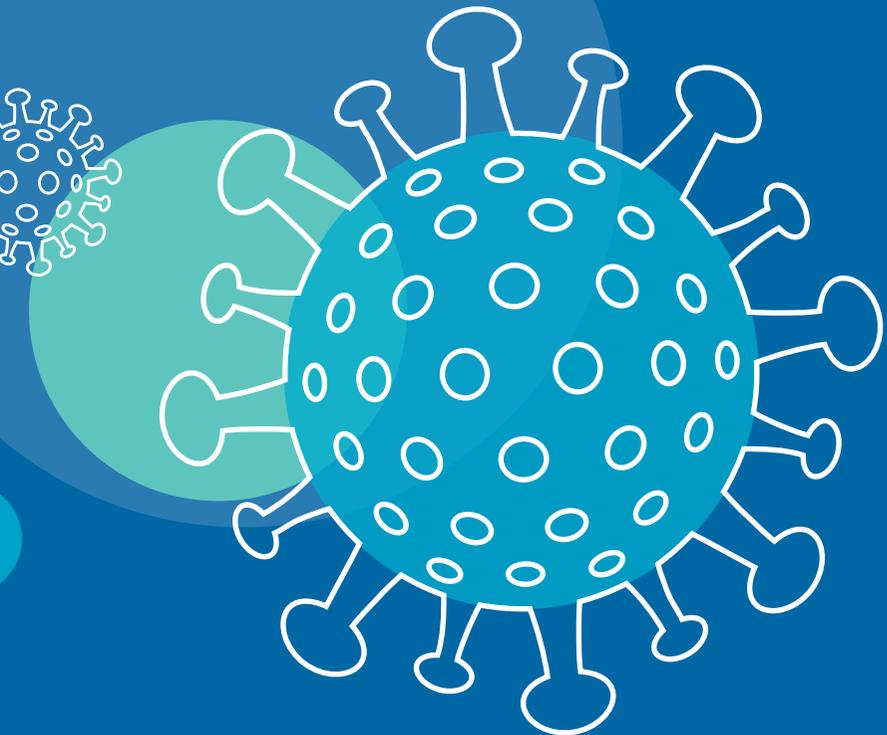




COVID-19

Impact on Supply Chain



Executive summary

Around 200 countries have now been affected by Covid-19 with 2.4 million cases confirmed worldwide, circa 165,000 deaths and circa 624,000 recoveries¹. The number of new cases in Europe and in the US has been showing signs of decrease.

Last week, the International Monetary Fund warned that the economy could face the deepest plunge since the 1930s². This aligns with the various forecasts published since the beginning of April. Government bonds are coming under more scrutiny as most countries' debt has increased in order to respond to the crisis. The EU will have to determine the level of risk shared between the members to avoid bankruptcies or lack of confidence in state bonds within the zone, which may undermine relaunch strategy.

European countries have extended their lockdown with an objective to begin to lift some restrictions at the end of the lockdown period or have already started lifting restrictions. The return to normal is more often described as a "new" normal, which will take shape in the next two to three weeks.

On a positive note, pollution continues to drop across the world; demonstrating the impact of human activities on the planet. This factor is likely to be integrated in the new norm.

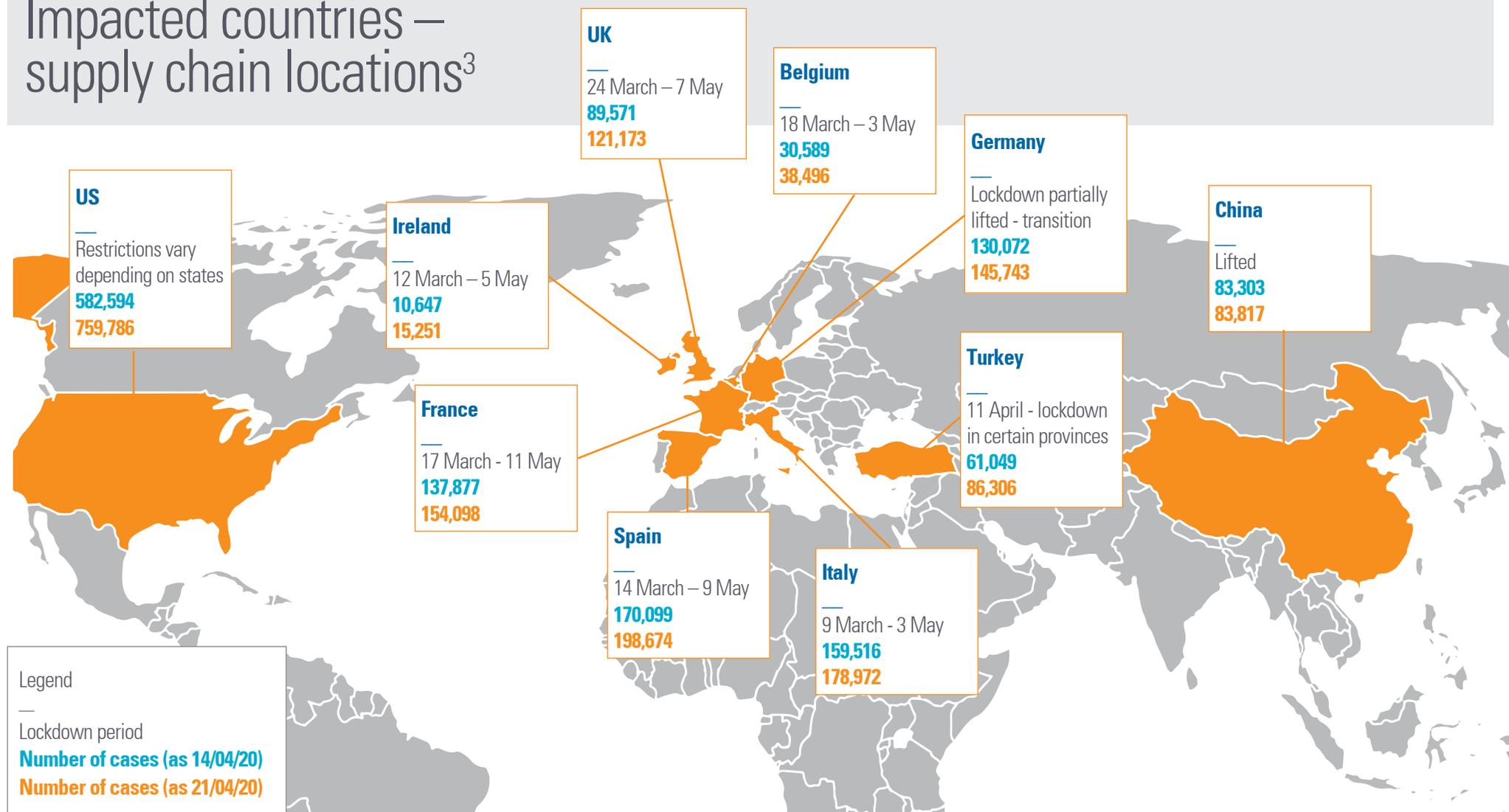
The main supply chain risks remain:

- » Shortages and delays to delivery of materials due to closure of factories, depots, stores or distribution centres
- » Reduced labour resources on site (employees, agency staff or subcontractor staff)
- » Disruption to supply chain logistics and transportation
- » Insolvency in the supply chain

¹ Source: <https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138> accessed 20/04/2020

² Source: <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/> accessed 20/04/2020

Impacted countries – supply chain locations³



For more information on the impact of Covid-19 per country, please refer to Financial Times article, accessed on 21/04/2020, here.
 For more information on trade restriction throughout Europe, please refer to The Guardian article from 14/04/2020, here.

³ Source: <https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138> accessed 20/04/2020

Impact by markets

Steel Reinforcement

- » Market demand is down c. 80% and new business is down c. 90% but no supply issues.
- » Prefabricated supply chain is fully operational with lead times operating between 15 to 20 working days. Overall demand is down by c. 60%.
- » Production of steel is unchanged therefore there is no issue with steel capacity.

Building merchants

- » Certain building merchants are operating at a reduced capacity and service at between 25% to 75% capacity across UK. Overall market demand mirrors this capacity.
- » Other building merchant branches remain closed besides for Government emergency material requirement and pricing enquiries.

Civils

- » Concrete drainage demand has reduced by 20% compared to forecast. Certain suppliers have significantly reduced operations. Healthy stock is available for 'standard' products with plan to maintain current levels.

Labour

- » 20% to 30% reduction in labour provision has been noticed due to furlough leave or work suspension.
- » Our key vendors are requesting access to post Covid-19 lockdown planning including details on which projects are opening and the timelines associated.

Quarry products and surfacing

- » Some of our quarry and surfacing supply chain partners are operating between 25% to 60% capacity across UK, with geographical variations depending on customer demand. Overall market demand mirrors this capacity.
- » Our supply chain has established a 'Critical Network' of assets that will remain open with the purpose of providing access to materials across UK.
- » In support of this activity, it is critical that Balfour Beatty continues to share immediate project needs with the supply chain. This will enable the supply chain to manage their assets and keep them open to service these requirements.

Some quarry and surfacing supply chain partners have adopted an aggressive approach to the furlough of non-critical employees. For example, Business Development teams have significantly reduced.

M&E

- » M&E wholesalers remain operational and continue to deliver to sites although market demand has reduced. No issues with supply except to Scotland where there are restricted deliveries.

FM, Plant & Fleet

Plant – The plant industry has seen an increase in thefts (according to Construction and Agricultural Equipment Security and Registration) due to temporary site closures. This trend, however, has not been seen within Balfour Beatty.

Fleet – Trials are on-going for plastic dividers to support distancing in vehicles where possible through multiple sources procured collaboratively through Procurement and Plant & Fleet.

Fuel – Brent Crude Oil has dropped to \$23 based on drop of global demand. The American US Oil price dropped to -37 euros overnight although has recovered to a near positive figure. Procurement reviewing hedging options with a continuous reduction in Oil price. A small amount of Petrol Forecourts have closed.

Building

- » Certain drylining manufacturers are planning to re-open their factories. Process of reopening will include phased return to work in the coming weeks. This will not increase their dispatch capabilities greatly in the short term while manufacturing plants are brought back to production. Certain drywall manufacturers are operating a 'direct to site' service for non-critical projects.
- » Drylining and insulation distributors continue to operate at reduced capacity; committed to prioritising supply to critical projects. Supply to non-critical projects will depend on availability of material.
- » Certain timber material suppliers are running a reduced service. Direct contact is required with national sales or local branches prior to placing orders. PEFC or FSC wood specifications sources are available through select building merchants.
- » Aluminium curtain walling, windows and door 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.

Subcontractors

Concerns have been raised across the industry regarding the medium to long term impact on subcontractors. SME are particularly at risks of bankruptcy and the Government funds may not come in time to prevent administration.

PPE and hygiene products

PPE and hygiene products have been impacted by the requirement to support the NHS, causing a shortage in dust masks and hand sanitiser for Balfour Beatty.