RISK MANAGEMENT POLICY
January 2020

1. Delivering sustainable growth through effective risk management

Risks and uncertainties are inherent in what we do. We deliver value to our clients by managing complex buildings and infrastructure construction projects that require us to co-ordinate many different stakeholders and manage a diverse range of risks. All our businesses operate in a dynamic environment where changes in market conditions, regulation, Government policy or technology can have a significant impact on our business. Therefore, the ability to identify, assess and manage risks and uncertainties is critical to achieving our strategy of sustainable growth and is an integral element of our management processes.

2. Risk management governance structure and process

The Company's risk management and governance structure sets out the way in which risks are identified, reported and managed within the frameworks set out by the Board and is designed to facilitate both a 'bottom up' and 'top down' view of risk.

The Board has delegated implementation of risk management and internal control, together with their day-to-day operation, to the Company's executive management. The process is overseen by the Executive Risk Committee which is chaired by the General Counsel and Company Secretary and is managed on a day-to-day basis by the Director of Risk and Internal Audit. The Risk and Internal Audit function plays an integral role in facilitating the identification, reporting and management of risk throughout the governance structure.

Each business unit maintains a risk register which captures the principal risks applicable to that business, the key mitigations in place and what further action is required to manage the risk. The business unit Board reviews the risk register twice a year. One of these reviews is facilitated by the Risk and Internal Audit function and includes an assessment of the likelihood and impact of each risk using defined risk assessment criteria and interactive voting software. The same methodology and review process is used to identify and assess the key risks at a Divisional level.

The Executive Risk Committee meets three times a year and reviews the latest versions of the divisional risk registers. Following each Risk Committee, the Company risk register is updated by the Director of Risk and Internal Audit and reviewed by the Executive Board and plc Board.

The Audit Committee is responsible for keeping under review the adequacy and effectiveness of the Company's risk management processes and systems of internal control and for reviewing and approving statements included in the Annual Report concerning internal controls, risk management and the viability statement.

3. Risk appetite

Our risk appetite, defined as the nature and level of risks that we are prepared to be exposed to, is discussed and agreed by the Board and is expressed in our Company strategy. This attitude to risk is then applied by the businesses and business units in their annual business plans and day-to-day operations. For example, the Board have stated that we will not bid for major projects on a fixed-price, all-risk basis. At the business unit level, this appetite informs how opportunities are assessed and is enforced through the governance and review and approval controls over bidding.

4. Principal risks

The following risks have been assessed as having the greatest potential to adversely affect the business:

Health and Safety

A significant safety incident at one of the Company's construction sites or a general deterioration in the Company's H&S standards could put the Company's employees, subcontractors or the general public at risk of injury or death and could lead to litigation, significant penalties or damage to the Company's reputation.

Economic

The Company's businesses could be adversely affected by any macro-economic factors that cause a reduction or deferment in construction activity.

Government

A reduction in direct government spending on projects such as schools, hospitals and transport would directly affect our businesses. Other government policy initiatives, such as changes to public sector procurement or changes in tax policy also have the potential to cause disruption in our markets and increase the cost of doing business.

Legal and Regulatory

The legal and regulatory environment in which the Company operates is complex, with the business required to comply with the legislation in relation to a wide range of areas, including bribery and corruption, competition, money laundering, health and safety, modern slavery, and building regulations. The introduction of the General Data Protection Regulation (GDPR) and new sentencing guidelines for health and safety breaches further increase the risk and consequences of non-compliance.

Commercial

A failure to agree appropriate commercial terms or to manage fixed-price contracts effectively can result in costs not being recovered from our clients and therefore reduced margins, or in some cases, losses on projects.

Client satisfaction and quality control

Failure to meet the build quality and service expectations of our clients may damage our reputation and therefore have an adverse effect on ability to win new work, especially in markets where we are reliant on repeat business with key clients.

People

The ability to attract, develop, retain and build relationships with a diverse range of high-quality employees impacts every level of the Company, from developing and building our products to succession planning for the Board.

Supply chain and joint arrangement partners

A lack of capacity in key subcontractor trades or materials markets can cause delays in construction programmes, reduced quality and increased costs. Failure of joint arrangement partners could impact programmes, costs and liability.

Balance sheet strength

Given the nature of our businesses, cash forecasting inevitably includes subjective estimates which carry intrinsic risk of error. Poor cash forecasting can impact business planning, investments and reporting of financial information.

Cyber security

Loss of data from or loss of access to our IT infrastructure and applications, especially our financial system, through either natural disaster or a malicious cyber-attack, may affect our ability to carry on day-to-day business.

Latent defects

Significant liabilities and costs may arise from the requirement to rectify latent defects identified several years after practical completion and handover to the client. This includes, but is not limited to, the cost of rectifying any cladding or fire protection systems that are no-longer compliant with revised building regulations post-Grenfell.

5. Emerging risks

In addition to the principal risks that may affect our 'business as usual' activities, the Board has a responsibility to identify and assess longer-term, emerging risks. The emerging risk process is aligned to the strategic planning cycle with risks identified and assessed as part of the annual strategy away day and mitigating responses incorporated into the strategic plan. At a divisional level, the emerging risk process is aligned with the annual business planning cycle with strategic responses incorporated into annual business plans. At a business unit level, management focus solely on principal risks, although these may include risks that are longer term and less certain in nature.

The emerging risk themes identified to date include:

- Potential for new competitors with radically different business models to enter the market.
- Failure to make the right strategic decisions in relation to the investment in and adoption of modern methods of construction.
- Increased frequency of extreme weather conditions.
- Uncertain evolution of the structure of the construction value chain and the role of tier one contractors.
- Failure to adapt to the changing expectations of the workforce of the future.

6. Internal control framework

The day-to-day management of our principal risks is supported by an internal control framework which is embedded in our management and operational processes. The most significant elements of the Company's internal control framework include the following:

Organisational structure

Each business unit is led by a managing director and management team providing a clear hierarchy and accountabilities.

Code of Conduct

The Company promotes a culture of acting ethically and with demonstrable integrity. Company standards are set out in a Code of Conduct issued to all employees and supported by specific training modules in key areas.

Contractual review and commitments

The Company has clearly defined policies and procedures for entering into contractual commitments which apply across its business units and operations and are enforced through the Company's legal authorities matrix.

Operational activity

Site operations are performed in line with established business management systems and processes that incorporate all operational activities, including health, safety and environmental procedures, regular performance monitoring, quality management and external accountability to stakeholders.

Financial planning framework

A detailed annual budget is prepared for each financial year which is approved by the Board.

Operational and financial reporting

An exacting profit and cash reporting and forecasting regime is in place across the Company. As well as the emphasis placed on cash flow, income and balance sheet reporting, health, safety and environmental matters are prioritised within monthly operational reports.

Internal Audit

The Risk and Internal Audit function develops and delivers an annual programme of internal audits which includes business unit key controls reviews, audits of divisional and Company processes and targeted risk reviews.

Assurance provided by non-audit functions

A number of other Company functions provide assurance in areas including, but not limited to, health, safety and environment, legal contract reviews and compliance; and construction industry regulation.