



Balfour Beatty

Update

**Spotlight on Asia
and the Middle East**

**GMH deal
strengthens
US presence**

The international news magazine for Balfour Beatty ♦ Spring 2008

As safe as offices

...that's the Group's long-term aspiration as it asks everyone to make health and safety a priority



Cover picture: Proposed new campus for ITE College West, Singapore

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Balfour Beatty Update is
published by Balfour Beatty plc,
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1LQ, for Balfour Beatty
people worldwide
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Health and safety remains at the forefront of Balfour Beatty's agenda for 2008, with the goal of attaining accident-free sites.

As Group operating companies take on bigger projects with larger workforces, progressive safety standards have continued to reduce AFR figures year on year. Between 2002-07 the AFR has fallen across the Group by 65 per cent.

Chief Executive Ian Tyler, said: "The issue of safety is not – or at least should not be – about statistics." Although statistics are used to measure levels of improvement, the focus is always on enforcing best practice to ensure continual health and safety improvements, and zero accidents.

Several regions and major projects achieved no reportable accidents in 2007; this shows that the goal is attainable, as long as health and safety guidelines are followed rigorously.

The Group still suffered some fatalities on site in the past year. However, at present the chance of a worker not returning home at the end of the day is under 0.00002 per cent, and the company aims to reduce that further.

The fundamental problem was encapsulated by Ian Tyler when he said: "Almost invariably, mitigating risk relies on people following instructions with absolute consistency; and people, being people rather than machines, do not act consistently either from one day or from one person to another."

In view of these challenges, 2008 has seen even stronger global focus to support 2008 objectives, identifying the main hazards on particular projects and observing key safety areas.

The 2008 objectives are categorised as:

- Leadership and engaging the workforce
- Designing for Safety
- Public Risk
- Occupational Health

All Balfour Beatty's operating companies maintain a strong and continuous focus on site health and safety issues. This will involve flexible behavioural programmes tailored to each situation – whatever the workforce culture or site-specific hazards.

The aim throughout Balfour Beatty is that programmes will be driven from the top down: from board directors, through business and project



managers, to supervisors and suppliers. Safety Leadership Skills for Supervisor programmes are backed up by leadership strategies designed to fully engage the workforce and target unsafe behaviour.

Each business is also encouraged to identify key hazards to be eliminated or significantly reduced by design. By identifying real problems, the Group can target investment into appropriate R&D fields.

"Our safety programme has been a huge team effort with involvement from stakeholders, brokers, commercial suppliers, our people on site and fleet operators," says Chris Hughes, General Manager for Insurance at Balfour Beatty Utility Solutions (BBUS).

Designing for Safety

The Group is continuing its Designing for Safety Strategy, first introduced in 2005, with the aim of removing safety hazards through innovative construction technologies and the adoption of safer materials and processes.

Wherever possible, the company continues to adopt modern techniques such as off-site prefabrication, standardisation and modularisation, and the automation of any manual activities where this can be safely achieved.

Balfour Kilpatrick's modular services approach is an example: while safely transporting and installing the modules presents its own challenges, their introduction has reaped significant safety rewards.

Rob McCarthy, SHEQ Director, says: "The large steel frames which contain various service components, makes the modules look like huge pieces of Meccano - you just bolt and plug them together. By doing this we have regulated the exposure risk by having them increasingly installed on more and more of our projects."

One of the hazards of construction sites is working at height; a recent DVD produced by the Group sparks new thinking and practices in this area. It will be used company-wide during 2008.

Balfour Beatty Construction (US), (BBCUS), has a safety video to help enforce jobsite safety. Janet McCord, Legal Affairs Manager at BBCUS, says: "We've created a Safety Orientation Video for all

Balfour Beatty employees, as well as all subcontractor employees who work on our projects. This video reviews the common hazards and rules that must be followed while on site. After viewing the video, all staff receive a sticker to place on their hard hats – no one may work on our jobsite without that sticker."

Public Risk

Since construction sites are also a risk to those not directly connected with the work, Group companies are implementing public risk action plans which are regularly updated and monitored.

Balfour Beatty Rail Projects (BBRP), is already committed to gearing safety campaigns and programmes towards public safety in all its operations. Gerard McLaughlin, SHEQ Manager for BBRP, says: "Our aim to improve and maintain our excellent safety record is ongoing with poster campaigns and training programmes focusing on identified key areas such as driving.

"Our Drive Safety campaign looks at hours worked, maintenance, and breaks during journeys – all of which are crucial to the safety of our staff and the public."

At BBUS, all drivers are checked for their adeptness for the job and for their level of risk. The Brake Driver Safety Campaign is also run through BBUS, and has involved top to bottom "think campaigns" aimed at all levels of the workforce.

Chris Hughes says: "When we're hiring a new person we use a risk matrix based on insurance industry recognised standards, miles they'll be expected to drive, and their previous safety record."

BBCUS also has a strong public risk focus with multiple measures in place to secure maximum safety. Janet McCord says: "We feel the same sense of duty to our guests on the jobsite as well. We must treat them with even more care, as they are not always aware of the dangers they may encounter while just walking around the jobsite."

"Regular visitors must also watch our Safety Orientation Video; one-time guests may receive an overview of the project, a review and handout of safety instructions, such as ladder climbing; PPE use, guardrails, edges, and moving equipment. Most importantly, they are instructed to stay with their guide at all times."

Occupational Health

A continued focus for 2008 requires operating companies to identify key occupational health risks on site and demonstrate a commitment to removing them. These risks could include the manual handling of heavy loads and equipment - one of the most common causes of injury - or the risks from noise and vibration.

The Group is also placing increased importance on establishing pre-employment and fitness-for-work screening, and other processes for monitoring occupational ill health and absences caused by sickness.

This year, Balfour Kilpatrick's health scheme will

Incentive schemes

Balfour Beatty Utility Solution helps to maintain safety standards through incentive schemes. Letters are sent out to drivers about improving safety and then vehicle performance is monitored. Bonuses are given to those drivers who maintain good records.

Chris Hughes says: "We've implemented this scheme on our Gas alliance contract north west and at Anglian Water and it's helped to reinforce positive messages about safety."

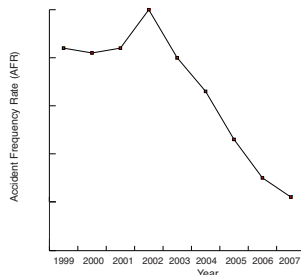
Behavioural analysis

A recent trend analysis uncovered the top five issues that impact on Heery International's employees. This has led to it rolling out a behaviour-based safety programme to address the conditions and behaviours that lead to minor incidents - such as strains, cuts and falls.

It will focus on five areas: tool and equipment condition; selection and use; footing; line of fire/pinch points; alignment; and eyes on path.

Heery International is currently one of three finalists in the 101-300 thousand man-hour category for the prestigious 8th Annual AGC/Willis Construction Safety Excellence Awards (CSEA).

Driving the message home:
promoting National Road
Safety Week



GMH deal will make the Group a major player in largest US PPP market

Balfour Beatty's progress in the United States has taken a significant step forward with its agreement to acquire the military housing business of GMH Communities Trust.

The \$350 million cash deal sees the Group acquire the military housing activities of GMH, which is a major player in providing accommodation for the US armed forces. It currently has 15 concessions, including three under exclusive negotiations, covering 42 military bases and around 30,000 houses. Military housing is the largest Public Private Partnership (PPP) market in the US.

Under the Military Housing Privatization Initiative (MHPI), the US Department of Defense awards projects to private sector companies to develop, construct, renovate and maintain family accommodation at bases over a 50-year period. This provides a strong revenue stream for the foreseeable future.

Current MHPI contracts are primarily for married accommodation and new construction for this category of personnel will continue for the next four to five years. In the meantime, attention is turning to providing housing for unaccompanied servicemen and women; GMH has already secured contracts for two pilot projects for this category of accommodation.

GMH was a logical partner for Balfour Beatty, said Planning and Development Director, Peter Zinkin: "GMH is one of our largest customers in the US."

"We learned about them when we were doing due diligence on Balfour Beatty Construction (BBCUS), formerly Centex Construction. GMH Military Housing is similar to Balfour Beatty Capital (BBCap) in that it wins the projects and finances them, while the construction business then builds them."

"What we saw in GMH Military Housing and BBCUS was very analogous to BBCap and the construction business in the UK."

Although the complexities of US federal and state politics make the PPP business slightly different from its UK equivalent (and the US PPP sector is at an earlier stage of development), there are sufficient similarities to make the Group confident it wants to be in this market.

On a US base, GMH not only builds and renovates homes, but also provides facilities management services to what is effectively a small town, said Peter. This has added a strong support services capability to the Group's US activities.

Commenting on the acquisition, Balfour Beatty Chief Executive, Ian Tyler, said: "The acquisition of GMH's military accommodation business is central to implementing our US strategy of building a high-quality, domestic US business similar to our very successful UK model."

It added a major, high-quality PPP business in one of the Group's key target market sectors:

"GMH will be an excellent springboard into other emerging PPP and support service sectors in the US market."

• **How Balfour Beatty goes about acquiring new companies.** See pages 8-9.



Fort Jackson, SC



Bruce Robinson,
President of GMH
Military Housing



Fort Stewart, GA



Fort Hamilton, NY

Portfolio and locations



- | | |
|---------------------------------|-----------------------------|
| 1 Fairchild AFB, WA | NAS Whiting Field, FL |
| 2 Travis AFB, CA | NAS Pensacola, FL |
| 3 Vandenberg AFB, CA | NAS Key West, FL |
| 4 Luke AFB, AZ | 11 Fort Jackson, SC |
| 5 Fort Carson, CO | 12 NWS Charleston, SC |
| 6 White Sands Missile Range, NM | 13 Fort Eustis, VA |
| 7 Altus AFB, OK | 14 Fort Story, VA |
| 8 Tinker AFB, OK | 15 Fort Detrick, MD |
| 9 Sheppard AFB, TX | 16 Carlisle Barracks, PA |
| 10 NAS/JRB Fort Worth, TX | 17 NWS Earle, NJ |
| 11 Fort Bliss, TX | 18 NAES Lakehurst, NJ |
| 12 NAS Meridian, MS | 19 Pocatiny Arsenal, NJ |
| 13 NCBC Gulfport, MS | 20 West Point, NY |
| 14 Fort Gordon, GA | 21 NSB Saratoga Springs, NY |
| 15 Hunter Army Airfield, GA | 22 Mitchel Complex, NY |
| 16 Fort Stewart, GA | 23 Fort Hamilton, NY |
| 17 NSB Kings Bay, GA | 24 NSB New London, CT |
| 18 NAS Jacksonville, FL | 25 NS Mayport, FL |
| 19 Tyndall AFB, FL | 26 NAVSTA Newport, RI |
| 20 NSA Panama City, FL | 27 NSV Portsmouth, ME |
| | 28 NAS Brunswick, ME |



GMH is involved in military housing projects across the US, including this one at Fort Stewart, Georgia

GMH at a glance

GMH's military accommodation business employs around 850 people, 800 of whom work on military bases in support roles. Its President, Bruce Robinson, who has been with the organisation since 1986, together with executive vice-presidents Denise Hubley, Richard Taylor and Christopher Williams, will join Balfour Beatty.

US MILITARY housing projects are owned jointly by the US armed forces and the private sector service provider, with the latter making an equity contribution of between 1 to 5 per cent of the project's capital value and receiving income both from equity returns and from a series of fees for development, management, renovation and asset management.

IN 2007, Philadelphia-based GMH's military housing division made profits of \$28.6 million, an increase of more than 32 per cent over the previous year. New concessions coming on stream this year and in 2009 are expected to add significantly to earnings growth.

BALFOUR BEATTY Construction (US), which the Group acquired in 2007 under its former name of Centex, is the main house building supplier to GMH.



Hunter Army Airfield, GA

Dean & Dyball joins Group

Acquisition further strengthens regional presence in the UK



Modular station, Greenhithe

The Group has further strengthened its regional presence in the United Kingdom by acquiring Dean & Dyball, a leading regional civil engineering and building business, for £45 million.

The acquisition is a further key step in the Company's strategy to extend its operations in key markets where it has a leading presence. These markets deliver amongst the Group's best and most reliable margins and the markets themselves have positive growth momentum.

Dean & Dyball provides a strong, established presence in the South East, South and South West of England and in Wales in both the building and civil engineering markets. In building, it augments the existing market presence, whilst in civil engineering it provides additional coverage to that currently enjoyed.

Commenting on the acquisition, Balfour Beatty Chief Executive, Ian Tyler, said: "The acquisition of Dean & Dyball is the latest stage in our strategy of building leading positions in regional UK civil engineering and building markets following the successful acquisition and integration of Mansell, Birse and Cowlin. This transaction establishes a strong civil engineering base in an area where we currently have only a limited presence and accelerates the strategy for greater geographic penetration in the building sector."

The UK regional civil engineering and building markets are growing significantly. Dean & Dyball is well placed to continue its growth based on strong long-term relationships with a range of key customers in both the private and public sector, including Network Rail, the Environment Agency, Thames Water, RNLI (Royal National Lifeboat Institute) and the Ministry of Defence.



Kingston University

Key facts

In the year to 30 September 2007, Dean & Dyball had a turnover of £262 million and profit before interest and tax of £4.5 million. Net assets at 30 September 2007 were £18.4 million and included £8.6 million of net cash and £11.25 million of freehold and long leasehold properties.



Dean & Dyball at a glance

• Dean & Dyball was founded in 1969 and initially focused on the water utilities, marine and coastal sectors. This was extended in the 1970s to include commercial and industrial building for the private sector and river and highway works for the public sector. It has approximately 700 staff and 500 directly employed operatives.

• The company is based in Ringwood, Hampshire. It has a strong presence in the building and civil engineering markets in the southern half of the UK, with regional offices in Ringwood, Exeter, Bristol, Bagshot, Maidstone, Coleshill (near Birmingham) and Swansea. In addition, it has a business unit that focuses on rail customers, based in Stevenage, Hertfordshire.

• It also has a small property development business and an equity investment in a PPP Pathfinder coastal protection project for the Environment Agency.

• The property development business, which has a successful track record, has three live projects, the largest of which is a combined Magistrates', County and Crown law court development in Salisbury, Wiltshire that is forward funded.

Laser Rail brings cutting-edge technology

Balfour Beatty Rail has added cutting-edge technology to its portfolio of skills following the acquisition of Derbyshire-based Laser Rail.

Laser Rail was established in 1989 to develop small-scale technologies for the railway industry, but grew rapidly to provide a range of often leading edge solutions to common railway problems.

Now a part of Balfour Beatty Rail Technologies (BBRT), its main business focuses on the development of technology to support the engineering of the railway infrastructure and its interface with trains.

This has involved the integration of laser measuring systems and computer technology to replace manual methods of survey and design.

BBRT Business Development Director, David Johnson, said that in acquiring Laser Rail Balfour Beatty had acknowledged that the industry needed to "look beyond the traditional way of doing things."

He added: "The acquisition was consistent with Balfour Beatty Rail's policy of being technology-focused. Developing new technologies is a long-term process, but bringing technology into the Group in

this way enables us to hit the ground running.

The company employs 85 people and has a turnover of £5 million.

A key part of its portfolio is its pioneering development in gauging technology. Modern gauging involves the engineering of the dynamic fit between trains and railway structures, and between passing trains, and has become a major enabler of growth in railways.

Laser Rail has developed several systems in everyday use across the UK rail network.

The company's systems manage all Network Rail's gauging information and provide the tools to measure, analyse and understand the gauge capacity of the network on an ongoing basis.

Software systems provide databases and analysis and design tools which are used by all engineers engaged in the engineering of the British permanent way – Clear-Route is the only system with certification to perform gauging calculations according to UK methodology.

Innovative

Laser Rail technology has also been used on the development of all modern main line rolling stock, including the Pendolino Class 390 and Inter City Express (IEP) trains. The company has also worked on the underground system to develop and introduce a new generation of trains for the Victoria Line that ensure optimum use of the capacity of the restrictive tunnel environment.

"Laser Rail's innovative systems are providing solutions that enable the expansion of the capacity of the rail network at significantly less cost than traditional techniques," said David. "In the past 10 years, all new rolling stock introduced onto the British main line network has been modelled, and approval granted, using our technology.

"Our systems enable space to be understood and managed. The modern railway is becoming more efficient, has a higher capacity and is better fit for purpose as a result of technology developed by Laser Rail."



Covion deal makes Group key player in sector

Balfour Beatty has significantly strengthened its offering in the facilities management sector with the acquisition of Covion for £33 million.

The Berkshire-based company has become part of Haden Building Management (HBML).

"The addition of Covion's clients and people will provide Haden Building Management, which is already growing strongly, with a significantly enhanced service offering in the facilities management marketplace and will establish us as a key player in the integrated facilities management field," said Balfour Beatty Chief Executive Ian Tyler.

Covion's Chairman, David Steventon, added: "We are delighted to have found in Balfour Beatty an ideal partner to continue to expand the range and depth of services that we can provide to the market. The value of our market integrated approach is being recognised by an increasing number of blue-chip customers."

Strong

Covion will remain as a stand alone company and retain its name to take advantage of its strong customer loyalty, said Kevin Craven, Managing Director of HBML, which will provide support in fields such as IT, human resources and health and safety.

Two main factors made the two companies highly complementary, said Kevin.

"Covion is mainly private sector based and, specifically, they have a number of manufacturing clients. Haden and Balfour Beatty have a very strong public sector track record, so we wanted to develop further exposure with the private sector and industry.

"Secondly, in terms of capability and culture Covion has developed as what we call a white-collar facilities management business, whereas Haden has evolved historically from a blue-collar mechanical and engineering maintenance business."

The two companies have different skill sets and approaches to facilities management, he added.

Attractive

Covion's management tend to be generalists – very focused on customer service and building additional service lines at site level where these synergies could be exploited.

Covion had from its outset bundled together services as integrated solutions, while HBML's approach had tended to develop from hard (engineering and fabric maintenance) services, leading to an integrated facilities management approach, often through work in Private Finance Initiatives with the Balfour Beatty Group.

Covion has been one of the top 100 fastest-

growing companies in the UK for the past two years.

As Kevin points out, this chimes with HBML's progress in recent times: "We're growing very strongly organically as well – around 20 per cent per annum in the past two years."

Covion at a glance

- Based in Theale, near Reading.
- Founded in 2000, current workforce around 600. It has national contracts, but is primarily based in southern England and the Thames Corridor.
- Revenues in 2007 were more than £33 million and are forecast to continue to expand strongly.
- Clients are large, multinational organisations including business consultants Logica CMG, drinks manufacturer Britvic and sugar refiner Tate & Lyle.
- Covion's range of facilities management skills dovetail neatly with those of Haden Building Management.
- Its market interests also fit together well with those of HBML. Covion's clients are largely private-sector, while Haden's are mainly in the public sector, notably hospitals and schools.
- Covion provides technology services such as mobile phone management and communications network maintenance; property services such as surveying and estate management; and people services such as interim management, medical and payroll services.
- Haden Building Management currently has around 12,000 employees and revenues of more than £350 million. Clients include the BBC, Tesco, Sainsbury's and the Department for Work and Pensions.



Covion looks for synergies among its on-site services, such as security, reception and cleaning

As *Update* announces the acquisition of three new businesses, how does the Group decide what to buy – and why does it work?

It's a deal!



Dinos Vassiades and Zahid Bilgrami

Since the Millennium, Balfour Beatty has acquired 38 businesses – a remarkable rate of more than four a year at a total cost of around £1bn, including the recent GMH military housing acquisition. And while some companies struggle with acquisitions (think of supermarket Morrison's difficulties digesting Safeway), the Group has smoothly assimilated a host of new talent into its ranks.

How does it do it?

Underpinning the Group's acquisition policy is the strategy of focusing on five main areas of activity:

- expanding the regional construction businesses
- building the upstream professional services business
- taking Balfour Beatty Capital overseas
- growing the US business
- building the capabilities of the international rail business

"We have very clear acquisition criteria and those come out of our strategy," says Planning and Development Director, Peter Zinkin. Zahid Bilgrami, Peter Hutchinson and Dinos Vassiades form the core team that looks at potential acquisitions for the Group.

Their guiding principle is the concept of 'adjacency'. This simply means that they look for companies that are 'zero steps' or 'one step' away from the Group's core competencies, the type of business with which there is an instinctive feeling of comfort.

"The closer the business is to something you know, the more chance you have of making a success of it," says Peter. "The further away, the greater the chance you have of making a complete mess of it."

"The majority of what we do is zero or one step away from our core competencies. Occasionally, we venture out a little further with some 'trepidation'."

One of these bolder acquisitions occurred some years ago with the purchase of the European rail business of Munich-based Adtranz with its range of new

geographies and new customers. "We had a reasonably-sized rail business in the UK, but nothing in Europe," says Peter. The Group decided that the quality of the Adtranz business outweighed the risk, "but we were properly nervous about it".

In the event, it transformed the Group's rail business, leading to a raft of new opportunities.

How does Balfour Beatty go about acquiring a company?

It usually happens in one of three ways:

- A company decides to put itself up for sale through an auction process
 - Balfour Beatty approaches a company it believes would be a good 'fit' with its existing operations
 - A company will make contact directly and suggest it be purchased without the limelight of a public auction
- In the first example the bankers or advisers for the company selling itself off circulate a prospectus to potential purchasers. "We get several of these a week," says Peter. "Most are of no interest but occasionally, one is."

In the second, Balfour Beatty itself identifies a prospect. Often the target company's directors have not thought of selling and may not be interested. If they are, however, private discussions start to see if a mutually acceptable deal can be reached.

Anyone approaching Balfour Beatty directly usually also wants to go down the route of discreet negotiations.

When the sale process takes the form of an auction it tends to be a three-stage process. After a first round of preliminary indications from potential buyers, the vendor will usually choose three to six contenders to which it provides more detailed information. After a second-stage offer, it will choose one or two bidders for the final stage.

"At that stage we insist on having detailed access



Peter Zinkin



Peter Hutchinson

to the management and the contracts, because we don't believe it's sensible to buy a business until we have assessed the quality of the management and the business processes," says Peter.

"We're usually keen to keep the management. If you're buying a brewery you're buying

a brand first and foremost, plus a bottling plant and distribution – the management is probably less important."

"When you're buying a construction business, what you're mainly acquiring are the people: there are no assets and often not much brand value, just contracts and a web of customer and supplier relationships all based on the people you are acquiring."

It is therefore vital to get the target company's management and other staff enthusiastic at the thought of joining Balfour Beatty.

This is one reason why it's crucial that operational Balfour Beatty personnel – the acquisition team usually includes the managing director of a Balfour Beatty company, plus senior line managers – meet and start to develop a relationship with their counterparts.

"We try to make it a positive experience. If they're in a smaller company, or a company with financial difficulties, there's often a huge potential outpouring of skills and enthusiasm for us to tap into; many of the things they've had to worry about, such as supplier payment problems, become much easier following the acquisition."

"We believe our people are a strong selling point and it's important to get our senior management in front of theirs; a lot of smaller companies are quite scared of Balfour Beatty's size and it can be enormously reassuring for them to talk to our senior people and discover they talk the same language."

What factors can turn Balfour Beatty off a potential acquisition?

A company can simply be asking for more than the Group believes it is worth. Or, on closer inspection, a business can be less good than initially thought – it may have safety or environmental concerns, for example. And an absolute turn-off is if Balfour Beatty discovers it is being misled: "That's quite rare, but if you discover it, you have to walk away," says Peter.

Acquisitions do go wrong but Balfour Beatty's success rate has been very good, says Peter. He puts this down to careful research and intensive due diligence (investigation of the company to be acquired) – and not moving too far away from what the company knows.

IT WORKED FOR US TOO

WHAT IS the perspective on acquisitions from the other side of the fence? *Update* talked to senior executives from organisations that have joined the Balfour Beatty family in recent times.



Neil Sherreard

NEIL SHERREARD, now divisional MD of Cowlin Construction, was regional Managing Director when the Bristol-based company decided to put itself on the market last year. He said: "We had a number of

bids, of which the Balfour Beatty one we felt was the best fit in terms of the people we were dealing with."

"OBVIOUSLY PRICE played an important part, but there were other factors. We liked the people we would be working with, that they would keep us intact and wouldn't destroy our heritage: they wouldn't throw out what we had built up." If you're going to be taken over, Balfour Beatty is the company you want to do it, according to Rob Adams, Managing Director of Birse Civils.



Rob Adams

"It was the best type of acquisition you could dream of. They were caring, supportive and considerate."

"Balfour Beatty said it would be 'business as usual', that the Birse brand and name was very strong and that the name would be retained. I've not lost anyone out of my business as a result of the acquisition – in fact, I was losing more staff before than I am now."

FACILITIES MANAGEMENT specialist Covion was courted both by trade buyers and venture capitalists after it decided to put itself on the market.

Covion plumped for the former, in the shape of Balfour Beatty, for several reasons, said its Managing Director, Alan Bruter.

It felt Balfour Beatty's reputation and scale would assist it to move forward; and that the Group "wanted to get hold of us for the right reason" – it wanted a company with complementary strengths to its own. It also liked Chief Executive Ian Tyler's comments that it was 'the first time he had bought a culture', which in Covion's case was very entrepreneurial.



Alan Bruter



Safety record helps win £350m British Energy deal

Balfour Beatty's impressive safety record helped it secure a major integrated facilities management (FM) contract with the UK's leading electricity generating company, British Energy.

The seven-year contract, which has a potential value of £50m a year, is for the facilities management of British Energy's eight nuclear power stations and two office complexes across England and Scotland.

The contract was secured after more than a year of planning, proposals, discussion and site visits and in the face of competition from more than 30 companies.

Balfour Beatty Group Chief Executive Ian Tyler, who was directly involved in the bid process along with Haden Building Management (HBM) Managing Director Kevin Craven, said British Energy recognised the Group's "all-round strength and capability in integrating our specialist skills to meet specific customer needs."

Benefits

The Group will provide a range of services to British Energy's nuclear power stations at Hunterston B and Torness in Scotland, Heysham 1 and 2 and Hartlepool in the North of England, Sizewell B in east Anglia and Hinkley Point B and Dungeness B in the South, as well as the company's offices in Scotland and Gloucester.

The company's coal-fired power station at Eggborough in North Yorkshire is not included in the contract.

HBM Bid Director Gordon Sheret, said that they would be trying to maximise the benefits of the Balfour Beatty Group in supporting the development of the British Energy estate, helping them to reduce outage times and, therefore, increase the life of power stations.

He said British Energy had been through a "very detailed"

seven-month process to reach preferred partner status, exploring Balfour Beatty's ideas and innovations and examining how services were delivered to existing clients.

"They had to feel absolutely confident that we could deliver before they awarded the contract," said Gordon. "Feedback suggested that we had demonstrated professionalism and commitment at every point, and that our team members were very well briefed compared with other bidders. "British Energy commented on the quality of our team throughout the bid process, and the final solution, which offered less reliance on sub-contractors, was seen as a distinct advantage."

"We were able to offer skills in services outside the scope of the core contract in areas that include outage support, programme management, building construction and engineering skills which British Energy could benefit from."

Gordon added that HBM, Balfour Kilpatrick and the Group generally had more than 30 years' experience of working with British Energy in various individual services and had a "good track record," particularly on safety.

One of the bid documents highlighted Balfour Beatty's reported injury rates of 29 per cent below Health and Safety Executive (HSE) averages, with an increase of more than 70 per cent in safety training days for Group employees during 2006.

The Group had won the resident engineer's safety award for two years running at British Nuclear's Sellafield plant.

"Safety in the nuclear environment is absolutely critical," Gordon said. "Our record in that area was a great help. We have demonstrated a Group commitment to British Energy, and we will be looking to work with them as a real partner in the future."

More than 1,000 staff will be involved in delivering the contract across a wide range of hard and soft services.



A team from Balfour Beatty inspect equipment at British Energy's Heysham site



Cranes supplied by Balfour Beatty Plant and Fleet Services at the Birmingham Hospital site

From the smallest, most economical company car to a 90-metre tall crane towering over Birmingham, there is a company within the Balfour Beatty Group that not only supplies them all but ensures their use has the smallest possible impact on the environment.

Balfour Beatty Plant and Fleet Services (BBPFS), based in Derby, offers a portfolio of services to other group companies that range from supplying and managing a fleet of 8,500 cars, vans and HGVs to providing cranes and temporary buildings at infrastructure projects, as well as general plant and trackside plant and equipment.

And as the pressure increases on Group companies to prove their green credentials to clients and potential clients, so BBPFS is playing its part in helping to reduce Balfour Beatty's carbon footprint.

"The impact on the environment during contracts is playing more of a part in the tender process," said Managing Director Steve Farmer. "Our customers' customers want the businesses to demonstrate their carbon neutrality."

Fleet Services offers a complete contract hire and fleet management service covering some 4,000 company cars, 3,500 light commercial vehicles and 1,000 HGVs, including 32-tonne trucks with cranes on board. The range of company cars available has been increased to embrace such models as the petrol/electric hybrid Toyota Prius.

It directly employs about 120 personnel in

At your service

From cars to cranes and accommodation BBPFS supplies it all

service centres from the South Coast to Scotland, and has a long-standing agreement with the National Service Network through their 900 garages. Any vehicle user requiring service or repair can ring just one number, 0870 9505932.

Accommodation serves the group with buildings for its infrastructure projects throughout the UK, the blue and white facilities that show off the Balfour Beatty brand. Recent major accommodation facilities have included those at the PFI projects at the Birmingham Hospital, Pinderfields Hospital in West Yorkshire and the Glasgow Ambulatory Care and Diagnostic Centres.

Solutions

"Our buildings provide high quality office and welfare solutions with environmentally conscious specifications," said Steve. "Solar power, rainwater collection and PIR energy-saving lighting are all available in our sustainability-sourced units."

"In addition to the major facilities, we have a growing fleet of more than 2,500 individual cabins and a significant on-going investment programme keeping

up with the continued growth within the Group."

The company's Cranes business is growing rapidly, primarily supporting Group companies. More than 70 tower cranes are currently installed on Group sites throughout the UK, including Europe's tallest, the 90-metre crane at the Birmingham hospital project.

The company has developed an industry-leading safe tower crane operations manual, ensuring that risks are minimised in an area of the construction industry where there have been a number of high-profile crane collapses, and has been commended by the Health and Safety Executive for this work.

The General Plant business operates a modern fleet of traditional plant such as dumpers, dozers, rollers and excavators, while Trackside Plant and Equipment manages more than 10,000 assets in support of Balfour Beatty's UK rail operations.

BBPFS has a mission statement to be the "supplier of choice" for its customers. "We operate in the marketplace," said Steve. "We have to compete with the external market because Balfour Beatty businesses can source from other companies if they wish. That's right, it keeps us on our toes."

Motorway win worth £112m

The Group is to help fill a notorious 'missing link' in Scotland's motorway system

A joint venture of four construction companies – Balfour Beatty, Sir Robert McAlpine, Morrison and Morgan Est – has been awarded the contract to build the M74C ('C' for 'Completion') in a £450 million project designed to ease traffic congestion in the centre of Glasgow.

It will also regenerate brown field land and provide jobs both during the road's construction and thereafter.

At present the M74 motorway, effectively an extension of the M6 running north from the English border, stops 8km short of the centre of Glasgow in the city's southeast suburbs. Traffic wishing to travel west from Glasgow has to join the congested east-west M8 motorway that runs through the city.

The M8's Kingston Bridge over the River Clyde, immediately west of Glasgow city centre, is the worst traffic jam black spot in Scotland.

The new M74C will allow traffic from the south and east of Glasgow to avoid this congestion, by joining the M8 further west.

Each of the partners in the joint venture, known as Interlink, will take a 25 per cent stake in the project.

Work on detailed design of the new motorway will start immediately, with completion scheduled for late 2011.

The new route crosses several heavily-contaminated brown field sites, reminders of Scotland's heavy industry heritage. Now-demolished former

coke and steelworks have left concentrations of heavy metals and other toxic materials in the ground.

The remediation solutions will be agreed with the regulatory authorities and will include leaving them sealed underground, treating them or removing them for disposal in special waste sites.

The major technical challenge, said Project Director David Welsh, would be a "significant interface" with railway infrastructure along the route of the new motorway. This includes the West Coast Main Line which runs south from Glasgow, and local branch lines. Several major road structures would be required to cross it, including a 1km-long viaduct.

Minister praises A3 tunnel project

Balfour Beatty Civil Engineering (BBCEL) has received Government praise for the care it is taking to protect the environment during its work on the A3 Hindhead road improvement scheme in Surrey which will eliminate the one major bottleneck on this route to the South Coast.

Secretary of State for Transport, Ruth Kelly, said

the start of work on the north side of the £371m project to create the UK's longest road tunnel – and apologised to local residents that it had taken 73 years since they had first asked for a bypass in the area.

But she said the 1.9km twin bore tunnel project was running on time and within budget and that it would bring "real benefits" for the entire region, as well as



creating a better habitat for local wildlife and preserving the beauty of the landscape. "I congratulate the Highways Agency and its contractor (BBCEL) for taking such special care to minimise the impact on the protected species and local wildlife," Ms Kelly added.

Work on the northern end of the tunnel – which when completed in 2011 is expected to take up to 30 minutes off the journey between London and Portsmouth – is being carried out 24 hours a day, seven days a week. But at the southern end it is six days a week to minimise the disturbance to local residents.

The two ends of the tunnel will join next year, followed by the installation of electrical and mechanical systems in 2010, and the opening of the tunnel the following year. The local landscape will be reinstated before the new 6.5km stretch of the A3 is fully opened in 2012.

A viewing platform and visitor centre have been opened to enable local residents to keep in touch with progress, and exhibitions and public meetings have been held to give them the opportunity of making suggestions about the finished appearance of the area.

The Hindhead section of the A3 has been described as one of the worst bottlenecks in South-East England. "The project is not only important for the South-East but for links to the Midlands and mainline Europe," said Surrey County Councillor Leader Nick Skellett.



Ruth Kelly, top right and above, inspects the tunnelling operation

T5 – on time, on budget and an impressive safety record

We work just as hard to ensure that everyone is safe at work as we do to ensure that we complete the project on time. That was the proud boast of Project Director Peter Leach, at the conclusion of Balfour Beatty's marathon £450m Heathrow Terminal 5 (T5), project.

Her Majesty the Queen officially opened the new £4.3bn gateway to the UK on March 14. It is the UK's largest free-standing building and became fully operational on March 27. Balfour Beatty's contribution was completed on time, within budget and during the past two years the

Company has recorded more than three million man-hours worked without a single reportable accident.

"The project has more than once exceeded two million man hours and I'm not aware of any other company which worked on T5 which can claim a safety record like that," said Peter. "I firmly believe that doing things safely is as important as doing them on time, and our success in that area is a tribute to everyone who has been connected with the project.

"It's impressive and I am immensely proud of our teams who have made this possible."

A total of five Balfour Beatty companies have been involved in the T5 project since 2001, including the construction of the new M25 spur. BAA has drawn on the Group's expertise in design, management and construction delivery.

By January, both the Piccadilly Line and Heathrow Express had been handed over on time and were successfully running timetable services into the new Terminal 5 station deep under the new main terminal building. Mean-

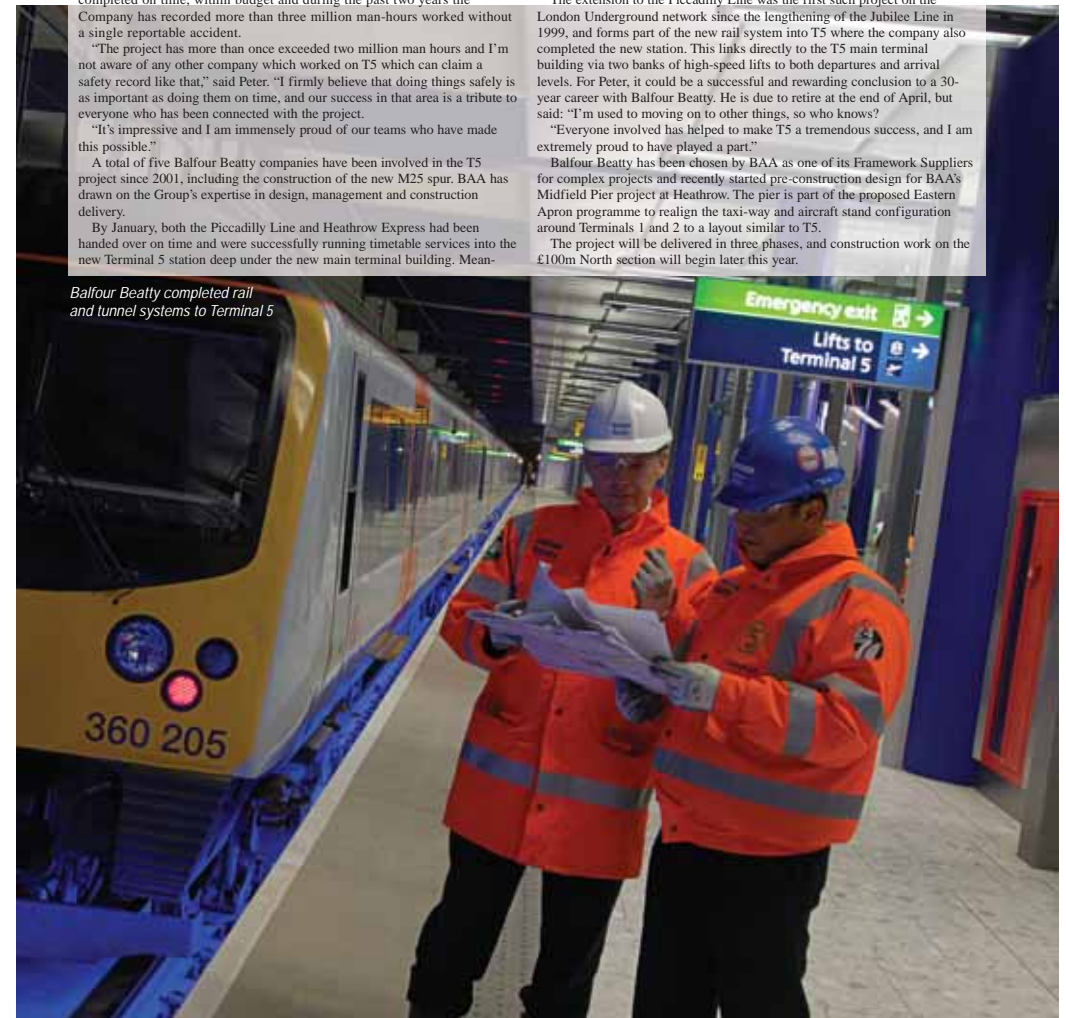
while the transit system linking the main terminal to its first satellite terminal was also fully operational. The track transit system, inter-connecting the three buildings which make up the new T5 terminal, has been short listed for a 2008 Quality in Construction Award. Peter said: "Together we have demonstrated excellent teamwork between Balfour Beatty, BAA and Bombardier, supplied the automatic people mover system, resulting in a very successful delivery of this complex integrated project."

The extension to the Piccadilly Line was the first such project on the London Underground network since the lengthening of the Jubilee Line in 1999, and forms part of the new rail system into T5 where the company also completed the new station. This links directly to the T5 main terminal building via two banks of high-speed lifts to both departures and arrival levels. For Peter, it could be a successful and rewarding conclusion to a 30-year career with Balfour Beatty. He is due to retire at the end of April, but said: "I'm used to moving on to other things, so who knows?"

"Everyone involved has helped to make T5 a tremendous success, and I am extremely proud to have played a part."

Balfour Beatty has been chosen by BAA as one of its Framework Suppliers for complex projects and recently started pre-construction design for BAA's Midfield Pier project at Heathrow. The pier is part of the proposed Eastern Apron programme to realign the taxi-way and aircraft stand configuration around Terminals 1 and 2 to a layout similar to T5.

The project will be delivered in three phases, and construction work on the £100m North section will begin later this year.



Balfour Beatty completed rail and tunnel systems to Terminal 5

Never-ending task comes to end Forth Bridge painting contract worth £74m

Balfour Beatty Civil Engineering (BBCEL) has been awarded a new £74m contract from Network Rail to complete the restoration and painting work it began on the Forth Bridge, near Edinburgh, in 2002.

And when the work is completed - in 2012 - it will also end one of the most enduring myths of modern times.

Painting the bridge, which spans the river Forth north of Scotland's capital, has entered the English language as a metaphor for a seemingly never-ending task.

But the use of a specialist paint with a lifespan of between 20 and 25 years means that the scaffolding on one of the UK's best-known landmarks can come down.

Blasting

Project Manager, Ken Jones, said that they would be using a new three-coat Glass Flake Epoxy paint which had a 20-25-year life, and that "if we do what we have been contracted to do by 2012, the painting will stop."

He added: "We also have 4,000 tonnes of scaffolding on the bridge at the moment, and all that will come down by 2012."

Work is being carried out in a series of phased operations at a number of locations at any one time. Access scaffolding is erected and work areas screened from the environment before existing layers of paint, applied over the 118 years since the bridge was opened, are removed by abrasive blasting.

Steelwork requiring maintenance is then repaired before the new paint is applied. The colour, called Forth Bridge red, is sometimes mistaken for rust, but is the same as its Victorian shade. The surface area being painted totals 18 hectares, or 45 acres.

As many as 200 men have been working on the bridge, and have now worked three million man-hours without a single reportable accident. (Sixty-three men



died during the building of the bridge, which was completed in 1890).

"That's a tremendous record," said Ken. "Six years of working without a reportable accident is incredible. It's the result of a lot of training and a lot of time spent on behavioural safety and a great tribute to everyone who has worked on the project."

"We have also had an excellent relationship with Network Rail, and their project manager, Ian Heigh, works very closely with us."

The 1.5 mile-long Forth Bridge - regarded as one of the great feats of British engineering - is still the second largest cantilever bridge in the world and carries up to 200 trains a day on the East Coast Main Line.

BBR wins prestigious award

An electrification project on 125km of coastal railway in Sweden that was completed on time and within budget has earned Balfour Beatty Rail a prestigious award.

The FIA (regeneration/renewal in the construction business) prize was awarded jointly to BBR, civil contractor PEAB and Banverket, the Swedish national railway administration, for the Blekinge Coast Line project.

The electrification of the line between Kristianstad and Gullberna involved upgrading 125km of track and was completed in June last year.

BBR was responsible for the railway technical work, including tracks, catenary, power supply and signalling.

PEAB was responsible for technical aspects of the contract that included the upgrading and construction of bridges and pedestrian subways, renewal of stations and platforms and the reinforcement of drainage systems.

The FIA award was instituted in 2003 by Vagverket, the Swedish national road administration, and Banverket with the aim of creating a forum for regeneration and renewal in the country's construction industry.

It was presented to Gert-Olof Sennerholt, BBR project manager, Pelle Wahlgren, Commercial and Legal Support, and Peter Johansson, Head of Larger Railway Contracts.



Congratulations - (left to right) BBR Sweden Managing Director Magnus Johansson, Project Manager Gert-Olof Sennerholt and Pelle Wahlgren, Commercial and Legal Support, with the FIA award



High-speed rail link will slash Milan to Bologna journey to an hour



An Italian consortium of which Balfour Beatty Rail (BBR) is a leading member is on the way to creating a high-speed rail link that will cut the travelling time between Milan and Bologna to just an hour.

Clocks have been unveiled at Milan and Bologna Central Stations counting down to December, when the 300 km/h line is due to be completed.

The high-speed link covers a distance of 182km across the Po Valley from Melegnano to Lavino, and to minimise the impact on the region's agriculture, runs largely alongside the A1 motorway or the existing railway line.

Eight interconnections link the high-speed line with the existing rail network, extending its benefits to local and regional routes. In March, a test train reached a speed of 355km/h on the line, a record for the Italian rail network.

BBR is a member of the Saturno Consortium, and is responsible for engineering, procurement, installation, testing and commissioning of electro-mechanical systems, including overhead contact lines, electrical sub-stations and the remote control system.

By the end of this year, a rail journey between Milan and Bologna will take just 60 minutes, and by the end of 2009 the journey time between Milan and Rome will have been cut to three hours.

These are the latest stages in Italian State Railways' plans to complete one of the most significant infrastructure projects since the end of World War II.

Its first high-speed rail link, between Turin and Novara, was completed in time for the 2006 Winter Olympic Games.

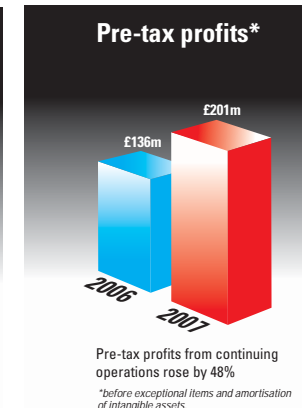
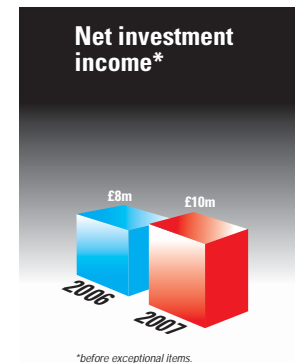
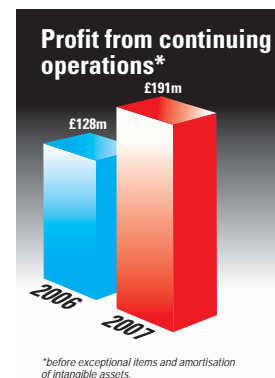
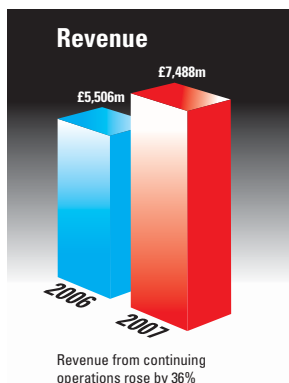
Record year sees profits for 2007 top £200m

The past financial year has been a very good one for the Group, both in terms of financial performance and progress made in pursuing medium and long-term objectives.

Once again the order book has reached record levels and there is a long, strong pipeline of high-quality new work.

The non-financial indicators also demonstrated progress. The Group's Accident Frequency Rate went down again and we are continuing to minimise our environmental impacts.

Update spoke to Chief Executive, Ian Tyler about the past 12 months and prospects for 2008.



their management are compatible with our own way of doing things and yet are real leaders and experts in their own local markets.

Interview Ian Tyler

Record results – 2007 was clearly a very good year for the Group?

I believe the results speak for themselves, but, whatever the numbers say about us, our operational achievements around the business and the progress we have made in putting our strategy into action are just as telling.

In 2007 and in the early part of this year, we have made two giant strides in creating a much bigger business in the US, for example. In the UK, we have delivered our part of Heathrow's new Terminal 5 on time and on budget. We have secured major new projects for key customers such as National Grid and British Energy and we have strengthened the business in the UK regions and in some specialist technical areas.

We have also won some excellent projects in Dubai, Hong Kong and Singapore, including our first PPP project outside the UK.

Why did the business perform so well?

I think the key to our success is threefold. Firstly, our markets remain healthy and we have established leadership positions in almost all of them. That gives us lots of important advantages.

Secondly, we are very clear about what our key strengths are and in which directions we want to take the business and we have found excellent opportunities to add to our business mix to support our chosen strategy.

Thirdly, Balfour Beatty people at every level and location in the organisation have continued to use their talents and work hard at

their part of the task. Delivery, on the ground, and satisfying our customers day in and day out are the real secrets of our success.

What was your biggest disappointment?

Of course, the year was not without its disappointments and the entry into administration of Metron, in which we had a 20% interest, was first amongst them. We have worked closely with London Underground and the PPP Administrator to ensure that the daily operations of the Tube have been unaffected. We remain committed to the creation of a world-class underground system for London and will continue to provide a range of services under the new arrangements which have been put in place.

What impact will the failure of Metron have on Balfour Beatty?

Metron cost us a lot of money, which was all accounted for in 2007, and I hope that we have learned our lessons and moved on. I believe our reputation derives from the first-class work we do on the vast majority of our projects and the fact that London Underground is happy to carry on working with us underscores this.

Why are you building up our US business so much?

The US is the biggest infrastructure market in the world. It is sophisticated, puts a premium on quality and is moving in many ways towards business models which are very similar to those in which we have been operating very successfully for many years. We are taking great care to ensure that our US companies and



Are you worried about economic slowdown in the UK and the US?

Obviously we would prefer to operate in thriving, growing economic conditions. However, the great majority of the work which we do is for customers like governments, government agencies and regulated utilities who tend not to be impacted by economic cycles. Indeed, many of our private sector customers tend to be the kind of organisations which invest through the economic cycle.

We are not complacent, but I believe we have the kind of business which should be able to continue to grow even if consumer economies slow down or even reverse. Certainly, our short-term prospects are excellent.

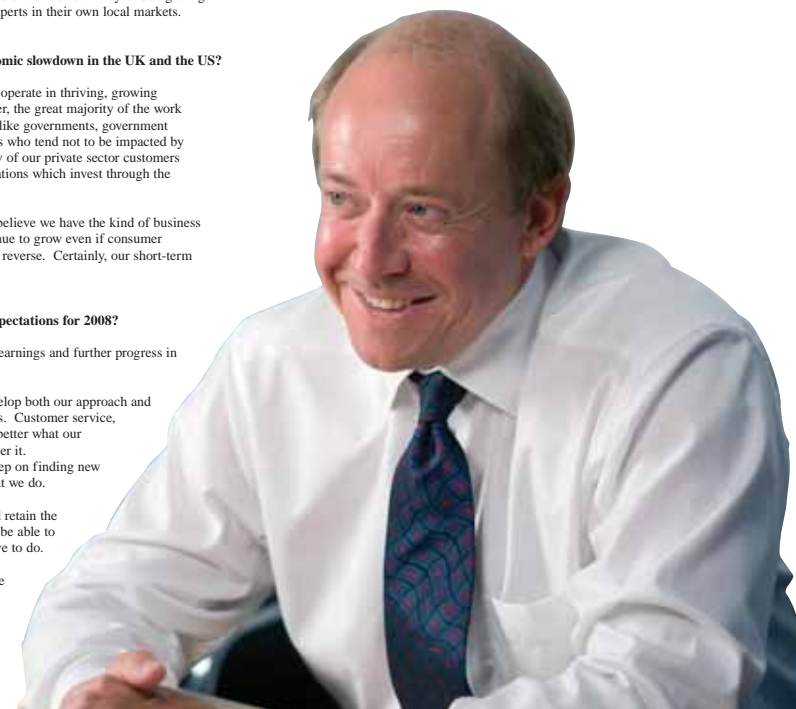


What are your hopes and expectations for 2008?

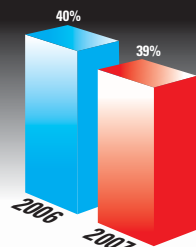
Further growth in profits and earnings and further progress in implementing our strategies.

Also for us to continue to develop both our approach and achievements in four key areas. Customer service, where we have to understand better what our customers want and then deliver it. Innovation, where we must keep on finding new and better ways to deliver what we do.

Thirdly, we need to attract and retain the best people if we are going to be able to deliver the work which we have to do. And, finally, I want to have a business in which it is no more dangerous to go to work on one of our construction sites than it is in one of our offices.

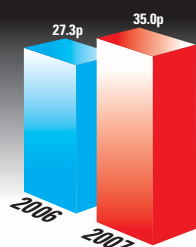


Taxation



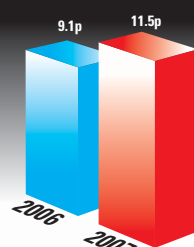
The Group's tax rate was 39% (2006: 40%) of profit from continuing operations before taxation, exceptional items and amortisation of intangible assets, excluding the Group's share of the results of joint ventures and associates.

Earnings per share



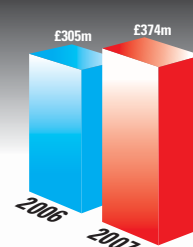
Adjusted earnings per ordinary share were up 28%.

Dividends



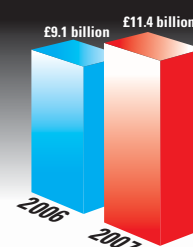
The Board has recommended a final dividend of 6.9p per ordinary share, making a total dividend for the year of 11.5p an increase of 26%.

Net cash



Our year-end net cash position increased to £374m, despite net acquisition expenditure of £106m.

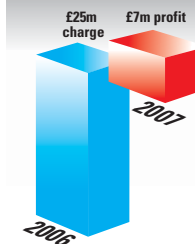
Order book



The year end order book increased by 25%.

Exceptional items

There was a £95m after-tax charge for Metronet, offset by a £57m profit on the sale of Devonport Management and a £51m credit from the crystallisation of tax benefits in the US, as well as a number of smaller charges.



Highlights

Investments

Acquisition of Exeter International airport completed
ITE Singapore success – our first PPP outside the UK
A further three PPP project preferred bidder awards
Five PPP projects reach financial close



Eastern Overhead alliance

Civil and Specialist Engineering and Services

Eastern Overhead alliance contract worth £550m
US business returns to profit
Sale of our interest in Devonport Management

Building, Building Management and Services

Order book increased by 69%
Acquisition of Centex Construction in the US
Acquisition of Cowlin and Covion in the UK



Miami Airport North Terminal



New Terminal 5 Heathrow

Rail Engineering and Services

Heathrow Terminal 5 rail works handed over on time
Confirmation of ongoing renewals role for London Underground and Network Rail
New signalling joint ventures and technology systems acquisitions
Good progress on the East London line

Group announces major changes at the top as it prepares for continued growth

Steve Marshall to succeed Sir David John as Chairman

Sir David John, Balfour Beatty's Chairman, is to retire following the annual general meeting of the company in May, 2008. He joined the Board in 2000 and has been Chairman since 2003.

Steve Marshall, who joined the Board as a non-executive Director in 2005, will succeed Sir David John as Chairman following the AGM. Mr Marshall, who is 51, is currently non-executive Chairman of Delta plc and also a non-executive Director of Southern Water.

He is a former Group Chief Executive of Thorn plc and Railtrack Group plc, having served as Finance Director at each company. Mr Marshall is also a former Chairman of both Queens' Moat Houses plc and Torex Retail plc. Previously, he held senior management positions at Grand Metropolitan plc, having spent his earlier career at Black & Decker, Burton Group, BOC and Parkdale Holdings.

Commenting on his decision to step down, Sir David John said:

"It has been a great privilege to lead Balfour Beatty during a period of exceptional progress for the Group, which is very well positioned for successful future growth.

"I am delighted that Steve Marshall is to succeed me as Chairman. He will bring comprehensive plc experience, both as an executive and non-executive director, and a thorough familiarity with the construction and support services sector to the task."

Chief Executive Ian Tyler said: "In the five years Sir David John has been Chairman our revenues and earnings have doubled. Our share price at the time he became Chairman was 187p.

"He is owed a great debt of thanks by the Company for his untiring work as Chairman and I would like to offer my own personal thanks for his guidance and advice since I became Chief Executive at the beginning of 2005."



Steve Marshall



Sir David John

Duncan Magrath becomes Finance Director

DUNCAN MAGRATH, Deputy Finance Director of Balfour Beatty since March 2006, will succeed Anthony Rabin as Finance Director. He will join the Board. Duncan who is 43, is a Chartered Accountant and a graduate engineer. He joined the Group from Exel plc where he was Director of Investor Relations and Financial Strategy. Prior to that, he carried out a number of senior finance roles in both the UK and in the US. He spent the early part of his career at Price Waterhouse.

Announcing the appointments, the Group said its successful and substantial growth is expected to continue as both its core contracting and investment businesses acquire and expand as it further establishes itself in its chosen markets overseas.

The announcement of an agreement to buy the US military accommodation PPP concession company GMH (see pages 4-5), taken together with Balfour Beatty Capital in the UK, will create an international portfolio of 42 infrastructure investments, including those at preferred bidder stage.

Chief Executive, Ian Tyler, said: "Our strong, continuing growth makes it appropriate to strengthen further Balfour Beatty's senior management team.

"Anthony Rabin has done an excellent job as Finance Director since 2003 and will now, together with some other responsibilities, take direct responsibility for the direction and development of our very substantial infrastructure investment business, which is a strategic priority for the Group.

"The structure of the Group's construction and engineering activities,

Anthony Rabin appointed Deputy Chief Executive



Anthony Rabin

ANTHONY RABIN has been appointed Deputy Chief Executive of Balfour Beatty. He is currently Finance Director.

He will take responsibility for the management and development of the Group's infrastructure investment businesses in the UK, Europe, South-East Asia and the US, including direct line management responsibility for the Group's new United States acquisition, GMH Military Housing (GMH).

Anthony has been Finance Director since 2003, following five years in which he was responsible for the successful establishment of the Group's UK PPP business.



Duncan Magrath

Three key new appointments at Building Services



JOHN MOORE, pictured, has been appointed Managing Director, Balfour Beatty Group Building Services. John will oversee Balfour Kilpatrick and Haden Young with the prime objective of further improving the service to customers through sharing of best practice. He will also be responsible for

shaping the future strategic direction of the Group's building services offering to the market.

Balfour Kilpatrick and Haden Young will retain their full status as operating companies within the Group.



GARRY BLACK, pictured, has been appointed Managing Director of Balfour Kilpatrick. Garry was formerly Regional Director of Balfour Kilpatrick, responsible for the Projects business in the UK and Scottish building services operations. He has been

with Balfour Kilpatrick for nine years and prior to that was with Balfour Beatty Construction.

ALEX CURRIE, pictured, is the third new appointment. He has been made Managing Director of Haden Young. Alex was formerly the Regional Director of the Midlands & South region of Haden Young and has worked for Balfour Beatty since 1979.



Steve is new MD at Signalling Solutions



STEVE MCLAREN, pictured, has taken over as Managing Director of Signalling Solutions, the 50-50 joint venture company launched last October by Balfour Beatty and Alstom Transport.

Steve has worked in Alstom Transport's signalling business for more than 20 years.

Signalling Solutions combines the railway signalling resources of Alstom Transport Information Solutions and Balfour Beatty Rail Projects (BBRP) to provide the railway market in the UK and Ireland with an experienced all-round supplier.

Employing about 340 people, the company, which has its headquarters in Borehamwood, Herts, has offices in Derby, Birmingham and York.

Duncan joins communications



DUNCAN MURRAY, pictured, who advises the Group on financial public relations, has been appointed to the new position of Deputy Director of Corporate Communications, reporting to Director, Tim Sharp.

Duncan previously worked at Gainsborough, a financial PR firm he co-founded, and before that was a director at Citigate Dewe Rogerson, one of the UK's largest communications consultancies.

Throughout this period - more than 10 years - Duncan has worked with Balfour Beatty as lead financial public relations adviser.

Prior to his time as a consultant, Duncan worked in the corporate communications department of Taylor Woodrow plc.

BK Gulf shows strong growth

Some of the most eye-catching and iconic building developments in the Middle East are benefiting from the skill and expertise of BK Gulf LLC.

BK Gulf has signed a £105m contract for MEP (mechanical, electrical and plumbing) design and install for the Dubai University Hospital, which will be BK Gulf's largest single project to date. This contract is the first partnering arrangement of its kind in the UAE and BK Gulf has played an integral part in its development.

This adds to an impressive list of contracts the company already has in the Emirates such as the £80m contract to provide MEP services for the Atlantis Resort located at the apex of the Palm Jumeirah in Dubai, the £50m MEP installation in the Norman Foster designed Index Tower and the £35m MEP installation for the Crowne Plaza Hotel on Yas Island, Abu Dhabi, fronting on to the proposed Formula 1 motor racing circuit.

The company provides a complete contracting service, including design, procurement, installation, project management, commissioning, and facilities management to meet specific client requirements, the FM division of BK Gulf having recently secured a £5m facilities management contract for the aforementioned Atlantis development. General Manager George Shields, said that while BK Gulf had been involved in the installation of MEP work during the construction of the Atlantis, its appointment as the facilities management team demonstrated the company's ability as a total service provider. "Understanding the complex systems and interfaces between all the services is essential to being able to offer effective maintenance procedures, and our knowledge of the MEP gives us this critical information," he said.

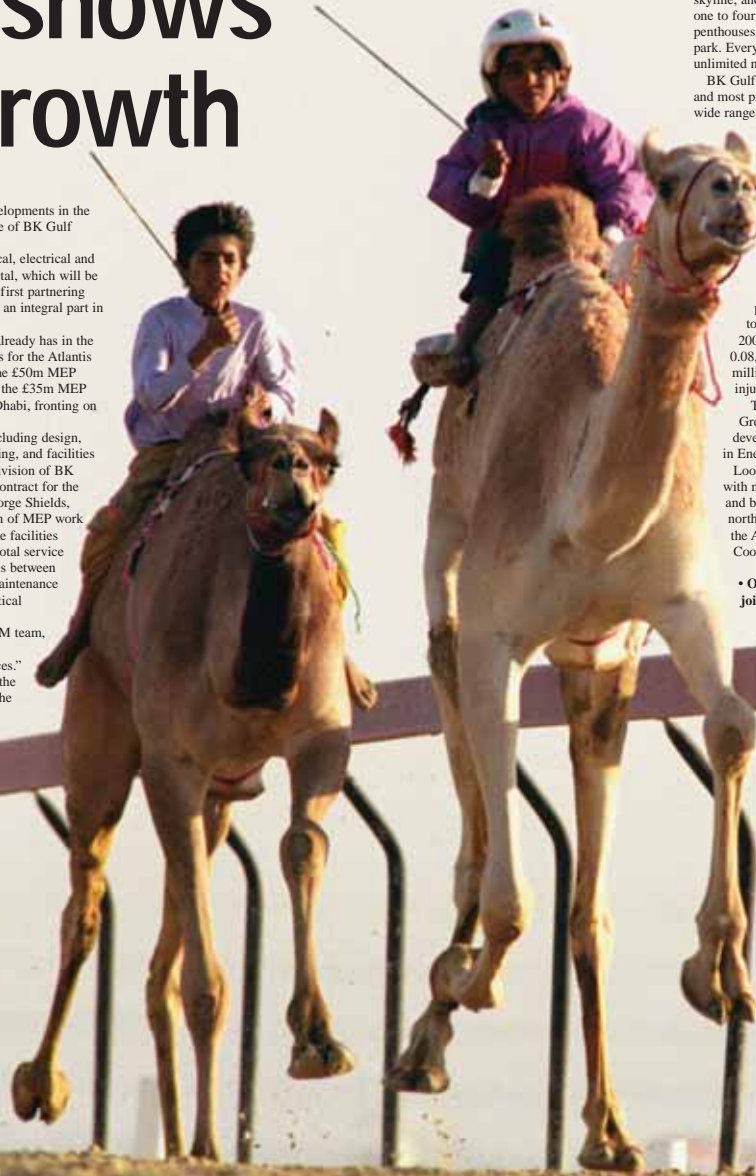
"Our contracting team can hand over the systems to the FM team, who will then take this quality installation and ensure we maximise the efficiency and life-cycle of the building services."

BK Gulf recently completed a £20m two-year contract at the prestigious Marsa Plaza project as MEP sub-contractor for the whole of the works.

Marsa Plaza is another striking landmark on the Dubai



Marsa Plaza



Camel racing in Dubai

skyline, and provides a range of living accommodation from one to four bedrooms fully serviced apartments, duplexes and penthouses, with a health club and 670-space underground car park. Every apartment has access to 1,000 TV channels and an unlimited number of telephone lines.

BK Gulf LLC have been involved with some of the largest and most prestigious projects in the Middle East, covering a wide range of sectors. These include the Burj Al Arab, the self-styled seven-star hotel, and the less glamorous but truly world-class Central Utility Complex serving Terminal 3 of Dubai International Airport. The airport CUC contract was worth £46m, and BK Gulf were the main contractors. The central feature is the Chiller Plant, which, at 72,000 tonnes, is one of the largest cooling plants in the world. Progressive commissioning of the plant has been going on as cooling demand becomes available.

Like all Balfour Beatty companies, BK Gulf prides itself on its good citizenship and its attention to health, safety and environmental issues. During 2007, it achieved an accident frequency rate (AFR) of 0.08, and several projects have achieved as many as three million working hours without a reportable accident or injury.

The company was a founder member of the Emirates Green Building Council and is committed to sustainable development through the application of the Leadership in Energy and Environmental Design (LEED) standard.

Looking forward, BK Gulf have a strong order book with new projects not only in Dubai but in other Emirates and beyond, including Abu Dhabi, Ras al-Khaimah, in the north of the UAR and Bahrain with the recent award of the Al Salam Resort, the proposed location of the Gulf Cooperation Council Summit for 2010.

• Our next issue will profile Dutco, Balfour Beatty's joint venture in the Middle East.



Atlantis Resort



Palm Jumeirah



Burj al Arab



Singapore PPP win boosts chances for more

Gammon Capital, the Singapore-based company 50 per cent owned by the Balfour Beatty Group, has won its first major PPP (private-public-partnership) contract – to build and manage a new campus for the state's Institute of Technical Education (ITE).

The ITE College West project has a capital value of S\$270m (Singapore dollars) and is due to be completed by June 2010. PPP management services are scheduled to start in July of that year.

This is the first major contract for Gammon Capital. The company was set up in Hong Kong in 2004 with the aim of winning PPP business, but later moved its base to Singapore to take advantage of the emerging market there.

Gammon was one of three companies who pre-qualified for the ITE West project in October 2006. The company was formally appointed last November.

ITE is the principal provider of technical education in Singapore. It is currently rationalising its 10 sites into three larger and more focused campuses as part of a drive to support its vision as a global leader in technical education.

The new ITE College West is the second stage in this process. ITE College East, opened three years ago, while ITE Central is now being planned.

The new college will include a campus housing 7,200 full-time and 8,100 part-time students and around 630 staff. It incorporates flexible and adaptable learning spaces allowing multiple configurations to support changing curriculum requirements and teaching methods.

Its focus is on the hospitality and retail industries and the college offers a range of technical qualifications.

Gammon Capital Director, Ed Doherty, said that the company had identified and introduced key education-



State of the art: what the new ITE campus will look like

alists with a close understanding of ITE's unique approach to the delivery of vocational and technical education, to better understand ITE's needs.

"We developed a design concept that was highly transparent, to showcase the activities of ITE and its students. Our design includes an Innovation Walkway, which provides extensive multi-level circulation between the buildings within a compact site and facilitates opportunities for student interaction and exhibition of work.

Vision

"College West focuses on engendering service excellence. Our events plaza and integrated business town concept supports this vision. We have taken great care in providing the right balance of openness and segregation between the public and learning spaces."

Ed said that ITE particularly likes the concept of the "green campus," with the provision of gardens and covered areas for informal learning and the segregation of pedestrians and vehicles through the use of a semi-basement for car parking and site services.

"The design had to be flexible," he added. "ITE

changes its curriculum on a regular basis to respond to Singapore's rapidly changing economy and business needs and we have had to think ahead."

"An important part of our value proposition was the Technology Transfer and Employment Training (TTET) initiative that we developed, which will involve our Jardine sister companies in Singapore in relevant sectors including hospitality, retail and automotive engineering, in delivering a package of free industry seminars and employment placements that support ITE's objective of providing real work experience and a high degree of industry relevance. This really captured the attention of ITE's top management," he said.

Work began on the site in December 2007 through an advance works package. The design for the new campus was unveiled at a special signing ceremony in February attended by Singapore's Education Minister.

"This is a highly strategic project for Gammon," said Ed.

"Singapore is a major hub and this should be a catalyst for us to grow. The first of its kind both in Singapore and Asia, the PPP project is already generating enquiries from other countries in the region such as Malaysia and Vietnam."

Gammon wins £320m Government complex

Gammon Construction, the Hong Kong joint venture in which Balfour Beatty has a 50 per cent interest, has been awarded a £320m contract for the design and construction of a new central government complex in the city.

Known as the Tamar Development Project, it will be undertaken in a joint venture with Hip Hing Construction, and involves the design and building of the Central Government Complex, the Legislative Council Complex, a major recreational open space, two elevated walkways and car parking space.

Each of the principal buildings will have its own unique design and identity. The total floor area will be around 130,000 square metres, and at its height the project, scheduled for completion in 2011, will employ 3,000 people.

"In response to the keen public interest and their desire to participate more in the project, the Government organised a unique two-month viewing exercise to give people an

Environmentally-friendly aspects will include 'green' roofs and sky gardens

opportunity to view and comment on the design," said Danton Lee, Gammon Construction Director.

The site covers a total of 42,000 square metres, and its 130,000sq m of floor space will be shared between three office blocks. The Central Government Complex (office block) will comprise 27 storeys above ground and two underground and, when completed, will be 120 metres high.

The Central Government Low block will be 25 metres high, with four storeys above ground and one below, while the Legislative Council Complex will have 10 storeys above ground and one underground and will stand more than 52 metres high.

Environmentally-friendly aspects of the development will include photovoltaic (PV) panels to generate energy and supplement conventional electricity supplies, "green" roofs and sky gardens, rainwater recycling, a computerised lighting control system and a high-energy seawater-cooled chiller plant.

Dynamic

Gammon Construction is currently the leading contractor in Hong Kong, with annual revenues of more than £500m. Last year it secured a £33m contract to design and construct service reservoirs and infrastructure works for the University of Hong Kong, as well as a £50m project to construct a retail podium and 42-story hotel for Venetian Orient.

Describing the Tamar Project, Thomas Ho, Chief Executive of Gammon Construction, said that they were proud to be playing a key role in what was an "iconic" project, and that they were committed to bringing their key skills and technical expertise to the creation of a dynamic urban development.

"To realise the joint venture's vision, we have sought world-class expertise with far-reaching experience," he said. "We are committed to working seamlessly to ensure the delivery of a development of the highest quality, while maintaining excellent standards of safety."

"We will be creating a sustainable construction project through the adoption of state-of-the-art construction technology, and we are confident the Tamar Development Project will set new benchmarks for the industry."



Iconic: the Tamar Development Project will have a big impact on Hong Kong's skyline



Developing the Group's operations on a sound basis Growing US presence mirrors successful UK model

Another major step in Balfour Beatty's plans to expand its operations in the US has been taken with the announcement in February of the agreement to buy GMH, a leading provider of military housing (see pages 4-5).

This follows the acquisition of Balfour Beatty Construction US (BBCUS) last year, which was profiled in the spring and autumn 2007 editions of *Update*.

The acquisition comes at the same time as the Group announced \$1.2bn (£600m) of new project work for its US operations (see tint box).

The \$350m GMH deal is important, says Chief Executive Ian Tyler, because it is "central to implementing our US strategy of building a high-quality, domestic US business similar to our very successful UK model."

The acquisition follows the purchase and successful integration last year of Centex Construction, now Balfour Beatty Construction US (BBCUS). And it ticks all the right boxes as regards the Group's expansion plans in the US. It delivers a seat for Balfour Beatty at the top table in the military accommodation public-private partnership (PPP) concession market that provides housing for US army, navy and air force personnel.

It fulfils Balfour Beatty's strategy to always be a leading player in all the sectors in which it operates: construction, professional and technical services, civil engineering, rail, support services and now, military housing.

Another important benefit of the acquisition is that it makes Balfour Beatty a frontrunner in the growing PPP market in the US. "We are getting a high quality team of people with great experience in this area and that will be very

important for the future," says Finance Director Duncan Magrath.

"The significant drift in the population to the warmer climes of California and Florida and, to a lesser extent, Texas and the Carolinas, is placing a huge strain on the infrastructure. PPP is being seen increasingly as the way forward to tackle the vital task of repairing and expanding the infrastructure in areas such as water supply, hospitals, education and roads."

In addition, he believes that GMH's experience in facilities management is something that can be replicated elsewhere in the US.

GMH is the latest in a growing number of successful acquisitions that have been made in the US. It is very well known to the Group, having worked almost exclusively for the past 10 years on its military housing projects with BBCUS.

Imposing: National Museum of the Marine Corps built by Balfour Beatty Construction (US)



Long-established businesses on the front foot

Heery

Heery International Inc, the US-based professional services company, has tripled in size in the past four years, thanks to a surge in new business fuelled in part by a series of five acquisitions in areas such as design, construction programme management, interior space planning and move management, construction management at risk services, and architecture and project management.

Jim Moynihan, President and CEO of Heery and Balfour Beatty Infrastructure, Inc (BBII) said the Group's policy towards acquisitions and their integration into the business was well thought out and executed. "We know what we need as regards strengthening our position in the market, and don't make acquisitions unless we have worked with the companies and got to know them personally."

Commenting on Heery's outstanding performance in recent years, he said: "It's very simple. All our people understand what we do, the services we provide and the type of clients that we want to work with."

"Our philosophy is 'local resources, national expertise'. Being organized on a regional basis means that we have managers and staff who live locally and get to know their marketplace and the decision-makers. They are able to build relationships."

"This is an unbelievably beneficial strategy,



Jim Moynihan, CEO of Heery and President and CEO of Balfour Beatty Infrastructure Inc.

Its Charter Builders division was selected in February as the construction manager for a project in North Texas that involves the construction and renovation of 16 schools and an administrative facility. Work will begin in the summer and be completed in 2010.

Balfour Beatty Infrastructure Civil Engineering

BBII has experienced a remarkable turnaround in performance and prospects in 2007, as a result of a restructuring of the business. The company is looking to continue building momentum in 2008 with a strong leadership team and a sharp focus on the kind of sectors, geographic areas and markets in which it can work successfully.

"We are focusing on California, Texas and the South East," explains Jim. "That's where people are moving to and that's where they need the kind of work in which we excel – roads, bridges and tunnels, and water supply and wastewater treatment plants."

In the future, work could also include areas such as power plants and airport construction.

The strategy seems to be working. In February BBII was awarded a \$207m contract by Sacramento County Water Agency in California (see tint box, right).

This win made it a clean sweep for BBII, having been selected for all three of the Freeport Regional Water Project's major water infrastructure schemes to be awarded. In the same month the company won a \$69m highways project in Texas.

Another success for BBII saw the company named as the winner of a prestigious Excellence in Partnering award by the Associated General Contractors of America for its collaboration with client Sound Transit on the Downtown Seattle transit tunnel project.

BBII has won a prestigious Excellence in Partnering Award

because our customers know that we have the people, the equipment, the ability and the track record to do the job. And if a major project comes along, then Balfour Beatty has provided us with one of the largest bond pools in the industry to enable us to bid for and take on the work." (In the US there is a requirement that the total value of a contract must be underwritten by a bond from the bidder).

Jim adds: "We have a very low turnover of staff – three times less than the industry average. It is a great place to work. People work on challenging jobs and are given the responsibility to make decisions and to be recognized and rewarded for outstanding performance."

One of Heery's current projects involves its health-care design team working for the US Army Health Facility Planning Agency at new military installations in the US, Germany and Japan.

Teamwork leads to \$197m contract

- Two BBCUS divisions teamed up to win a \$197 million contract from the US Army Corps of Engineers.
- The opportunity to win the business came at a time when the BBCUS team in Washington were coping with a heavy surge of new projects. While the Florida division also had a strong backlog of projects many had been delayed, so they were able to step in and help.
- John Tarpey, Washington Division CEO, said: "Without this combined effort with Florida we would not have pursued, nor won, this project. This is a great example of collaboration and leveraging our strengths."
- Al Petrangeli, Florida Division President, said: "This new project is a great testimony to the different divisions working together. The neat thing is that neither team could have done it alone."

New wins add \$1.2bn of work

The Group has announced that it has been awarded more than \$1.2 billion of major new project work in the US.

In a joint venture with Clark Construction, Balfour Beatty Construction US (BBCUS) has been awarded a \$640 million contract to design and build additions and renovations at the Walter Reed National Military Medical Centre at the Naval Base in Bethesda, Maryland.

BBCUS has also been awarded a \$197 million design and build contract to construct new training facilities for the US Army Corps of Engineers at Fort Lee, Virginia. The company is already working on the \$110 million Logistics University contract at Fort Lee.

In Orlando, Florida, BBCUS has been awarded a preliminary contract for a major expansion of the Peabody Hotel, the construction value of which is approximately \$250 million.

To add to its \$120 million Freeport Water Intake Facility contract, awarded in 2006, and the \$93 million Folsom South Canal Connection contract, awarded in 2007, and reflecting its strong presence in the provision of water treatment and water handling facilities in California, Balfour Beatty Infrastructure Inc has been awarded a \$207 million contract to construct the Vineyard Surface Water Treatment Plant by Sacramento County Water Agency.

Rail

Balfour Beatty Rail Inc (BBRI) has also collected an award, having been named as the Los Angeles African American Chamber of Commerce's Public Contractor of the Year.

Building on the on-schedule completion of a project for Caltrain in San Francisco, Caltrain has awarded BBRI the contract to upgrade 10 miles of track outside the city's airport. Additional contracts have been won in Wright, Wyoming; Minneapolis, Minnesota; San Antonio, Texas; and Norfolk, Virginia.

In 2008 BBRI is targeting commuter and light rail design-build opportunities in California, Florida, Texas and Utah, while BBRI's Rail Services is setting its sights on winning business in areas such as class 1 railroads, intermodal/multi-modal facilities, and ethanol manufacturing facilities.

Economy

Some may worry about the current state of the US economy and its possible impact on Balfour Beatty's US operations. "Whatever the problems, it is still the biggest economy in the world," says Jim. "We build the things that people need and I believe we are well positioned to continue our success."

"We are getting much better at picking the projects to bid for and win," he comments. "We have some very talented people, lots of interest from others in the industry who want to join us, and we are upgrading our equipment to make us more efficient. We are definitely on the way up."



Tidal phenomenon: surfers take advantage of the tidal surge on the River Severn

© Mark Mumpage

The Group is committed to focusing on environmental issues because it makes sound business sense and adds value. So the message for us all is clear:

THINK GREEN

Balfour Beatty regards its environmental policy far more ambitiously than simply being dedicated to avoiding pollution. It sets the agenda towards searching for green, sustainable solutions to projects.

Be it developing new technologies to harness power from natural resources, designing energy efficient buildings, recycling waste on site or simply eliminating unnecessary fuel consumption, the environmental agenda has gained a new prominence.

At all levels staff are being encouraged to "think green" devising environmentally-friendly solutions to projects while at the same time reducing in-house consumption of energy and waste. For the first time in one division of an operational company, staff are even paid up to 80p a day to use public transport instead of driving to work.

At the end of 2006 Chief Executive Ian Tyler, issued a new Environmental Policy saying that every manager and employee must not only comply with environmental regulations but should also "look out for environmental improvement opportunities".

"Success for us now has new meaning," said Martin Gettings, Sustainability Manager for Balfour

Beatty Construction (BBCL). "The new policy has encouraged us to refresh our environmental agenda, and enabled a step change in our approach. We seek solutions that benefit people and the planet, but which also make sound business sense. For example,

Every manager must comply with environmental regulations and look out for improvements

recycling on site is no longer considered as just green.

"The previous policy ensured we adequately protected the environment. The new policy enables value to be added."

Every operating company has to issue a formal environmental policy covering areas such as sustainability, waste reduction, and in-house efficiency but

usually they go far beyond what is expected of them, devising ingenious solutions to old problems.

During the widening of the M25 motorway, Balfour Beatty Civil Engineering (BBCEL) created the first dedicated motorway recycling facility to allow waste, destined for disposal, to be reprocessed into construction aggregates.

At the new acute hospital in Birmingham, Balfour Beatty Construction Northern and Haden Young recycled crushed demolition materials and plasterboard, significantly reducing waste. Building the modular components in a purpose built centre off site reduced the volume of traffic, waste and upheaval. Measures to protect the native animals included the introduction of wildlife crossings and heated bat boxes.

According to John Dunne, Group SHE Manager, the company's environment policy has been developed as a result of consultation with individual operating companies.

"This was not a strategy driven down from the Group, rather the case of the Group developing a strategy which was meaningful and could be delivered," said John.



Harnessing green energy: Whitelee Wind Farm

"Whereas we cannot impose green solutions on our clients – we can provide an environmentally-friendly option and encourage them to consider its value. We can also ensure we are behaving responsibly within our own premises.

"The environment is now higher up ours and our customers' agenda than ever before. We want to be market leaders in good environmental practice and we are on our way."

GREEN ENERGY

Developing new technologies to harness renewable energy is a particularly exciting challenge for Balfour Beatty as the British government strives to generate 20 per cent of the country's energy from renewable energy sources, such as wind and tides by 2020.

Balfour Kilpatrick (BK) has an extensive track record in the wind energy sector and is currently constructing Europe's largest onshore wind farm, south of Glasgow in a joint venture with Morrison Construction Services.

We can't impose green solutions but we can provide environmentally friendly options

When it is finished next year, it is estimated that the 140 turbines of the 80km² 322 MW Whitelee Wind Farm will produce more than 2 per cent of Scotland's energy needs. BK's involvement in this sector will exceed 500MW of commissioned renewable energy through its involvement in this and Rothes, Paul's Hill, Crystal Rig, Green Knowes and Beinn Tharsuinn wind farms.

"Our greatest challenge is the safe control of the workforce spread across such a large area in rapidly changeable and sometimes horrendous weather conditions," said Alex Baird, Business Development and Tendering Manager for BK.

SEVERN BARRAGE

The construction of a multi-billion pound tidal barrage across the Severn estuary, near the Welsh-English border, moved a step closer in January following the government's announcement of a two-

year feasibility study into the project which could meet 5-6 per cent of the UK's electricity needs.

"The big attraction of tidal energy is it is the only form of renewable energy which is totally predictable and independent of the climate and weather," said John Redman, Business Development Manager for Balfour Beatty Civil Engineering (BBCEL).

Balfour Beatty is part of the Severn Tidal Power Group (STPG) set up 20 years ago to develop a barrage across the estuary.

There are several possible places for a barrage, the most talked about being from Lavernock Point, near Cardiff, to Brea Down in Somerset. Cost estimates vary from £3 billion to £25 billion depending on the location.

REDUCING WASTE AND POLLUTION

Two years ago, supervisor Don Massey from Balfour Beatty Rail Track Systems (BBRTS), had a brainwave.

He was looking at environmentally-friendly alternatives to disposing of the 2,250 tons of used sand and slag waste from the Midlands foundry at Sandiacre, which makes castings for the railways.

Don and his team found the sand could be used in the construction of concrete blocks, while the slag waste could be ground up for use in the manufacture of high-friction road surfaces. This has saved the equivalent of 13 double-decker buses full of sand and slag being transported and dumped in landfill.

Having now taken over a much larger furnace at Bathgate, near Edinburgh, BBRTS is investigating the use of sand thermal reclamation to remove the chemical binders. This would enable the 12,000 tons of waste produced on site per year to be recycled as sand.

But it's not only waste products that can be recycled, according to Roger Rees, SHEQ Manager for Balfour Beatty Rail Systems and Solutions.

"The products we make for the railways are almost 100 per cent recyclable. The old rails and castings can be melted and recycled as can the steel-work connecting the rods, while the concrete sleepers can be crushed".



Products made for the railways and materials used in making them are being recycled. This work is for the New East London Line.

Thanks to the Group, the annual financial battle to survive is over and the long-term future can begin for . . .

The Balfour Beatty London Youth Games

The Olympics may be coming to London in 2012 but the capital has been staging Europe's largest annual young people's multi-games competition for the past 30 years – The London Youth Games.

And now the London Youth Games is set to stage many more successful years thanks to the support of Balfour Beatty, which will be investing £1.7 million in the annual inter-borough competition and local grass-roots sports development.

The six-year financial commitment, to what will now be known as The Balfour Beatty London Youth Games, is the biggest sponsorship ever gained by the voluntarily funded organisation. But, it represents far more than that.

"The most important thing about Balfour Beatty's monetary support is that it gives us certainty. It is so difficult to move forward with confidence and plan for new sports events and the overall development of the Games when we are never sure year to year of our resources," explained Anthony Kendall, Chairman of the Organising Committee of The Balfour Beatty London Youth Games.

With six years of financial security

SPORTS STARS IN THE MAKING . . .

- In his autobiography, Manchester United star defender Rio Ferdinand mentions competing in the Youth Games for Southwark Borough – at gymnastics!
- Other stars who took their Games sporting prowess to greater heights include triple Olympic medal-winning javelin thrower Steve Backley, and British 400m world champion Christine Ohuruogu.
- And the highest paid British sportsman in the world? No, not David Beckham, but American basketball star Luol Deng, currently earning a fortune with the Chicago Bulls.
- Deng's family moved to London in the 1990s and he took part in basketball competitions for three consecutive years. Anthony Kendall is confident Deng will return to London later this year for Finals week and to join the British Olympic basketball team bound for Beijing.



Scenes from the Games with, far left, Mike Gatting, former England cricket Captain right, and Tim Sharp and Anthony Kendall, with the Merton girls team who won the Cricket Cup



"We have had our moments of struggle over the past 30 years but now things have been transformed by this tremendous support from Balfour Beatty and the Olympics being staged in London."

Anthony Kendall, Chairman of the Organising Committee of The Balfour Beatty London Youth Games

ahead, Anthony believes his organising team can double the annual number of entrants to the Games to around 60,000 and significantly extend the number of sports included, for both able and disabled participants. Currently 30 sports are covered, from angling to indoor rowing, boccia to weightlifting.

Anthony would like to see more preliminary rounds and tournaments, and with 2012 beckoning, more support for sports with Olympic relevance. Another key objective is to integrate the disabled sports competitions within the main Games programme, culminating in a full Finals Week each July.

While commending Balfour Beatty for index-linking its £250,000 annual sponsorship – thus maximising its true value – Anthony Kendall said he was especially impressed by the company's proven commitment to helping London's communities.

"This sponsorship has not come about as a crude arrangement because the Olympics is coming to London. Balfour Beatty was supporting us before the

announcement. The great thing is that we have already had two years of working with each other and this sponsorship is an extension of our partnership approach, focusing on community sport development."

During 2006 and 2007 Balfour Beatty provided an annual £20,000 fund, matched by Help A London Child, to support grass-roots sporting schemes. London boroughs applied for grants to develop their much-needed projects.

While some entrants in the upcoming Balfour Beatty London Youth Games might become involved competitively in the 2012 Olympics, Games coaches, officials and many London youngsters, certainly will be part of it 'behind the scenes' said Anthony. Discussions are already taking place with LOCOG (London Organising Committee of the Olympic Games).

"We even hope to be using some of the Olympic venues for our Games in July 2012, prior to the Olympics themselves," said Anthony.



Sponsorship provides foundation upon which young dreams can be achieved

Balfour Beatty's largest ever sponsorship not only puts the London Youth Games on a safe financial footing – it aims to provide a foundation upon which young dreams can be achieved.

"As the UK's leading international engineering, construction and services group Balfour Beatty is constantly contributing to the physical environment of communities. That's what we do as a company. But we believe we also have a duty beyond the creation and improvement of the community infrastructure – we have a role to play as well as improving the social fabric in the communities in which we work," explained Tim Sharp, Director of Corporate Communications.

That's why Balfour Beatty has stipulated in the sponsorship agreement with the London Youth Games that £50,000 per year of the funding should be made available to the London Boroughs to assist sporting schemes and facilities at the grass-roots level.

"Sport is central to physical well-being, but it can also provide a positive focus for young people, some of whom might be socially excluded or straying from the straight and narrow," said Tim. "Sport can provide personal values and a motivation that lasts for life. It can give young people the opportunity to make the best of themselves."

The key objectives of the sponsorship are to help engage more young people in sport, increase the coaching provision and improve sporting facilities. "It's about helping young people make the most of their lives," said Tim.

There is a secondary objective of promoting the Balfour Beatty brand name within the commercially important London region, Tim admits, but the 2012 Olympics being in London was not a key instigator for the new support.

"We were already sponsoring the London Youth Games before the Olympics were awarded to London, and the current extension of that sponsorship goes on beyond 2012. We want the Games to continue to be successful after the Olympics too. And we also hope London-based Balfour Beatty people will get personally involved."

London is not the only community benefiting from Balfour Beatty's support for sport. In Stoke, a successful extra-curricular football programme has been running since 2005. In conjunction with the Football Foundation and Sportmatch, the scheme helps children in schools in deprived areas who are at risk of social exclusion.

Quick facts

- The London Youth Games was launched in 1977 as part of The Queen's Silver Jubilee Celebrations. Each of the 32 London Boroughs pays a yearly subscription to the Games. The remainder of the funding is provided by grants or sponsorship from partners.
- Young Londoners, aged from 6 to 17, represent the London Borough (or the City of London), in which they live or go to school. They compete in more than 30 different sports competitions, including disability sports, which comprise the Games. Finals are held annually at Crystal Palace in the first week of July. The results from the different sports competitions are added together and the winning Borough wins the Jubilee Trophy. (www.londonyouthgames.org)

How the Group is helping young people into industry

Get into Construction, The Prince's Trust skills training programme funded by Balfour Beatty and other major sector companies is one of the most successful of the charity's programmes to help disadvantaged young people increase their skills and find long-term employment.

The initiative was launched in the summer of 2006 and has already helped more than 300 people aged between 18 and 25 throughout the UK. More than 40 courses are scheduled this year and they will support and have a major impact on more than 500 young people.

"Construction is the fastest growing of our 'Get into' programmes," said Sarah Hertzog, Manager, Construction and Transport at the Prince's Trust. "Its basic premise is to take a job-ready young person, give them relevant skills and then give them an opportunity to work. There is a 93 per cent retention rate and of those 84 per cent immediately progress into employment or further training."

"We are grateful to companies like Balfour Beatty who not only support us financially, but also steer the whole initiative."

Balfour Beatty Group Managing Director, Mike Peasland, serves as vice-chairman of the Trust's Construction and Business Services Leadership Group executive committee, while Director of Communications, Tim Sharp, is a member of the business development committee.

"Recent statistics show that as many as 1.2 million young people in this country fall into the category known as NEET – that's not in education, employment or training," said

The course changed my life

Sarah Hertzog. "At the same time, there are huge skills shortages in the construction industry."

"Get into Construction is giving opportunities to young people who are ex-offenders, who have been in the care system, the long-term unemployed and people who are educational under-achievers."

The programme trains young people in skills that include carpentry, plastering, brick-laying and painting and decorating. Those who successfully complete the course earn a Construction Skills Certificate that enables them to work on a building site. They also receive six months support from a Prince's Trust adviser at the start of their apprenticeship, employment or training.

Courses exclusively for young women have been held to help break down barriers that have historically discouraged them from working in the industry.

One graduate of the programme – a man who since the age of 11 had either been in foster care or in young offenders' institutes – described his feeling of being "treated like an adult, like and equal" on the initiative, and is now on a painting and decorating apprenticeship.

Another commented: "The course changed my life. I've wanted to get into the industry for some time but wasn't really sure how to go about it. The Prince's Trust showed belief in me when others didn't give me a chance."

"The success of this initiative wouldn't have been possible without the innovative partnership between the industry and the Trust," said Sarah Hertzog.



More than £116k raised for children's charity

The children's charity NCH is more than £116,000 better off thanks to a range of fund-raising activities by Balfour Beatty staff during 2007.

A glittering ball organised by staff of Balfour Beatty Utility Solutions (BBUS) at the Lowry Hotel in Manchester raised £16,000.

The event, which was attended by employees and suppliers, included a charity auction with prizes such as tickets for the British Grand Prix, a helicopter ride and a framed, autographed Manchester United shirt.

But the highest-selling item was a signed canvas of the football legend Pele (pictured), which brought a massive £4,200.

Balfour Beatty Capital's Summer Ball raised more than £5,000 for the NCH and Balfour Beatty Civil Engineering's Christmas party raised over £3,000.

Teams from the Birmingham New Hospitals joint venture partners took part in the Three Peaks Challenge – climbing the three highest mountains in the UK in 24 hours – and raised more than £10,000 for NCH.

Numerous members of staff pounded the roads, taking part in such long-distance runs as the Reykjavik Marathon, the Great North Run and the Great Scottish Run in



Michael wins Chairman's Graduate Prize for Innovation

Michael Gibson, of Haden Building Management, won the 2008 Chairman's Graduate Prize for Innovation. He was presented with the trophy and a cheque for £1,500 by Balfour Beatty Group Chairman Sir David John, at the Finalists Day at Group Head Office.

Now in its second year, the prize, The Big Idea, is awarded to the graduate making the greatest contribution to innovation in the Balfour Beatty Group. Michael's 'big idea' was the development of a procedure to improve the mobilisation process of a new contract.

Michael is pictured below being congratulated by Sir David John. Runners-up from left were Jenefer Alam (Balfour Beatty Major Civil Engineering), Ben Johnstone (Balfour Beatty Capital), James Burrows (Balfour Beatty Plant & Fleet Services) and Owen Mills (Balfour Beatty Rail Services) who presented by video link, (see picture). They each received a book and £500.

James's idea was to create a suitable lifting frame to safely manoeuvre cabins after being made aware of the hazards of conventional lifting practice.

Owen completed a detailed plan to run the signals and telecommunications testing and thermite welding activities in parallel during Switches and Crossings (S&C) track renewals, eliminating considerable follow-up work.

Ben's idea was to implement a system to aid understanding of contracts by viewing them online, fully hyperlinked to assist navigation.

Jenefer designed a spreadsheet providing information on environmental commitments/constraints relevant to a project. It has already been used to analyse whether the A303 Stonehenge project could be successfully started in a given month.

The 2008 award was open to those who joined the Group on a graduate development scheme in 2006. Michael will present his winning idea to the 2007 graduate intake, who will be eligible to apply for next year's prize, at the Group Graduate Induction 2008.



Sir David John, centre, congratulates winner Michael Gibson and the other graduates

aid of the charity, as well as the Morecambe Bay Walk.

Mark Armond, at the East London Line project, cycled from Newcastle to York with his son Tom, while Balfour Beatty Capital dare-devil Dorota Turwicz did a sky-dive.

Staff at Balfour Beatty Rail Projects and Balfour Beatty Infrastructure Services recycled their old mobile phones in aid of the charity, while scores of others raised money through dress-down days, golf days and sweepstakes.

Edward Hodgkins, Interim Head of Corporate Fundraising, NCH, the children's charity, said: "I would like to extend my sincere thanks to everyone at Balfour Beatty who has worked so hard to help raise over £100,000 for NCH in 2007. This money will make a very real difference to the lives of the 178,000 children, young people and families that we work with. Balfour Beatty should be extremely proud of their staff for such a superb achievement."

This year's fund-raising efforts got off to a flying start with around £15,000, including matched funding, raised in the first couple of months.



Raising the standard

Why the Group is asking all employees to make sure they understand its rules on ethical behaviour



A company takes years to build a good and trusted reputation – but it can be lost in days.

With businesses under closer scrutiny than ever from regulators and the media after high-profile financial and ethical scandals in recent years involving household names such as Enron, WorldCom, BP and Société Générale, it is vital that they can demonstrate they are playing by the rules.

With that in mind, all Balfour Beatty staff will shortly be asked to confirm that they have read and understood the Group's booklet on ethics.

Confirmation will come in the form of an 'e-learning' programme that will help ensure their understanding of the Group's values.

The world has changed greatly since Balfour Beatty first issued corporate behaviour guidelines in the mid-80s. This was addressed when the new booklet on ethics was issued in January 2006, setting out what was expected from staff and the Group's operating companies.

"That was good, but it was clearly not enough," said Director of Communications Tim Sharp.

Lesson

"There was no guarantee that people had read it. Or, if they had read it, that they had understood it. We really had to take that extra step to recognize that this is an important area."

Tim expects that individual operating companies will take ownership of the e-learning project and make sure the lessons learned from the booklet become the working norm for all their people. It is important, he says, that it does not become "just another e-mail from head office" that tells staff "You have to do this".

He accepts there is a danger that people will see it as a box-ticking exercise and just go through the motions in completing it, but hopes that local managers will make

it clear that it is much more important than that. It will act as a defence in the event of somebody transgressing the rules.

"If something happens in the Company that's contrary to good practice and it risks getting into trouble, clearly it's important that we as a Group can say we have made every reasonable effort to ensure that people acting in the name of Balfour Beatty know what's expected of them."

It is also important to be able to make that point to potential clients: "Most of the big organisations we now do business with have very high standards. This ranges from ethical behaviour to safety and environmental practice. They rightly demand that the people they work with match or surpass these standards – so there's a clear business case for doing this."

Easy

"Everybody will be sent an e-mail containing a link to the e-learning course and there will be checks to ensure that everyone has completed it", explains Corporate Communications Manager Lynn Harvey. It will start to be rolled out through UK companies this spring, with the next phase including overseas operating companies. Staff will typically have six to eight weeks to complete it.

"It's not particularly onerous," said Lynn. "It should only take about 40 minutes to complete and it will be done in easy modules." It will take the form of a series of questions and scenarios – for example, what a secretary should do if she discovers that some of her boss's expense receipts are not legitimate.

The e-learning project will go out to all staff who are PC-connected; thought is still being given on how to get the programme to the relatively few employees who do not normally have access to a computer. They may be called into the nearest office or receive a written version of the test instead.

An impressive company

That's the view City analyst **Howard Seymour** has of Balfour Beatty. Here's what he said in a wide-ranging interview with *Update*

Balfour Beatty may have just announced record full year results and may be continuing to grow both organically and by acquisition but the City of London does not value it as highly as it should says Howard.

He has been following the construction industry for more than 20 years and Balfour Beatty since it joined the stock market in 1999.

"Construction is viewed as high risk in the City and most people there don't appreciate that Balfour Beatty is no longer just a construction company," he said.

"The company has changed fundamentally in recent years. It now designs, finances and can provide all the services related to the construction and maintenance of a building. I view it more as providing everything for the life-cycle of a building.

"This is important because, for instance, facilities management services are significantly more profitable than the operating returns achieved in construction and have greater visibility."

Another example of how Balfour Beatty is not fully understood is, according to Howard, when considering its strategy. "They have got it absolutely right," he says. "Relying on construction is too risky. They have protected their position and gone for horizontal integration.

"Increasingly getting involved in funding PFI work is including them at the design and feasibility stage. That helps them protect their construction margins, but it also gives them life cycle services which reduces the volatility and increases the transparency of the business and gives them very significant barriers to entry.

"But the market doesn't fully understand this – particularly the formidable advantages Balfour Beatty now has when competing for business in this area.

"The City recognises the company's quality but finds it difficult to value it."

Howard is impressed by the way the company is growing in the United States. Developing the business in a similar way to how it has grown in the UK is, he says, "a good model. They are not quite there yet, but I think they will achieve it.

"The UK construction companies are increasingly becoming the gatekeeper for the whole facility service because they determine who is going to work on the project and what they are going to do. That's still a long way away in the US. The idea of capital works through to facility services hasn't really happened there yet. But private funding of deals will make it happen because the whole point of it is you are transferring the life cycle risk onto the contractor and once you start doing that the service is the obvious feed-through. I can see Balfour Beatty aiming for that in the US. Clients prefer to work with one company which will manage everything."

This is one area, says Howard, where the UK construction industry is leading both Europe and the US. "The UK is at the forefront of this. When there



Howard Seymour is Director, Building and Construction Research, Numis Securities

is risk transference and a long life cycle the design, building and operation should be done by the same people who will make sure they get it right.

"If you put the risk on the contractor and make him pay with his own money he's going to get it right in terms of time and budget."

Balfour Beatty's success, according to Howard, can be ascribed to its management style which he says is "very industrial. It's geared to running the business – unlike many companies which are driven by finances; what the City thinks and constant concerns about their share price.

"They take the right view that you don't need to worry about the share price. It will get there in the end. But it doesn't mean they are ignoring it.

"It's a balance. You can end up spending a lot of time talking to the City at the expense of running your business, and it is often the case that the City

an investments division (Balfour Beatty Capital) which makes it very unlike other construction companies. Some people say they should float it off but I don't agree. They are a life cycle player which has assets which increase in value and helps to get them to the negotiating table. They don't want to go back to just being a contracting company."

Turning to Balfour Beatty's people, Howard said: "They are pretty smart. The skills base appears to be very high. The businesses are very specialist and work together well.

"And they can explain why they have done things. I called them when they bought Exeter Airport and said: 'I don't understand why you have done this' and within 20 minutes I fully understood the reasoning behind the investment".

"They can easily explain the concepts and what they are doing. From Ian Tyler down there is a lot of discussion and direction and they take the same approach when delivering their results. They take the trouble to explain things properly."

Howard is impressed by the way Balfour Beatty differentiates itself from its peers. "It has consistently demonstrated that its growth profile has been high. Its risk management of the businesses has helped – particularly when it has had a set-back.

"It's highly differentiated in its services. Strategically it's different and in some cases, ahead of the game. This is a company increasingly moving across the supply chain from funding through to services. It comes back to horizontal integration."

Howard also believes the company's acquisitions have been sound. "I consider most of them as bolt-ons to existing operations. There's been a lot of consolidation at regional level. For example, Mansell and Cowlin helped them improve what was already a good service offering in the UK market.

"You can see the same picture developing in the US. It's very sensible. They know what they are doing – but there is a higher risk, and their recent history in this market has been the least impressive part of the Group".

Howard met the company's US management on a recent trip. "I sent a letter to Ian Tyler saying: 'My question is: how did you get them so cheaply?' I thought they were excellent people in good markets who knew what they were doing. GMH is a great buy. Who else out there is going to go and buy military housing concessions and be comfortable doing it?

They are smart. The skills base is high. The businesses are specialist and work together well

can change its mind on strategic direction very quickly, often in hindsight".

Over the long term, he says, good companies will always outperform bad ones.

Speaking about where Balfour Beatty may go in the future, Howard said: "It will be a version of the UK model expanded internationally. In the US they will continue going down a parallel route of life cycle servicing and investment which is absolutely the right strategy. I expect that to translate through to the European markets as well. The company has transportable skills which could easily be utilised by forming partnerships in countries such as Germany. "You will also see this happening in Asia, although it will be much more difficult and we can't be sure how markets such as China are going to develop.

"There is always going to be the question of operational activities versus investments. They do have