ready to meet the Government’s 2050 net zero target

Sustainability is at the heart of how Balfour Beatty operates and that includes the wider social value agenda. We place huge importance on leaving a positive legacy in the communities we work in and with and we make every effort to be clear and transparent with our supply chain partners about what we expect from them to help us in this endeavour. We were really pleased, therefore, that 90% of our strategic supply chain partners agree that Balfour Beatty is both committed to social value and making realistic demands of our supply chain in delivering social value outcomes. This is a figure we hope to continue to drive upwards as we strive to deliver the 2030 ambition set out in our Sustainability Strategy, Building New Futures, to generate £3 billion social value; and to Positively Impact More than 1 Million People by 2040

In other sector-wide issues, we are pleased that 89% of those of you who responded to the survey believe that the UK construction industry currently demonstrates a commitment to diversity and inclusion. This is the same figure as 2020. Embedding a truly inclusive culture in order to support and improve diversity in our business is a priority for Balfour Beatty. In 2020 ‘value everyone’ was adopted as one of our behaviours in the Group’s Cultural Framework refresh to demonstrate its importance to the business. We were very proud to be Highly Commended for the RIDI Awards for Making a Difference in the Private Sector in 2020, and to be recognised as a Top Ten Employee Network Group in The Ethnicity Awards for a second year.

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London Underground
Track Renewals



98% of those who responded to the survey also agreed that the UK construction industry is committed to high health and safety standards. For Balfour Beatty in particular, the health, safety and wellbeing of our employees remains paramount in all we do. It is our number one priority.

Not with standing COVID-19’s impact on working life and team interactions, continued improvement in our health and safety practices was reflected in a reduction in our lost time injury rate (excluding international joint ventures) to 0.10, a 66% reduction since 2014.

90% Of our strategic supply chain partners agree that Balfour Beatty is both committed to social value and making realistic demands of our supply chain in delivering social value outcomes.



Sustainability and Net Zero Carbon

Balfour Beatty is fully committed to minimising its impact on climate change and mitigating the business risks that climate change presents. We have already reduced our carbon emissions by 54.7% since our baseline year (2010) and we plan to go further. At the end of 2020, Balfour Beatty launched its refreshed sustainability strategy, Building New Futures. This sets firm 2030 targets, including a formal commitment to set a science-based target to reduce carbon emissions, and outlines the Group's 2040 ambitions to go Beyond Net Zero Carbon, to Generate Zero Waste and to Positively Impact More than 1 Million People. Balfour Beatty has joined the UN-backed Race To Zero campaign, which sees non-state actors across the global economy committing to take rigorous and immediate action to halve emissions by 2030 and achieve net zero emissions by 2050 at the latest, in line with the global race to limit rising temperatures to 1.5°C.

Balfour Beatty recognises the critical role of its supply chain partners in helping to make it a more sustainable

business. 80% of our emissions stem from our supply chain. In the past year, we have continued to improve our approach to sustainable procurement by working with supply chain partners and customers to deliver sustainability outcomes and agree improvement plans across key categories. In particular, we have worked with supply chain partners to improve their low carbon product offering as technology and solutions evolve. For example, 2020 saw the roll out of the EcoNet solution that we developed with Invisible Systems and Sunbelt Rentals across 25 of its compounds on larger construction sites. We also trialled the first of our B-rated site accommodation cabins on Viking Link that it developed with Sunbelt Rentals. These reduce energy consumption and associated carbon emissions by 27%.

Much of the Group's work is undertaken collaboratively with its supply chain partners and will continue to be so. We cannot do this without you.

Modern slavery

Balfour Beatty remains committed to addressing the risk of labour exploitation within its business and wider supply chain and as a member of the Modern Slavery Construction Protocol, works closely with the Gangmasters and Labour Abuse Authority (GLAA) to prevent the exploitation of workers. Balfour Beatty also requires all of its suppliers and subcontractors to demonstrate their awareness of, and take steps to mitigate, the threat of Modern Slavery in the industry and has published a guidance document, setting out the Group's expectations and requirements for all suppliers.

The construction sector can be a prime target for those exploiting others through human trafficking or forced labour for example, due to fragmented supply chains, the fluctuating workforce and high reliance on short-term and, in some cases, low-skilled labour. We know that key activities, such as the procurement of materials, and the use of subcontractors and recruitment agencies, increase the risk of modern slavery taking place on our sites and within our supply chain.

We also know that a particular area of weakness lies in the onward supply chain. For example, using subcontracted

workers adds a layer of separation between us and those working on some of our contracts. That's why responsible procurement is central to how we operate. It's also why we invest in ensuring our supply chain partners have access to free training and guidance via the Supply Chain Sustainability School. We are clear in our Supplier Code of Conduct that we expect the highest standards and vigilance from our supply chain partners and their onward supply chain. In 2020, we put in place new steps in this area, including a new requirement for our supply chain partners to provide their modern slavery statement as part of the tendering process to provide us with assurance that they are taking the issue seriously.

Balfour Beatty takes this issue extremely seriously and expects all those who work with and for us to do the same. As a responsible business, we will never shy away from doing the right thing. There is never any excuse for the mistreatment of others.

Our full Modern Slavery approach is set out in our Modern Slavery Statement 2020-21 .



Bulldozer and Dumper Trucks

About Balfour Beatty

Balfour Beatty is a leading international infrastructure group. Our main geographies are the UK, US and Hong Kong. With 26,000 employees - 14,000 of them based across the UK - Balfour Beatty finances, develops, delivers and maintains the increasingly complex infrastructure that underpins the UK's daily life, with projects across transportation, power and utility systems, social and commercial buildings.

Over the last 110 years we have created iconic buildings and infrastructure all over the world including the London Olympics' Aquatic Centre, Hong Kong's first Zero Carbon building, the National Museum of the Marine Corps in the US and the Channel Tunnel Rail Link. We are proud to be a British company delivering iconic structures, bold engineering feats, behind-the-scenes innovation and joined-up thinking, financing and partnerships.

In the UK, Balfour Beatty has a supply chain of around 8,200 valued partners, many of which we have worked in partnership with for over a decade, and some of which we have worked with for over 30 years. They include large multinational companies, micro businesses and social enterprises. We spend two thirds of our revenues in procuring goods and services from our supply chain. In 2020, our UK net spend with these partners was over £2.7 billion: over 30% of this spend is with our top 100 partners.

Balfour Beatty

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