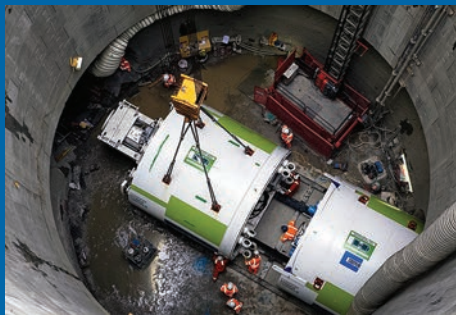
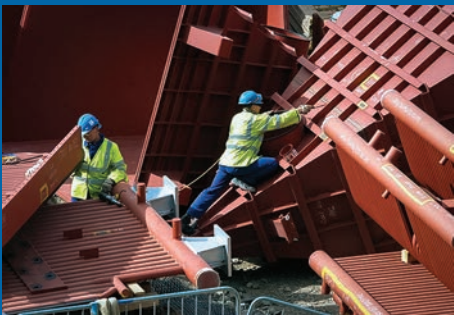
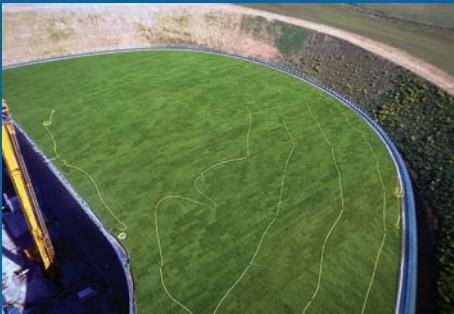


Delivering Sustainable Procurement





Way out

Toilet
Way out



Costain is one of the UK's leading engineering solutions providers delivering integrated services, innovative expertise and sustainable solutions to meet the complex needs of blue-chip customers. We are committed to operating our business both sustainably and responsibly guided by our 'Engineering Tomorrow' strategy and 'Costain Cares' ethos. A vital element for Costain being recognised as a leader within the industry is the capability and quality of the suppliers that populate Costain's strategic and preferred supply chain.

Costain demands from its supply chain the same high standards and values, as we request from our own organisation. We apply scrutiny when procuring products and materials to ensure they are sourced or manufactured in a responsible and sustainable way, from accountable suppliers.

Whilst procurement will be focusing on both local and UK suppliers, it is inevitable that the global market will be a contributor to the numerous components used to deliver our customer's needs. Therefore the controls contained within this document will ensure that they are procured in a responsible manner.

This document is committing Costain to always use best practice to ensure that procured products and materials align with our 'Sustainable Procurement' policy. This will both satisfy the needs of our stakeholders and the principle values of Costain.

A handwritten signature in black ink, appearing to read 'Andrew Wyllie', with a horizontal line underneath.

Andrew Wyllie
Chief Executive

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INTRODUCTION

Sustainable Procurement is the procurement of products and services in an environmentally, socially responsible way, while ensuring value for money benefiting the Company, our customers and the supply chain.

Costain Cares is our vision to build a long-term sustainable business that creates economic, environmental and social value. Fundamental to Costain Cares is our relationship with our supply chain; our commitment to operate a collaborative, sustainable supply chain where our partners support us in delivering efficient, innovative and sustainable solutions.

Our Sustainable Procurement Policy outlines our commitment to develop sustainable procurement practices and to consider the economic, environmental and social impacts of applied products and services. We have adopted the principle of the Sustainable Procurement Taskforce's Flexible Framework

being a government (DEFRA) backed sustainable procurement document. Against which we have set a target to achieve Level 5 of its included matrix, with an interim target of Level 3 by the end of 2014.

This document sets out our approach to sustainable procurement and acts as a guide to all employees, all current and prospective suppliers / subcontractors.

We have defined four key objectives:

- » Sustainable Practices
- » Ethical Management
- » Local Enterprise and Inclusion
- » Environmental Sustainability

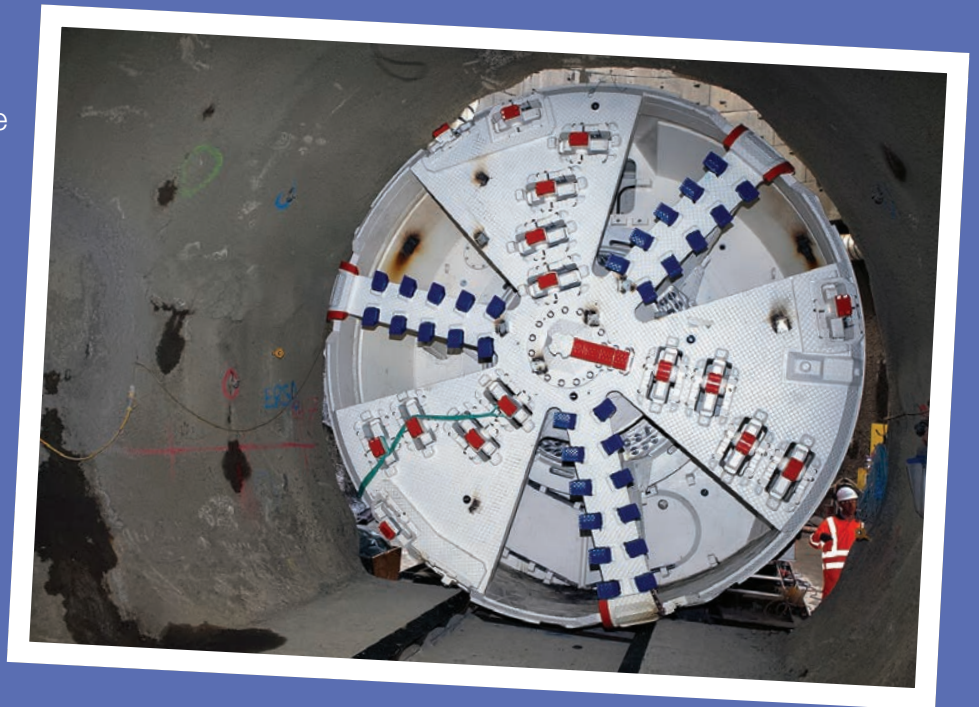


Appendix illustrates the focal points that must be considered when procuring material and selecting suppliers.

SUPPLY CHAIN SELECTION

Within our procurement database (Enterprise One) suppliers are categorised as Verified, Preferred or Strategic Partners. To ensure suppliers are responsible and capable of delivering our business needs, we must ensure we use the controls illustrated in 'The Costain Way' for selecting and appointing the best suppliers.

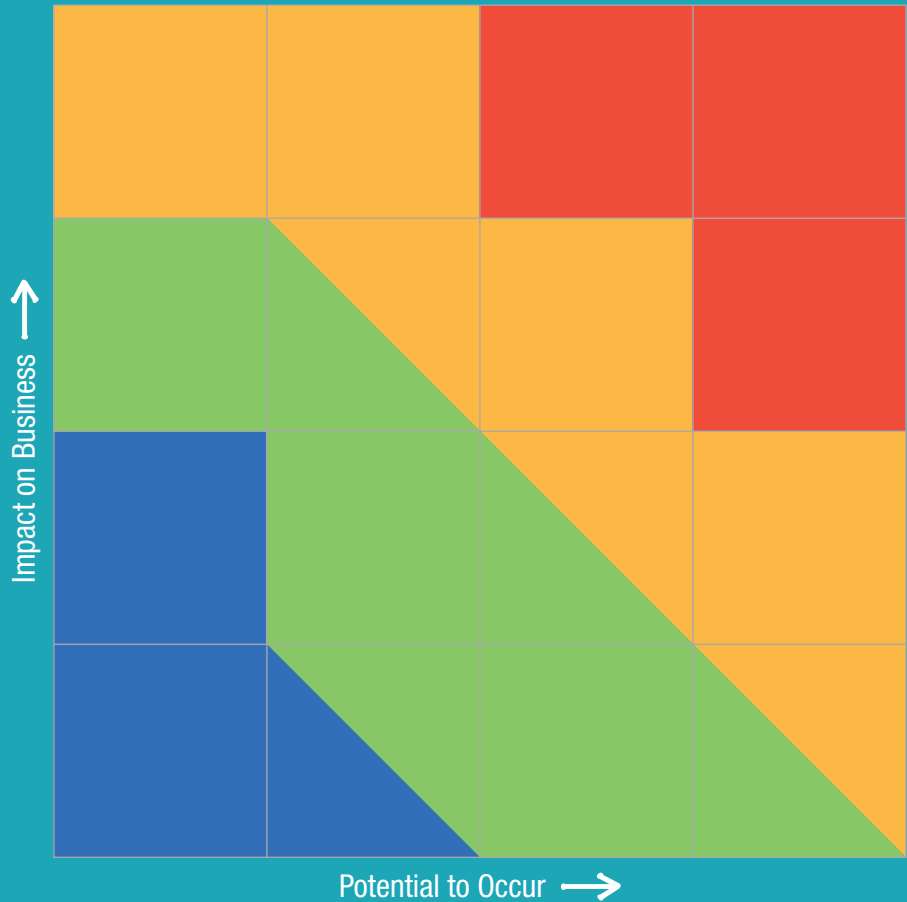
For Costain to maintain the right calibre of suppliers within its supply chain and strategic relationships then the selection of suppliers must take one of two assessment routes. Externally via an Achilles accreditation scheme (Building Confidence being the preferred option, or UVDB, FPAL or Link-up), or internally via the Costain materials, plant or subcontract questionnaire. All Preferred and Strategic Partners must be Achilles accredited in one of the latter Achilles schemes. Details of how Achilles schemes are applied across Costain's business sectors can be found (internal access only) on the SCM Portal on iCosNet.



MEASURING GOOD PERFORMANCE AND RISK

Every calendar quarter the performance of our Top 100 suppliers is monitored and compared against others within their peer group.

This is executed directly by contract management via 13 questions within our procurement database. The data is then compiled into dashboards and management reports for use at subsequent business-to-business (B2B) meetings. In the event of performance being below acceptable standards, whether generally or specific to a certain contract, then improvement plans are agreed and implemented to enhance and track performance. Depending on level of risk a supplier exposes the Company to, then the supplier is plotted on a risk matrix (see opposite), to determine the level of observation required to meet with our risk management governance.



PRODUCT RISK ASSESSMENT

Considering the products we procure and the potential level of risk they present, we have undertaken a risk assessment of our principal products and identified a need to introduce controls and standards which suppliers should have to minimise our impact from procuring or utilising these products.

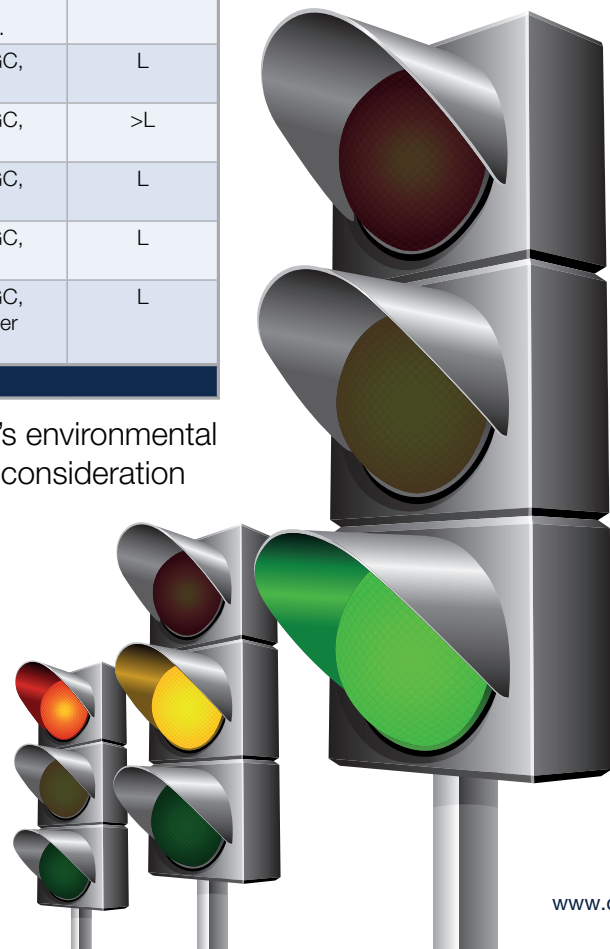
The following table illustrates the standards and controls that should be in place with suppliers to ensure that the products being procured reflect Costain's 'Sustainable Procurement Policy' and 'Costain Cares'. The list will be constantly updated to reflect change and improvements.

Note: Other contractual and customer specific controls may apply.

Ref #	Category	Initial Risk, H,M,L	Controls	Residual Risk, H,M,L
GC	Generic Controls	The following should be considered for all categories: BES 6001, Achilles BC, OHSAS 18001, ISO9001, ISO14001, ISO26000, EMS, ERP compliance, CE kite mark, ETI base code, BS8903 and category agreements established between Costain and the supplier.		
1.	Aggregates & fills	H	All controls listed in item GC, plus WRAP, MPA, UKGBC.	M
2.	Asphalt	H	All controls listed in item GC, plus MPA, RBA, UKGBC.	M
3.	Concrete	H	All controls listed in item GC, plus Q&A MC, QSRMC.	M
4.	Drainage (Plastic & Concrete)	H	All controls listed in item GC, plus BBA, BPCF.	M
5.	Energy	H	All gas, electricity & water connections/supply to go through ECM (utility broker), and where viable green energy should be procured.	>L
6.	Fixings, fasteners and ironmongery	M	All controls listed in item GC, plus BBA/ CERAM, Guild mark, EN Standards.	>L
7.	Fuel Suppliers	H	Independent assurance report / audit, 164E.	M
8.	Geotextiles	M	All controls listed in item GC, plus BBA.	<M
9.	I.T. & Communications	M	All controls listed in item GC.	M
10.	Joinery	M	All controls listed in item GC, plus FSC, PEFC, BM trade forest products scheme.	>L
11.	M&E	M	All controls listed in item GC.	M
12.	Paving, kerbs & road furniture	H	All controls listed in item GC, plus Carbon trust certification.	<M
13.	Plant & transport hire	M	All controls listed in item GC, plus CPA member, FTA member, FORS member, BVRLA, RHA.	L

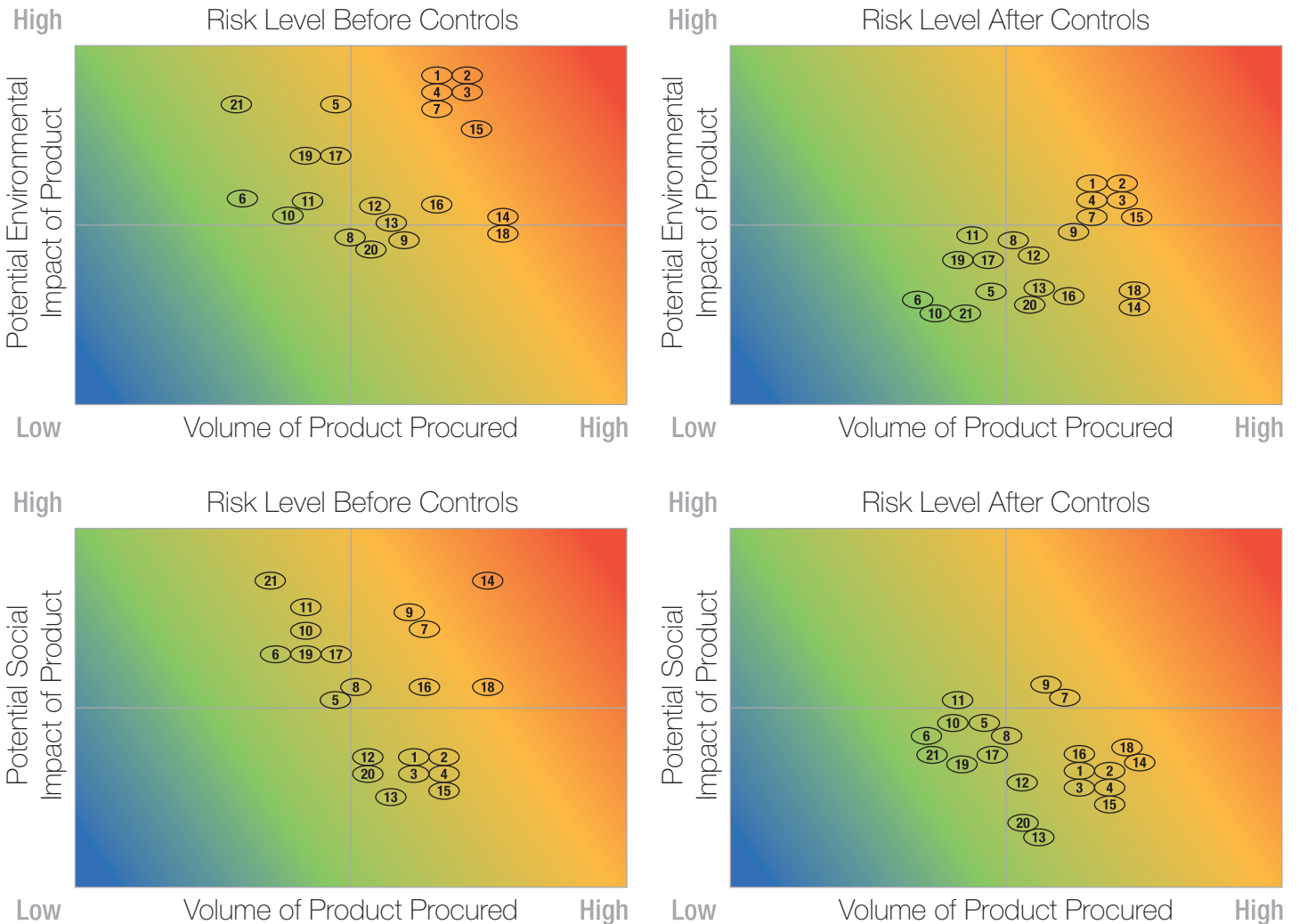
Ref #	Category	Initial Risk, H,M,L	Controls	Residual Risk, H,M,L
14.	P.P.E.	H	All controls listed in item GC, plus EN Standards, BSIF, ETI.	M
15.	Pre-cast concrete	H	All controls listed in item GC, plus EN Standards, BPCF, BBA. Steel wire shall only be used in pre-cast concrete products and shall conform to BS 4482 Grade 500.	L
16.	Reinforcing steel	M	All controls listed in item GC, plus UK CARES, BS8902, BAOR, Eco-reinforcement.	>L
17.	Structural steel	H	All controls listed in item GC, plus BCSA, SCCS.	L
18.	Stationery	M	All controls listed in item GC, plus ISO 14001, EMAS.	>L
19.	Steel Piles	H	All controls listed in item GC, plus BCSA, SCCS.	L
20.	Temporary accommodation	M	All controls listed in item GC, plus FSC, PEFC.	L
21.	Timber	H	All controls listed in item GC, plus FSC, PEFC, EU Timber Regulations (EUTR).	L

The following are graphical evaluations of a product's environmental and social impact vs. volume used before and after consideration of the controls identified in above table.



GRAPH LEGEND

- | | | |
|-------------------------|-----------------------------|-----------------------|
| 01. Aggregates & Fills | 09. IT & Communication | 16. Reinforcing Steel |
| 02. Asphalt | 10. Joinery | 17. Structural Steel |
| 03. Concrete | 11. M & E | 18. Stationery |
| 04. Drainage | 12. Paving, Kerbside & Road | 19. Steel Piles |
| 05. Energy | Furniture | 20. Temporary |
| 06. Fixings & Fasteners | 13. Plant & Transport Hire | Accommodation |
| 07. Fuel | 14. P.P.E. | 21. Timber |
| 08. Geotextiles | 15. Pre-Cast Concrete | |



APPENDIX:

CONSIDERATIONS WHEN PROCURING MATERIALS AND SELECTING SUPPLIERS

SUSTAINABLE PRACTICES

Focus	Guidance
Suppliers	<p>The impact of a supplier not delivering will have a significant impact on a contract, especially if the product(s) is specialised or has a long lead time. A supplier's current financial standing, credit rating, business gearing etc should be considered before committing substantial orders. Companies appointed to the supply chain by central procurement are vetted before appointment and monitored thereafter. Sources for reports of financial credibility can be obtained from Achilles Building Confidence, Top Service and Dunn & Bradstreet. We should also be mindful of companies that are over stretching their financial capabilities, especially if we are engaging a supplier across several contracts or sectors.</p>
Quality	<p>Reviewing a website, glossy brochures and talking to sales people will provide an insight into what a supplier is bringing to market. However, to ensure a product(s) is fit for purpose, supplier certification and accreditation by a recognised body(s) should be reviewed, (see table in section 4). Alternatively visiting a supplier's manufacturing facilities and/or obtaining a reference(s) from their current customer base with whom you can correspond, is a robust way of verifying the credibility of a manufacturer or supplier.</p>
Terms of payment	<p>The Group's policy is to make every effort to abide by the agreed payment schedule in accordance with the contract terms and conditions. To re-enforce this Costain has signed up to the government backed 'Prompt Payment Code' (http://www.promptpaymentcode.org.uk/) and specific customer 'Fair Payment Charter's'. Whilst most suppliers have structured their financial models around industry norm payment terms (c.30+ days) we need to be considerate when engaging local SME companies who's financial structure relies on prompt payment, which may be less than the norm. These requirements should be respected provided we have protection from warranties, bonds or retention funds, when necessary. A quick and efficient payment solution for low value transactions of materials (only) is the Costain corporate purchase card.</p> <p>Based on the economic payment terms (noted above), we will pay a fair price to enable suppliers to pay their employees a fair wage and provide a working environment conducive to the well being of their employees.</p>

Focus	Guidance
Terms and conditions	<p>When dealing with local SME's we should be mindful to explain any onerous conditions and exclude conditions the supplier will knowingly not be able to comply with, unless they are a 'must have'. All binding T&C's should be balanced and fair and suppliers should not be coerced into over committing their capability or capacity. This is supported by the ability of the sector commercial director to sign off limits or caps which may be lower than stipulated values. We must be mindful of public relations and the impact on the local community due to a local SME incurring problematic events whilst working with Costain. Supporting a local SME to grow their business, providing training and creating employment opportunities is a great opportunity for Costain to reinforce our reputation as a proactive and supportive contractor, in line with the 'Costain Cares' strategy. Costain promotes the adoption of a transparent and objective procurement process on all contracts.</p>
Value	<p>A crucial attribute to any procurement negotiation is value, which should also be focused on alternative products or services which from a unit cost perspective maybe more expensive but when evaluated from an operational running or whole life cost perspective may be beneficially cost effective. This should also take into consideration the environmental value or rating of a product which could be positively contributing to our carbon reduction commitment.</p> <p>If there is an opportunity to offer better value over the life-cycle of the product or material but there is a higher capital cost this should be put forward to the customer to consider which option should be pursued. e.g. the replacement of an electric motor with a state of the art unit, with considerably lower operating and maintenance costs, which over the life-cycle of the unit delivers a significant reduction in whole life cost.</p>
Innovation	<p>During any aspect of the procurement process we should always be open minded to alternatives and innovative solutions that add value. The entire supply chain are encouraged to come forward with ideas and Costain should be respectful to review and evaluate the offering, which if value adding should be promoted throughout the business. The following link routes through to information that Costain are leading on reference innovation, (link to website).</p>

ETHICAL MANAGEMENT

Focus	Guidance
Sourcing of products	<p>Today, we procure from a global market, and therefore should give consideration to reviewing the origins of the product or components of, encompassing both the manufacturing process and the elemental resource(s) of a component(s).</p> <p>Consideration should be given to the country from which products are sourced i.e. countries where there could be human rights or labour abuses e.g. countries of weak governance.</p> <p>Consideration should be given to those products that are likely to be associated with human rights or labour abuses i.e. those products where the manufacturing is labour intensive. Detail on product selection and risk assessment is covered under section 4.</p> <p>One common sustainable sourcing certification scheme for products is BES6001. Achilles Building Confidence, is an accreditation standard which reflects BES6001 and the Ethical Trading Initiative (ETI) base code and is used by Costain to reduce risk within the supply chain. Today a considerable number of purchases are made via merchants and subcontractors, therefore we should obtain verification that the supplier has their own verification process that ensures tier 1, 2 etc supply chain are also applying sustainable procurement practices.</p>
Labour practices	<p>We expect our supply chain to comply with all relevant legislation including International Labour Organisation Declaration on Fundamental Principles and Rights at Work the Human Rights Act 1998 and the Ethical Trading Initiative (ETI Base Code) i.e.</p> <ul style="list-style-type: none"> » Freedom of association and collective bargaining » Child labour » Forced and compulsory labour » Discrimination » Living wage » Working hours » Working conditions » Security <p>Achilles and the Costain materials, plant supplier or sub-contract questionnaires – assesses the Human Rights policy, Health and safety policy etc.</p>

Focus	Guidance
Health and Safety	<p>The Health, Safety and Welfare of all stakeholders are our number one priority.</p> <p>Suppliers are expected to have safety, health and environmental management systems representative of their size and the complexity of their organisation. If a suppliers management systems do not achieve Costain's minimum standard then Costain will offer their systems for their use, which they must accept. This is to ensure as a base the supplier is compliant with all relevant health, safety and environmental law and has a level of compliance with regards to the management of safety, health and environmental risk which may affect their workforce and the environment within which they work.</p> <p>Suppliers are expected to comply with all relevant Safety, Health and Environmental legislation and ensure that there is a level of monitoring and review undertaken to ensure ongoing compliance and that any corrective actions are addressed and completed.</p> <p>All suppliers must ensure that they comply with the Costain Competency requirements when involved in direct activities within Costain.</p>

LOCAL ENTERPRISE AND INCLUSION

Focus	Guidance
Equality, Diversity and Inclusion	<p>Costain values a diverse and inclusive workforce and is committed to promote equal opportunities for all our people. We want to understand and encourage greater diversity within our supply chain where possible. For the purpose of our sustainable procurement strategy we define diverse suppliers as:</p> <ul style="list-style-type: none"> » Small and medium sized enterprises (SME's) » Black, Asian and Minority Ethnic (BAME) businesses » Suppliers from other under-represented or protected groups » Suppliers demonstrating a diverse workforce composition <p>We will aim to promote opportunities and raise awareness among these groups.</p> <p>We will engage with suppliers to promote inclusive practices within their own organisation and their supply chain.</p>
Local supply chain	<p>Costain has an established national supply chain that has invested considerable effort into aligning their business to comply with our core business values therefore, these suppliers should be used or as a minimum be given all opportunities. However, it should be a target for every contract and prime subcontractor to engage with the local supply chain to source products and services where possible. We will take positive steps to engage with the local supply chain to ensure they are aware of opportunities through for example 'Meet the Buyer' events. We will also encourage enterprise and employment opportunities within the local community.</p>

ENVIRONMENTAL SUSTAINABILITY

Focus	Guidance
Sustainable sourcing of materials	Suppliers are expected to ensure that all equipment and materials purchased for use as part of Costain operations are purchased from a sustainable source. Sustainable sourcing is demonstrated through an ethos of supply chain management and product stewardship that encompasses social, economic and environmental aspects.
Whole life costing	When purchasing and hiring equipment and materials the whole life cost should be a consideration. Whole life costs include consideration of running costs, energy requirements, maintenance requirements, decommissioning and outputs including emissions and waste. It should be noted that although there may be an increase in initial capital spend, however over the whole life (including temporary use if applicable) there may be both an overall spend reduction i.e. reduced energy consumption and reduction in environmental impact.
Climate Change and Carbon Management	Costain, along with many of our customers, have set targets for reducing greenhouse gas emissions from our operations to reduce our impact on the environment. Our goal as set out in our Climate Change Strategy, is to reduce emissions arising from our activities as well as during the whole life of the products and services we deliver. Costain wants all suppliers to work towards contributing to this aim and demonstrate innovation that offers carbon savings. Consideration should be given to the embodied carbon of products, materials and equipment and data on embodied carbon should be made available. Wherever possible low carbon solutions should be used.
Energy Efficiency	Where applicable suppliers should give consideration to energy optimisation and aim to reduce operational energy consumption. Consideration to the running costs and energy use of plant and equipment should be given and alternative more efficient options considered and presented to clients. Materials/equipment may be initially more expensive but the efficiency savings during installation and operation may outweigh the increase in cost.

Focus	Guidance
Materials and packaging	<p>Costain promote the use of materials with a high recycled, secondary content or fully recycled materials for use in permanent and temporary works and packaging materials. Information on the recycled content of materials should be made available on request.</p> <p>Costain supports the use of minimal package materials to minimise wastage and expects suppliers to provide a package take back system for significant packing materials. Where not possible, consideration should be given to what and who will deal with packaging and we should ensure that if packaging is required that it is made from a material which is fully recyclable.</p>
Water	<p>Suppliers are expected to minimise water usage to reduce demand and associated impact with water usage. They will also be expected to report data on water use and continually review and consider alternative products that have less embedded water which will help reduce their water consumption.</p>
Environmental Pollution and Nuisance	<p>Costain aim to eliminate environmental pollution and nuisance to the local environment and communities within which we work. We require that our suppliers adopt suitable and robust management practices for environmental protection appropriate to their size and risk of impact. We encourage the adoption of environmental management systems accredited to ISO 14001 or equivalent to demonstrate competence.</p>
Potentially Polluting Materials	<p>Costain expects potentially polluting or restricted materials not to be utilised to minimise the potential for harm. Where there is no alternative, suitable assessments should be completed and controls implemented to ensure the potential for any human or environmental harm is minimised.</p>

NOTES

A series of horizontal dotted lines for taking notes.



SUPERVISOR

FIRST AIDER

COSTAIN



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