

Sustainability

Leadership

Sustainability is very much future-focused, working with our customers to develop infrastructure, often for future generations, in ways that are environmentally, socially and economically responsible.

That commitment to sustainability has long been embedded a part of our business.

Responsibility and Governance

Hills Building Group Board sets Policy and takes responsibility for the Group's non-financial performance, including issues relating to sustainability.

The Board reviews these activities and provides guidance on future activity.

The main topics considered by the Board during last year for example related to health, safety and sustainability; ethics, values and business conduct.

A sustainability vision and a roadmap to deliver it, was launched in October 2008 and Group-wide targets set for the first time in many areas of performance. Central to the vision is playing our part to align the interests of profitable markets and the needs of communities within environmental limits.

Policies

Hills Building Group has clearly stated policies and principles for key issues such as:

- **Risk management**
- **Safety and health**
- **Environment**
- **Human rights**
- **Equal opportunities**
- **Ethics and competitive behaviour**

Risk Management

Managing and building on our leadership position involves the effective management of risks within the Group and is essential to, and underpins the delivery of, our objectives.

The Board is responsible for ensuring that risks are identified and appropriately managed across the Group. Responsibility for risk identification, analysis, evaluation, mitigation, reporting and monitoring rests with each Contract Manager.

While risk management is a key driver for our sustainability vision, non-financial risk is also reflected in our Group-level risk management.

Looking Forward

Hills aims to deliver, manage and own sustainable infrastructure that helps communities and individuals live within environmental limits.

Looking forward, we will build on our heritage to lead the sector in providing our customers with a combination of innovative solutions and engineering excellence that lasts, all in accordance with our ethical framework.

We believe that profitable markets, healthy communities and environmental limits are not competing interests; they are shared outcomes that closely align with one another.

In order to be a successful and profitable company, we need to achieve that alignment.

Over time, our leadership will result in sustainable infrastructure consistently being the best option.

We will add value for our stakeholders by:

- **Helping our customers reach their own sustainability goals**
- **Creating a better place for our employees to develop and prosper**
- **Providing help which benefits the wider community and the environment**
 - **Our Group values: reflecting the way we already work when we are at our best**
 - **Integrity** – We always aim to do what is right
 - **Teamwork** – We are better together
 - **Excellence** – We strive to improve and exceed expectations
 - **Respect** – We appreciate others and care about the wider community

Ethics is about moral principles, about doing what is right, and we believe that having a common set of values that represent what we are as a Group and what we want to be recognised for, will offer clear business benefits to us and support us through the challenges of future growth.

Our structure works to serve our customers best, but in order to serve them better and therefore sustain our business in the long term, we need to create unity across our business. This does not mean uniformity. It is about consistency.

By addressing the way we present ourselves and developing a strong and distinctive integrated ethical approach, we believe we will remain competitive and retain our market position. Our values programme aims to achieve this goal.

We have identified four values of integrity, teamwork, excellence and respect. It is these values which will inform employee behaviour across our business. All employees must act as ambassadors for the business and need to demonstrate our values within their daily working lives.

These values are not new to Hills Building Group, but behaviours our customers and other stakeholders recognised within our company culture. What is new is our plan to embed the values further through a structured programme.

Our Code

Our new Code is a direct product of our values. The Code underlines our ethics and the responsibility we all have to protect the company from risk, both legal and reputational. It also offers our employees principles on how our values can be translated into everyday actions.

Launched to all employees in 2010, the Code of Conduct recognises that people face difficult decisions every day of every week. It is not a rules-based document. It provides a framework within which individuals can make decisions, and highlights the need for everyone to do the right thing, rather than just following rules.

It was as direct result of our underlying integrity that Hills Group was NOT involved at all in the industry wide investigation by the Office of Fair Trading (OFT) into tender

activities across the construction sector. It was this reason that a decision was taken to formalise this mindset into a Code of Conduct.

We are currently reviewing which performance measures will be most meaningful in tracking the impact of our new Code. We expect to report our progress next year.

What do our customers want?

Sustainability is becoming an increasingly important consideration for customers and meeting customer needs is fundamental to our long-term future. We believe that the way we deliver more sustainable solutions will be a key differentiator in increasingly competitive markets. Through our leadership, over time, growing numbers of customers will want sustainability to be part of the way we meet their requirements. This is already particularly evident in our House Building Activities.

It is vital that we develop and refine our culture of genuinely understanding customer needs and sharing best practice across the Group. The low carbon and resource efficient economy of the future will open up new markets for us.

We also need to innovate to enhance the service we offer to customers and to be recognised as a leader in the field. Because of our size we are able to micro manage our business so that it performs in these areas to our expectations.

Aims

- **Reducing our operating costs through environmental excellence and efficiency**
- **Assisting in the recruitment and retention of the best people**
- **Differentiating our products and service**

Because of our scale and breadth of capabilities we have a real opportunity to beat the market to adopt more sustainable solutions. This, in turn, will help our business continue to grow.

We believe that the influence sustainability will have on our business, and our customers will continue to increase over the coming decade, and therefore we will be more competitive and therefore ahead of the marketplace. Through our leadership we can

influence the market so that sustainable construction projects are consistently the best option. We want our customers to choose Hills Building Group because we contribute to their long-term profitability through more sustainable infrastructure.

We need to be more effective in promoting our sustainability capabilities and successes to our customers to encourage them, and prospective customers, to want more. We need to change our customers' perception that sustainability is not just a cost it's an attitude.

Doing this in a challenging and tough economic climate is a difficult task but we are finding that sustainable technologies are often more cost-effective when considering the lifecycle of an asset, rather than up-front capital cost in isolation.

Our key future commitments are:

- **Raise our profile and actively promote sustainability**
- **Measure our success in promoting our sustainability solutions**
- **Ensure that sustainability is actively promoted in all our businesses**
- **Ensure that customers appreciate our capabilities and increasingly select more sustainable options**
- **Be transparent and open in reporting**

Safety

The safety of our people and everyone we come into contact with is a key priority. Our safety performance continues to improve. We have the lowest accident record of any of our regional competitors, and we believe this is due to our approach with self and external governance

We believe that by looking after our employees, we will encourage them to look after themselves and others affected by their activities, so that we strengthen our reputation as a trusted employer and supplier of high-quality, safe services to our customers. Only by setting the highest standards for ourselves will we be able to retain the trust of our customers and the people using our services.

Exemplary safety performance is a pre-requisite in many of the areas we operate in. Indeed, our industry-leading safety performance helps differentiate our offering particularly for customers with a similar focus on safety excellence.

People

We have an enormous responsibility to ensure that our people are safe, well-managed, productive and enjoy their working lives. Placing emphasis on training and development helps maintain a motivated workforce and, by putting the appropriate measures in place, we aim to retain the talent we need to differentiate ourselves within the marketplace.

Every individual who works for us is an ambassador for the Company. Employing the most talented individuals matters as it differentiates us and makes customers want to work with us.

We not only have to attract the best people in the industry, but it is equally as important that we are able to retain this talent. We work with long-term customers who expect to work with talented people and, with much of our business carried out in partnership, we need people who feel confident we can perform.

Because of our size we need people who are able to share their knowledge and expertise across the traditional boundaries of our businesses, and to work collaboratively to exceed our customers' expectations.

We recognise that there is no single action that allows us to attract and retain the best talent in the industry. Rather it is a collection of actions, all of which are focused on our people.

Leadership

Great companies are built upon the capability of their leaders. With our plans for further growth, it is now more critical than ever that we attract, recruit, develop and retain the best people to lead our business into the future.

We have identified four key areas we expect leaders to focus their attention on.

- **Leading into the future – how do we maintain our success?**
- **Leading our wider communities which highlights the importance of relationships with customers, partners, suppliers, landowners and the communities in which we work.**
- **Leading by example is about the vital importance of our leaders being role models for our values and behaviour.**

Sustainability must be included in our leadership mentality we believe that a successful leader at Hills Building Group be one with a passion for sustainability.

Energy and Carbon Emissions

Climate change is high on the agenda of Governments, and a growing number of our customers, as the world looks for ways to address climate change and diminishing fossil fuel supplies. The built environment is responsible for nearly half of global emissions of greenhouse gases. Infrastructure and buildings are seen as key areas by governments and policy makers to reduce global carbon emissions:

Ambitious targets UK CO₂ emissions reductions of 80% by 2050 and 34% by 2020
 Energy generation needs met by renewable sources: 24% for New York, 33% in California and 40% in Maine by 2020
 40% of UK electricity needs to be generated from low-carbon sources, around 30% from renewables (currently 7%)

Legislation New carbon cap and trade scheme, Carbon Reduction
 Commitment for large UK organisations
 Similar scheme already in place in Australia

Low-carbon infrastructure commitments New nuclear programme in UK

Zero-carbon builds new UK schools by 2016, public sector buildings by 2018 and commercial buildings by 2019

UK Sector initiatives 15% carbon reduction from construction processes and associated transport by 2012 (2008 baseline)

These commitments provide further impetus for everyone to reduce energy consumption and meet the growing demands for low carbon solutions.

The low-carbon business opportunity

The Government's own research indicates that the UK's low-carbon economy will grow to £65bn by 2015 presenting us with further opportunities, in low energy buildings etc.

We know that our carbon footprint from our direct emissions (offices, depots, mobile construction plant, fleet vehicles) is comparatively small when set against the carbon impact over the lifecycle of buildings and other infrastructure. Buildings over their lifetime account for 45% of total greenhouse gas emissions through the energy they use and the production of construction materials to build them, accounts for a further 10%. As the energy efficiency of buildings improves, the relative contribution of the embodied energy in materials to the overall carbon footprint will increase.

We have a responsibility to look for carbon savings beyond our own direct emissions and into the projects we design, build and manage. These indirect emissions are more difficult to quantify in practice and cover areas such as:

- **The energy embodied in the processing, manufacturing and transportation of construction materials**
- **Energy consumed in the operational phase of assets**
- **Disposal of biodegradable waste**
- **Other supply chain impacts**

Carbon Reduction Commitment

The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, beginning in 2010, will apply mandatory emissions trading to cut carbon emissions from large commercial and public sector organisations in the UK.

Large construction companies will be subject to the CRC. The scheme's rules are complex and signal a step-change in carbon management for many organisations.

Although not a strict requirement for a company of our size, we are starting to look into the possibility of introducing the scheme across the businesses. The CRC also provides further opportunities for Hills Building Group to offer and deliver low-carbon solutions for customers as well as reducing our own energy costs. These range from the design and build of highly energy-efficient buildings through to our energy management expertise and changing behaviour of building users.

Our Carbon Footprint

Our own carbon footprint is dominated by emissions from mobile plant and company vehicle fleet. Using in-vehicle telemetry gives our transport manager instant feedback on the driving style of our operatives to reinforce more fuel efficient journeys. The data collected is assessed and if the results are outside the acceptable criteria then the driver is cautioned.

The telemetry is across 70% of our fleet and is constantly changed from vehicle to vehicle. It is always however on the Managing Directors Car!!

Waste

80% of the waste we generated in 2009 was diverted from landfill through recycling, recovery and re-use. We continue to work hard to accurately measure and ultimately divert all our project waste from landfill. The waste infrastructure market represents a huge money saving opportunity for us.

Waste is a significant issue for us. Constructing, refurbishing and demolishing buildings, roads, and other structures generates huge quantities of waste. In the UK, the construction industry produces over 100 million tonnes of waste a year, of which around 40% goes to landfill. The UK's strategy for sustainable construction aims to half the amount of construction and demolition waste going to landfill by 2012.

The cost of disposing waste to landfill continues to rise in the UK through the landfill tax at £8 per tonne per year until 2013. As landfill rates have risen, waste companies and technology providers are building systems to deliver renewable energy and supply alternative disposal routes to landfill.

Avoiding waste going to landfill brings us operational cost savings as well as environmental benefits. It can differentiate us in the marketplace, help us deliver lower cost projects, meet customers' desire for lower environmental impacts, and enable us to achieve our goal of zero waste to landfill.

The UK Government's Waste Strategy for 2007 identified recycling and energy recovery as the key to reducing municipal waste to landfill. 35-40 municipal waste/energy from waste plants at £200m+ each are required in the UK by 2015.

We measure our waste sent to, and diverted from landfill through a recycling or recovery operation, in the following categories:

- **Construction**
- **Demolition**
- **Excavation**
- **Office**
- **Food**

Our businesses seek opportunities to reduce, re-use, recycle and recover waste and to use recycled materials where possible. Increasingly, we are replicating best practice developed in one operating company or site to others in the Group. We are developing new ways of managing our wastes and finding uses for wastes from other sectors. We also play our role in creating valuable markets and opportunities to re-use waste materials in our projects. Viewing waste as a resource rather than something for disposal reduces our material costs.

In order to drive re-use of waste we have also set a target of at least 25% of our major materials coming from recycled sources by 2015, where we specify the material. Major materials include concrete, aggregates, steel, aluminium and copper used in our construction, development and management activities.

Materials

Nearly 90% of the timber we directly procure by value comes from recognised responsible sources. We are extending our responsible sourcing practices to include at least 25% of our other major construction materials by 2015. This is where education of our suppliers, subcontractors and customers is key.

The sourcing of materials is a significant issue for us. Worldwide, the construction industry consumes approximately 40% of the earth's resources. As the world's population continues to grow, so too will demand on natural resources and the degradation of the environment. These demands could adversely affect the future availability and cost of natural materials.

Some materials have high levels of embodied carbon and/or water through processes used in their processing, manufacture and transport. If not carefully managed, timber can be sourced from illegal logging or poorly-managed forests leading to destruction of habitat and land degradation.

Our customers increasingly expect their infrastructure to be built and maintained using materials with the minimum environmental impact over the lifecycle and to have been responsibly sourced. At a policy level, the UK has set a target of 25% of construction materials to come from responsible sourcing schemes by 2015.

As a leading contractor, we play a significant role in sourcing materials responsibly and selecting materials for lower environmental impacts. Not only is it right but it enhances our reputation with customers and clients. Being a leader in the responsible sourcing of materials helps differentiate our business in the marketplace.

Reprocessing demolition and other waste materials for use in our projects minimises demand for primary materials such as aggregates, helping to conserve these materials for future generations, minimising environmental impacts and reducing our costs (materials costs and taxes such as the UK's aggregates levy).

We continue to procure timber from recognised sustainable sources, verifying the chain of custody of such materials through the supply chain. This includes timber certified by the Forest Stewardship Council (FSC) and the Programme for Endorsement of Forestry Certification (PEFC).

We have started to extend data collection systems to track the sourcing of other major construction materials such as aggregates and concrete, in addition to timber. Furthermore, we will develop our understanding of the environmental impacts of the materials we procure on our projects so that we can select those with lower lifecycle impacts.

Engaging our supply chain to align their thinking with ours on the responsible sourcing of materials will be a key element to delivering a more sustainable Hills Building Group

The responsible procurement of materials will continue to grow in importance. Responsible sourcing schemes will continue to be developed and encompass other major construction materials in addition to timber. These schemes take into account legal requirements, employment, safety, labour rights community and environmental impacts.