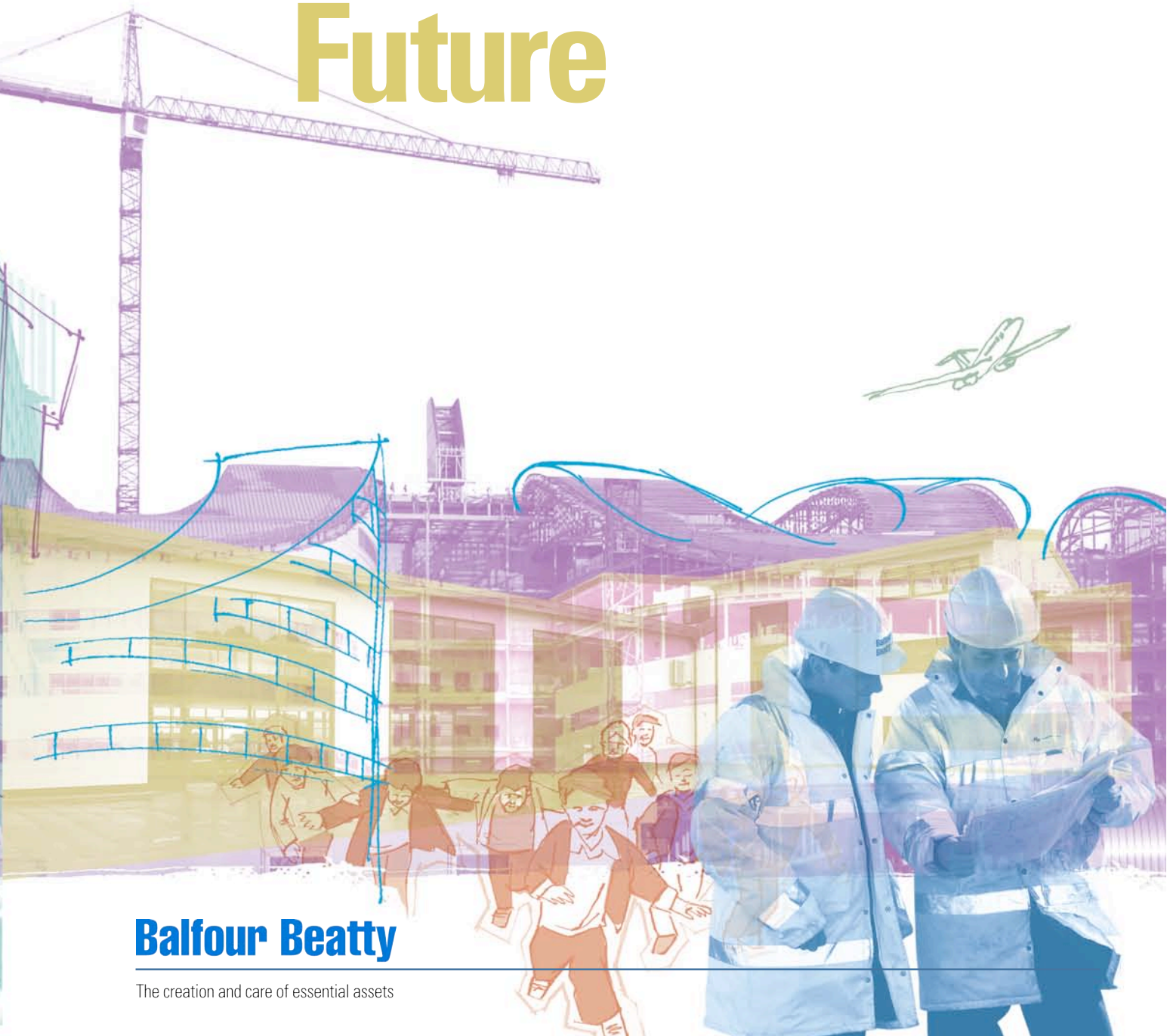


Annual review and summary financial statement 2007

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# Strong Performance Sustainable Future



**Balfour Beatty**

The creation and care of essential assets

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## Our business

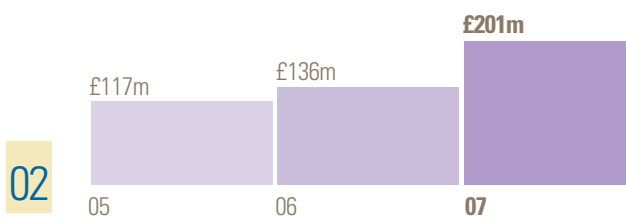
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The story behind the 2007 numbers and the Group's approach to corporate responsibility.

## Introduction

Balfour Beatty is a **world-class** engineering, construction, services and investment business well-positioned in infrastructure markets which offer **significant long-term growth**.

We work in partnership with **sophisticated customers** who value the highest levels of **quality, safety and technical expertise**. Our skills are applied in appropriate combinations to meet individual customer need.

**Our strategy**, which is set out in the following pages, is designed to continue to deliver **strong, reliable, responsible growth in shareholder value** over the long term.



# Our performance reflects the increasing success of our business strategy

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Strong growth in profits\* and earnings\*

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Strong operating cash performance

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Good progress in strategic acquisition  
and investment programme

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Record order book and future workflows

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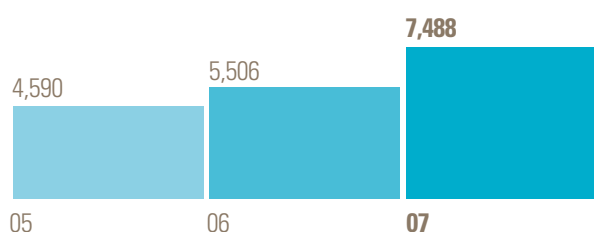
Dividend increase of 26%

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\*Before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations in adjusted earnings per share.



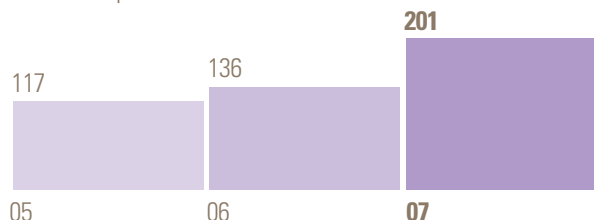
### Revenue including joint ventures and associates



£7,488m  
+36%

### Pre-tax profit from continuing operations

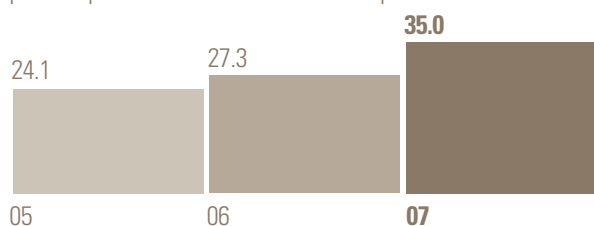
before exceptional items and amortisation



£201m  
+48%

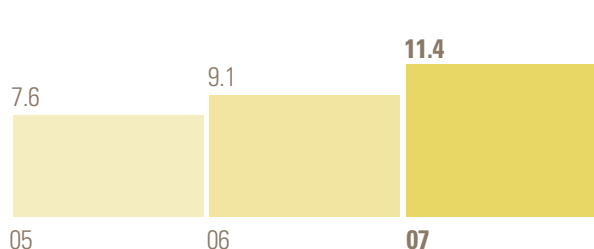
### Adjusted earnings per share

before exceptional items and amortisation and including the pre-exceptional results of discontinued operations



35.0p  
+28%

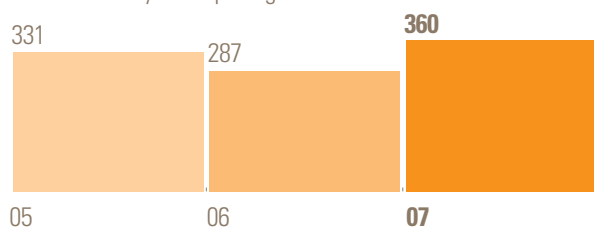
### Order book



£11.4bn  
+25%

### Total shareholder return

value at year-end of £100 investment made five years previously, as measured by share price growth and reinvested dividends



£360  
+25%

# Group overview

## What we do



### **Building, Building Management and Services**

Balfour Beatty is an international specialist in the design, construction, equipping, maintenance and management of buildings and selected aspects of their internal environment.



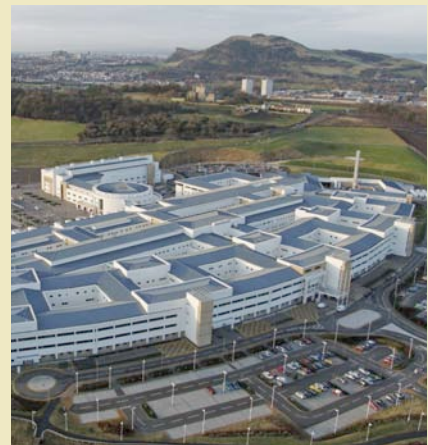
### **Rail Engineering and Services**

Balfour Beatty is an international leader in the design, construction, equipping, maintenance, management and renewal of rail assets and systems.



### **Civil and Specialist Engineering and Services**

Balfour Beatty is a leading international provider of civil and other specialist engineering, design and management services, principally in transport, energy and water.



### **Investments**

Balfour Beatty promotes, develops and invests in privately funded infrastructure assets in selected sectors, on an international basis.



Forth Rail Bridge

Where we work – revenue by destination



Some of the asset owners for whom we work



## Chairman's statement

We are absolutely committed to the continuing delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years.

	2007	2006	Percentage increase
<b>Revenue including joint ventures and associates</b>	<b>£7,488m</b>	£5,506m	+36%
<b>Pre-tax profit from continuing operations</b>			
– before exceptional items and amortisation	<b>£201m</b>	£136m	+48%
– after exceptional items and amortisation	<b>£157m</b>	£109m	+44%
<b>Earnings per share</b>			
– adjusted*	<b>35.0p</b>	27.3p	+28%
– basic	<b>35.1p</b>	21.2p	+66%
<b>Dividends per share</b>	<b>11.5p</b>	9.1p	+26%
<b>Order book</b>	<b>£11.4bn</b>	£9.1bn	+25%
<b>Financing</b>			
– net cash before PPP subsidiaries (non-recourse)	<b>£374m</b>	£305m	
– net borrowings of PPP subsidiaries (non-recourse)	<b>(£61m)</b>	(£21m)	

\*Before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations.



## The Group in 2007

2007 was a very good year for the Group, both in terms of financial performance and progress made in pursuing our medium and long-term strategic objectives.

We continued to enhance the earnings capacity of the Group. The acquisition of Centex Construction (now Balfour Beatty Construction US) was a very important step in creating a major domestic business in the United States. This process has continued with the agreement to acquire GMH Military Housing, announced in February 2008. The acquisitions of Exeter International Airport, Cowlin and Covion, and a number of smaller acquisitions in rail technology and upstream professional services further strengthened our business core.

We have also continued the process of improving the management of our non-financial responsibilities – the safety of our people, our interaction with the physical environment, and our wider role in the communities in which we serve. We promote innovation in the businesses in a number of ways, not least through the Chairman's Innovation Prize for Graduates, over 150 of whom were recruited during the year.

The clear strategy which the Board developed and agreed in 2005, which is described in detail by Ian Tyler on pages 8 to 14, has accelerated our growth and brought a number of high-quality businesses and new investments into the Group.

Our strong cash position has been maintained despite very significant cash expenditure on acquisitions and we are very well placed to continue to add to the business mix.

Our reputation for reliability, expertise and delivery has never been stronger.

Since 2003, Balfour Beatty has doubled its revenues and earnings. It has been gratifying to see our share price rise from its level of below £2.00 at that time.

We owe our success over this period to the talents, dedication and hard work of Balfour Beatty people at all levels and locations of the organisation. I am sure shareholders will join me in expressing their thanks to them all for their efforts. Our continuing ability to attract, retain and offer exciting opportunity to people of the highest calibre is central to our future ambitions.

## Results

In 2007, our pre-tax profits from continuing operations before exceptional items and amortisation of intangible assets for the 12 months to 31 December 2007 were up 48% at £201 million (2006: £136 million). Adjusted earnings per ordinary share before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations were up 28% at 35.0p (2006: 27.3p). Basic earnings per ordinary share stood at 35.1p (2006: 21.2p).

The Board recommends a final dividend of 6.9p per ordinary share, making a total dividend for the year of 11.5p (2006: 9.1p), an increase of 26%.

Operating profits from continuing operations in the building sector increased by 74%, in the engineering sector by 83% and in the rail sector by 16%. Reported results in the investments sector were down on 2006 as our investment in resources in markets outside the UK and our bidding activity increased significantly.

There were a number of exceptional items, resulting in a net exceptional profit of £7 million (2006: £25 million charge).

Operating cash flow was, once again, strong and in line with profits. Year-end net cash stood at £374 million (2006: £305 million), despite net acquisition expenditure of £106 million and before taking account of the consolidation of £61 million of non-recourse net debt held in PPP subsidiaries (2006: £21 million).

The year-end order book increased by 25% to £11.4 billion (2006: £9.1 billion), with almost £2 billion of further work at preferred bidder stage.

Revenue from continuing operations, including the Group's share of joint ventures and associates, at £7,488 million (2006: £5,506 million) was up by 36%.

## Safety and environment

The Group's Accident Frequency Rate reduced by a further 16% in 2007, continuing the positive trend of recent years, despite very significant increases in the numbers of people employed by the Group and for whom we are responsible on project sites. We also continued to make good progress in minimising our environmental impacts.

## The Board

Jim Cohen retired from the Board on 18 February 2007. He took lead responsibility for the development of both our UK PPP business and our international rail operations and left with the Board's sincere gratitude and best wishes.

On 19 February 2008, it was announced that Anthony Rabin will become Deputy Chief Executive with effect from 31 March 2008, with responsibility for the management and development of our international infrastructure investment business, which is of increasing strategic importance to the Group. Duncan Magrath will become Finance Director and join the Board, having been Deputy Finance Director since he joined the Group in 2006.

As you know, I will be retiring from the Board and from the Group following this year's AGM.

It has been a great privilege to lead Balfour Beatty during a period of exceptional progress for the Group. I have enjoyed working with a most talented and dedicated group of people during that time immensely.

Steve Marshall, who succeeds me after the AGM, will bring comprehensive public company experience and a thorough familiarity with the construction and support services sectors to the task. He will lead a Board with exceptional executive management and non-executives of great experience and a highly independent outlook. I leave the company in excellent hands.

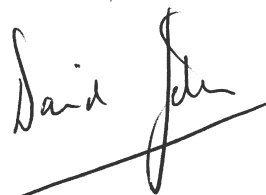
## Outlook

Balfour Beatty is a world-class business, well positioned in infrastructure markets which offer significant long-term growth.

We have record order books and an exceptionally strong pipeline of high-quality new work approaching contract. Our acquisitions will add substantially to our earning power.

We are absolutely committed to the continuing delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years. We are clear about our priorities for the further development of the business and have the proven management capability to deliver.

I am confident that we will continue to make further good progress in 2008 and beyond.



Sir David John KCMG Chairman



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## Chief Executive's review

Balfour Beatty had a very good year in 2007. Achieving a 48% improvement in pre-tax profits from continuing operations and a 28% increase in adjusted earnings clearly demonstrates the all-round health of the business and the strength of our many long-term, blue-chip customer relationships. Our results reflect great credit on people at all levels and locations across the Group.

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### The Chairman

Sir David John is to step down as Balfour Beatty Chairman at this year's AGM after five years in the post. In that period, 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.

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## A year of progress and achievement

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Whatever the numbers may say about us, events and achievements around the business are just as telling. Construction of the immensely complex £550m Birmingham Hospital PPP project continued on budget and ahead of schedule. We are now engaged with 10 NHS Trusts in major projects critical to the task of improving public healthcare in the UK. British Energy chose Balfour Beatty for the care of all of its nuclear power facilities in an integrated package for the next seven years.

The Hong Kong Government entrusted us with the construction of its major new government complex; the US Navy with building over 5,000 new housing units at 11 bases in the south-east US; the US Department of Defense with building a major new technical centre; and National Grid with upgrading and developing the electricity transmission network across the whole eastern half of England.

We handed over the hugely complex rail station and systems work at Heathrow Terminal 5 to BAA on time; made substantial progress on the world's biggest shopping mall in Dubai; and steered the massive King's Cross Underground Station redevelopment project through another series of important cost and time deadlines.

We used our strong cash position to grow further the earning power of the business. We added a leading presence in the US building market, strengthened our regional building business in the UK, broadened the range of support services we offer and extended the range of technology we have available to service the rail market.

Of course, the year was not without its disappointments and the entry into administration of Metronet, 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.

**Ian Tyler** Chief Executive



Our strategy is to grow both organically and by acquisition in disciplines within or adjacent to our established core skills in our principal geographic markets.

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## Our strategy

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Our goal at Balfour Beatty is to deliver consistent, long-term value growth to our shareholders. We will do this by striving to become the leading provider of high-quality, customer critical infrastructure in each of our chosen markets. By becoming the partner of choice to sophisticated owners in our chosen disciplines and geographies, we believe we will achieve secure, industry best margins in our contracting activities and substantial, sustainable equity returns from our long-term investment portfolio.

Our core skills are anchored in our engineering expertise. We enjoy an enormous depth of experience and capability in the conception, creation and care of infrastructure assets. The markets which we serve, with few exceptions, are national or sub-national. We therefore seek market leadership, which affords optimum access to customers, suppliers and talent, in a small number of specific geographic territories.

Our strategy is to grow both organically and by acquisition in disciplines within or adjacent to our established core skills in our principal geographic markets. In the short term this will be true, particularly in the UK and the US. We will, in due course, also develop major regional businesses from strong existing bases in South-East Asia, the Gulf Region and Western Europe.

Our chosen markets are almost all experiencing steady growth, with several advancing more quickly. Within these markets, we have long-term relationships with strong, sophisticated, successful customers who are committed to major long-term infrastructure investments.

Our very substantial order book and the investment plans of our long-term customer base give us excellent visibility of our workload for the next two to three years and a high level of confidence in our ability to continue to grow strongly over this period.

Our business, as currently constituted, also has excellent longer-term prospects arising from, for example, the London Olympics, the planned nuclear programme, Crossrail and continuing investment in education and healthcare in the UK and heavy public, particularly military, spending in the US.

Two years ago, we identified four principal areas in which to invest, which would further underpin and promote growth in the medium and longer term. Since that time, we have made excellent progress in the four areas, which are: extending our UK regional coverage in building and civil engineering; developing a major capability in professional and technical services; taking our private finance skills beyond the UK PPP market; and establishing strong, multi-disciplinary domestic businesses outside the UK, particularly in the US.

## UK infrastructure

We make amongst our best and most reliable margins where we lead the market in infrastructure provision in the UK's regions. These markets are delivering and promise further vigorous demand growth as investment in new buildings, affordable housing, roads, bridges and other transport facilities continues to increase.

### Strategic developments

- Cowlin acquired for £53m
- Birse, acquired in 2006, integrated successfully
- Mansell's strong growth continues
- Other regional targets identified

Traditionally, our coverage has been strongest in Scotland and parts of the north of England with a lesser presence in the Midlands, the south and in Wales. In 2003, we took a major step forward with the acquisition of Mansell, a quality building construction and refurbishment business, widely spread across the UK's regions, which provided a strong presence, with high-quality customers in both the public and private sectors.

At the time of acquisition in December 2003, Mansell had annual revenues of a little over £500m. Under Balfour Beatty management, Mansell will have grown its revenues to approximately £850m in 2007 and more than doubled its operating profits.

In mid 2006, we acquired Birse, a civil engineering company, particularly strong in the north of England and the Midlands, with skills in the coastal, rail and process sectors additional to those already in the Balfour Beatty Group. The business was quickly and successfully integrated into Balfour Beatty Civil Engineering, while retaining its own market identity, and has accelerated the Group's continuing growth in regional engineering markets.

In August 2007, we continued the expansion of our regional businesses with the acquisition of Cowlin, a high-quality building and refurbishment contractor based in Bristol, which provides a strong, established presence in the south and south-west of England and in Wales. The business has regional offices in Bristol, Cardiff and Plymouth and employs approximately 500 people.

Cowlin, which has become part of Balfour Beatty Construction, is particularly strong in the healthcare, education, property and leisure markets. It is a well-respected brand with a quality reputation, a large secured order book and an experienced management team. Through the acquisition, Balfour Beatty has become a top-tier player in Wales, and the south and south-west of England.



01 Capricorn Quay development, Bristol – Cowlin

Balfour Beatty Management, our UK-based professional and technical services business, has grown substantially in 2007. This puts us in an increasingly powerful position to satisfy our long-term relationship customers' demand for a higher-level, integrated presence at the top of their supply chain and to engage in design, project planning and programme management in the broader marketplace.

### Strategic developments

- Acquisition of two UK commercial consultancies
- Key role in successful Group bids for British Energy, BAA and National Grid
- Further success in independent market penetration
- Development of key energy sector expertise

## Professional and technical services

Balfour Beatty Management continues to be one of the UK's fastest growing consultancies. Formed in 2003, it now has over 500 professional staff. In 2007 it grew organically and, in order to broaden the scope and coverage of its operations, through acquisition. Two commercial services companies were acquired in the year, one specialising in commercial developments, principally in London, and the other serving the industrial sector from a base in the north-east of England.

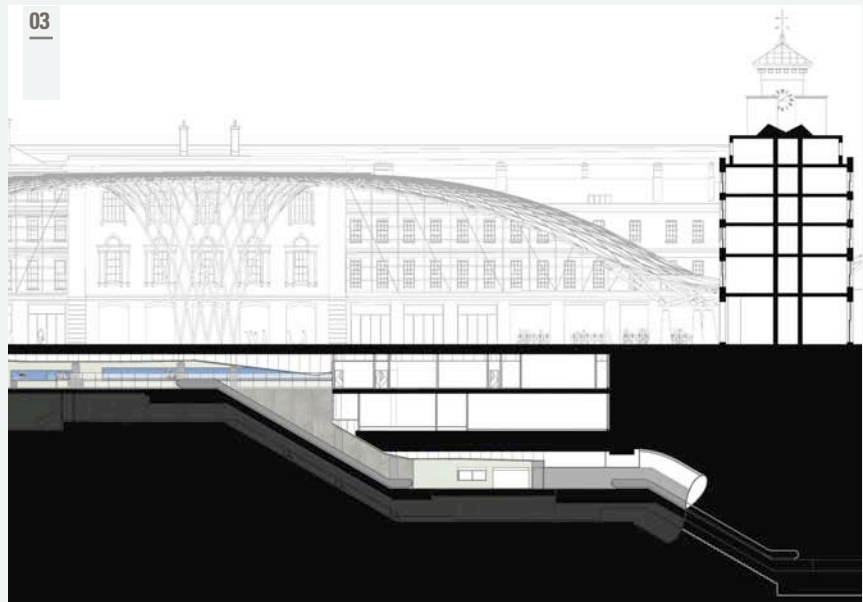
Balfour Beatty Management is now an integral part of the Group's major UK customer relationships and of its complex project bids. It leads and co-ordinates a variety of the Group's major activities including the £550m overhead electricity alliance for the east of England for National Grid; the £350m integrated facilities management and maintenance programme for British Energy; and the Group's role as complex build integrator for BAA's programme to develop its major airports. It was responsible for all aspects of the final commissioning of Balfour Beatty's work at Heathrow Terminal 5 and is the major force for the development and operation of Exeter International Airport. It has led the bidding process for the Group's submissions for the 2012 London Olympics Aquatic Centre and the M25 PPP concession project.

It has also developed a substantial business base in its own right. For the Department of Transport, it has managed the timely delivery of the first phase of the new King's Cross Underground Station and is now co-ordinating the second phase due to be delivered by the end of 2009. It is also managing the Victoria Line upgrade. It is working on major commercial developments in London and Glasgow, including the transformation of Chelsea Barracks for private residential use. The company is now targeting the UK industrial and energy sectors.

Balfour Beatty's professional and technical services expertise in the US is provided by Heery International. Active in the national building market, Heery too is growing through a mixture of organic development and acquisition.



02 Miami International Airport –  
Heery International



03 King's Cross underground station –  
Balfour Beatty Management

In the period since the UK Government first turned to private finance to add momentum to its public service agenda, Balfour Beatty has become a leader in the field. The expertise which has been developed in the Group, as a result, represents an ideal base from which to extend our reach into other infrastructure investment markets both in the UK and internationally.

### Strategic developments

- Acquisition of Exeter International Airport
- Agreement to acquire GMH Military Housing in the US
- Preferred bidder status achieved on ITE Singapore

## Private finance

Currently, the UK PPP market shows no sign of slowing and Balfour Beatty Capital is bidding for a further six new projects, potentially to add to the 27 UK PPP concessions which have already been secured. In education, the Building Schools for the Future (BSF) programme has provided a substantial new market. In healthcare, investment of the peace dividend in Northern Ireland is creating major opportunities and while the mega-hospital market may now be over, there remains a range of smaller, but still substantial, projects in the pipeline.

In transportation major arterial road widening projects will provide the next major investment programme, while PPP remains an option for realising the objectives of the Government's major expenditure programme in the affordable housing sector.

Balfour Beatty became an investor in non-PPP infrastructure in the early 1990s when it took a 25.5% share of Barking Power, an interest which it still retains. In early 2007 it completed the acquisition of Exeter International Airport and has since explored a number of other opportunities in the airport and utility sectors. The extension of our investment business into international markets is being undertaken through two routes. Expert teams have been established in the US, Germany and South-East Asia to identify, develop, bid and execute projects in those territories. In November 2007, we achieved our first success when we were named as preferred bidder for the £90m Institute of Technical Education in Singapore (ITE).

In February 2008, we announced an agreement to acquire GMH Military Housing in the US. GMH is a leader in its market, with a portfolio of 15 concessions covering over 30,000 units of family status accommodation on 42 military bases across the US. The acquisition, which is expected to be completed in the second quarter of this year, will, in addition to enhancing Group earnings, add an experienced and successful management team to the task of developing our presence in the growing US PPP market.



04 Institute of Technical Education, Singapore – Gammon Capital

## International markets

To sustain growth in earnings and shareholder value in the long term, Balfour Beatty must establish substantial contracting and investment businesses outside the UK. Our primary objective is to create, in the US, a multi-disciplinary business with similar characteristics to our successful UK model adapted to local characteristics, with the capacity to integrate financing, professional and technical services, project delivery and long-term support services.

### Strategic developments

- Acquisition of Centex Construction completed in March 2007
- Acquisition of GMH Military Housing agreed in February 2008

When we entered 2007, our US business presence comprised separate businesses in professional and technical services in the national building sector, in civil engineering work principally in Texas and California, and in multi-disciplinary rail contracting.

During 2007 and the early part of 2008, we made two important moves to build on this base. In March 2007, we completed the acquisition of Balfour Beatty Construction US (formerly Centex Construction). The company is a top-tier building construction and construction management business, well placed in a number of growth markets, with a proven and committed management team, and processes and culture which are highly compatible with those of Balfour Beatty.

Balfour Beatty Construction US, with annual revenues of over \$2bn, undertakes the construction management and delivery of institutional and commercial buildings in the education, healthcare, correctional, government, transportation, leisure and office sectors. Amongst its major customers are Federal Government, Disney Corporation, Boston Properties, Marriott and Bank of America.

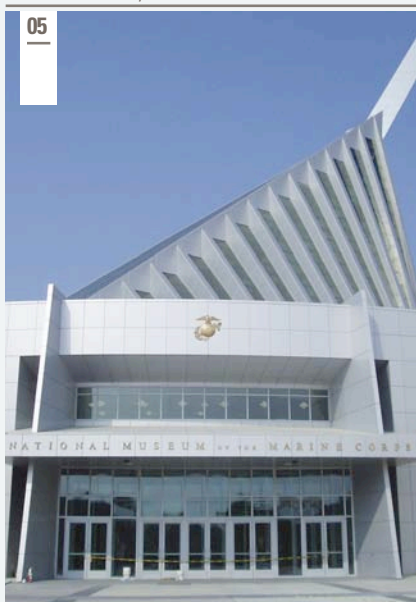
In the period since its acquisition, Balfour Beatty Construction US has performed ahead of our expectations and represents a first-class asset from which to grow both in its own markets but also through geographic expansion and, in combination with our other US businesses, in new markets.

In February 2008, we reached agreement to acquire, subject to regulatory and other consents, GMH Military Housing, which develops, renovates, finances, operates and manages military housing projects on lines similar to the UK PPP model. Balfour Beatty Construction US acts as its construction partner.

In time we anticipate that our US business will be comparable, in size, to our UK business.

Our ability to continue and even accelerate the on-going development of our business is not limited by opportunity, but by the resources needed to assess, invest and acquire with the same qualities of successful discrimination and integration as has so far been achieved. We are a naturally attractive home for quality business in our areas of core competence and expect to develop the business further in 2008.

05 National Museum of the Marine Corps –  
Balfour Beatty Construction US

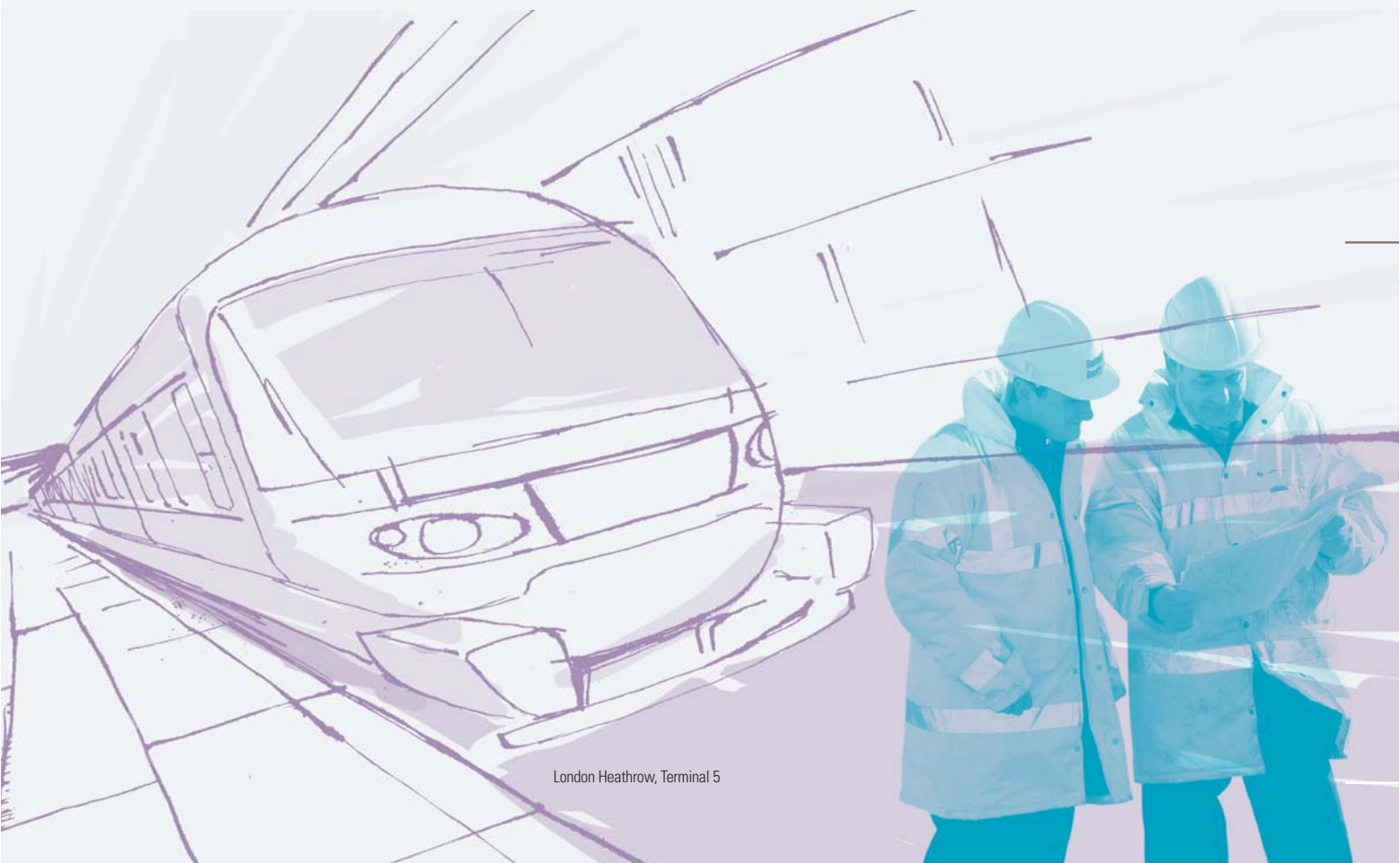


A handwritten signature in black ink, appearing to read 'I. Tyler'.

Ian Tyler Chief Executive



# Delivering excellent performance and building a sustainable future...



London Heathrow, Terminal 5

Balanced business model

# Through Balance

Our investment and contracting businesses  
**complement** each other.



## Birmingham Hospital

The Group benefits from two distinct generic business streams which are mutually supportive. With a current portfolio of 27 PPP infrastructure projects, and the anticipated acquisition of GMH Military Housing, our investment business provides a consistent and growing equity return and generates long-term, reliable cash flows. It also provides substantial workflows for our contracting businesses. Over the last five years it has generated substantial contracting orders to our construction and service businesses.

To return the compliment, our market leading capability in design, planning, programme management, construction services and whole life asset management is frequently a key factor in our customers'

choice to work with our investment business as its concession partner. An excellent example of this balance in action is provided by the £550m Birmingham Hospital project. Balfour Beatty Capital has brought extensive hospital planning, operation and management and a £23m equity investment to the task of creating a new 1,213 bed acute hospital and a 137 bed specialist psychiatric hospital and teaching facility. The hospital is being built to the very latest healthcare standards and will use the latest technical equipment.

The construction and long-term service provision to the hospital is all being carried out by Balfour Beatty Group companies.



Strong long-term partnerships

# Through Partnership

Our customers see us as an  
**indispensable** partner of choice.



## US Military

Major infrastructure owners in both the public and private sectors increasingly believe that best value is to be found in close, long-term relationships. Balfour Beatty's leadership in a wide range of contracting disciplines, together with its high level programme management skills and whole-life asset management capabilities, constitute an increasingly attractive package to a wide range of infrastructure owners. For example, National Grid, United Utilities, British Energy, BAA and the Highways Agency in the UK, and the Department of Defense, Bank of America and Disney Corporation in the US, use Balfour Beatty as, effectively, an extension of their own organisations.

In the US, Balfour Beatty's work in creating a new generation of married status accommodation at a wide range of locations makes the Group a major long-term partner to the US military.

The Military Privatization Housing Initiative was introduced in 1996 to create new housing and eradicate the backlog of repairs and rehabilitation at many US bases.

Upon completion of the agreed transaction for Balfour Beatty to acquire GMH Military Housing, Balfour Beatty will also become responsible for owning and managing concessions across the US over a 50-year period.



An innovative approach

# Through Innovation

The future depends on **new ideas** being driven through the business.



## Educational Systems

Delivering complex infrastructure to the highest standards in the most cost-effective manner frequently involves doing things in new and different ways.

Each customer has unique needs. Balfour Beatty applies techniques and ideas appropriate to each of its customers' objectives, constantly searching for new and better solutions and sharing best practice across customers and its own organisational boundaries.

Our work in the education sector, for example, is increasingly differentiated by our in-depth knowledge of the latest educational techniques and developments. In Singapore, we have recently been awarded a £90m PPP project to design, build and operate the new Institute of

Technical Education, College West. We offered an education-led design – developed in consultation with local and international educationalists. This has created a total learning environment – laboratories, classrooms and shared lecture facilities able to accommodate the most up-to-date teaching and learning techniques.

In the UK, Balfour Beatty is creating seven new learning centres in Knowsley on Merseyside under the UK Building Schools for the Future initiative. Once again we are engaged not just in the building and management of new premises but in the future development of a clear educational vision through researching and evaluating progressive learning environments and teaching models from around the world.



The best people and processes

# Through Excellence

We have **great people** at Balfour Beatty:  
their ideas create success.





## British Energy

Critical infrastructure demands the highest standards of professionalism. To create, enhance and maintain their assets, customers no longer buy on price alone but evaluate technical skill, individual and collective experience, know-how, organisational efficiency and underlying systems and processes.

Above all, they look to work with talented people with a passion to deliver. Balfour Beatty was recently appointed to carry out a full-service integrated facilities management programme for British Energy over a seven-year period. This followed almost 200 Balfour Beatty man days on pre-proposal site visits and workshops, to identify what

initiatives were required to deliver operational improvements.

The contract was secured, largely as a result of the demonstrable depth of expertise of Balfour Beatty people from daily maintenance of high-quality services, through innovative system controls for multi-site mobilisation, to the provision of strategic input on the key issues facing British Energy.

Critically, Balfour Beatty could provide solutions to almost all the scope of required work from within its own resources, using the skills of Balfour Beatty Management, Haden Building Management and Balfour Kilpatrick.



Comfortable with complexity

# Through Expertise

We have a reputation for the successful  
delivery of **complex projects**.



## Heathrow Terminal 5

One of the Group's greatest competitive strengths – and a key to many of our long-term contractual relationships – is our proven ability to help our customers tackle the most complex challenges successfully. We have a long-standing reputation for delivering the most complex projects on time and on budget. This ability has been further enhanced by the continuing development of our professional and technical services arm and an ever-increasing facility in combining our multi-disciplinary skills in the right combination and balance to achieve customer objectives.

Balfour Beatty has played a key role in creating Heathrow Terminal 5, the flagship development for BAA. The Group has been responsible for the integration

and execution of all the rail systems for the Heathrow Express and the Piccadilly Line extensions, delivery of the rail terminal complex within Terminal 5A, the track transit system connecting the terminal satellites, and a range of ancillary work including gates, bridges and toilet units.

The rail station, equivalent in size to six football pitches, houses six platforms. Balfour Beatty managed and fitted out the station, including the design of all finishes, mechanical and electrical systems, glazing, steelwork, lifts, escalators and communications and control systems. The project was especially challenging as it incorporated two separate rail systems – one heavy rail and the other a light metropolitan system.



Working and acting responsibly

# Through Responsibility

Our aim is to ensure a **sustainable** future.



## London Youth Games

Our customers do not just demand excellence in operational performance, technical skills and project management. They also want to be sure that their partners and suppliers meet or surpass their own high standards of responsible conduct. We set ourselves demanding targets in these areas and welcome the opportunity to differentiate ourselves in terms of safety, environmental management and wider social responsibility.

The Group's clearly defined policies and practices with regard to safety and the environment continue to drive performance improvements in both areas, and we have also taken a number of community initiatives aimed at enhancing the lives of young people, particularly those at risk or facing disadvantage.

Sport achieves many things for young people. It promotes personal well-being, breeds confidence and gives a sense of purpose. It offers opportunities where there may be few alternatives. It supports social cohesion and acts against social exclusion.

In order to secure the future of the Games, which involve all London boroughs and the City, Balfour Beatty has agreed to sponsor them until 2013. In addition to providing core funding for their administration and development, a substantial portion of the £1.7m support package is set aside for grant applications from the individual boroughs to finance specific projects to recruit coaches, create clubs and increase the participation of girls, the disabled and those at risk of social exclusion.



## Operating review

# Building, Building Management and Services

Strong progress in the UK and a major initiative in the US

### Highlights

Profits\* up by 74%

Order book increased by 69%

Acquisition of Centex Construction in the US

Acquisition of Cowlin and Covion in the UK

### Financial summary

#### Revenue†

£3.6bn

(2006: £2.1bn)

#### Unexecuted orders

£6.1bn

(2006: £3.6bn)

#### Profit\*

£75m

(2006: £43m)

† Including £113m share of joint ventures and associates (2006: £115m).

\* Profit from operations before £26m exceptional charges (2006: £nil) and £6m amortisation of intangible assets (2006: £nil).

### Companies

- Balfour Beatty Construction UK
- Balfour Beatty Construction US
- Balfour Kilpatrick
- Haden Building Management
- Haden Young
- Heery International
- Mansell

### Specialist areas

- Design
- Construction
- Construction and programme management
- Electrical engineering
- Mechanical engineering
- Building and facilities management
- Refurbishment and fit-out
- Affordable housing



01

01 York College – Balfour Beatty Construction UK

02 Lawrence High School – Heery International



02

## Major developments in 2007

Our ambition to become a major player in the US building construction market was achieved through the acquisition of Centex Construction, subsequently renamed Balfour Beatty Construction US. This is a high-quality business operating in those state markets which enjoyed higher than average growth and with a management culture and strategic objectives highly compatible with Balfour Beatty.

In the UK, our programme to extend our leading presence in regional UK building construction markets continued with the acquisition of Cowlin, which has a strong position in the south and south-west of England and in Wales. We also enhanced our offer to the outsourced services market with the acquisition of Covion, a fast-growing integrated services business.

## Our markets

UK markets remain buoyant, with public spending on schools, hospitals, defence and social housing continuing to grow and private sector customers generally increasing their expenditure on their key building infrastructure. In the US, market conditions in our key construction markets in Florida, Texas, the Carolinas and Washington DC were strong and our professional and technical services business continued to benefit from both public and private spending on new infrastructure, particularly in the south, south-east and west.

## Our 2007 performance

Profits for the year grew very significantly. Balfour Beatty Construction US contributed a first nine months' profit at better than anticipated levels, while very good progress was made across the board in building construction, building services and facilities management in the UK and in professional services in the US.

## Review of operations

### UK building construction

In UK building construction, both **Balfour Beatty Construction** and **Mansell** performed very well and increased their aggregate profits by over 30%. Cowlin, which was acquired in August to create critical mass in the south and south-west of England and in Wales, also contributed in line with expectations.

Progress on public healthcare projects was very good, with on or ahead of schedule delivery on the hospital project programmes in Birmingham, Pontefract and Pinderfields, Glasgow, Brentwood and UCLH, and successful mobilisation at Salford and Tameside. We have also been successful in winning projects in Cromer, Teddington, Basildon and Chester under the Procure 21 programme.

It was also a successful year in the education sector, with construction work on the projects in Bassetlaw, Birmingham and North Lanarkshire on or ahead of schedule, a good start for the new BSF project in Knowsley and new work secured for South Lanarkshire College, Langside College and student accommodation for the University of Kent amongst others. The £47m York College project was completed and handed over during the year. Work under the BSF framework in Manchester continued satisfactorily and a similar contract was won in Liverpool.

Mansell continued to enjoy considerable success in the growing affordable housing market. Its participation in the Sandwell PPP project progressed well, and work for Catalyst, Riverside, and Metropolitan Housing, amongst others, continued satisfactorily. During the year, new customers included Bromford Housing Association.

In the defence sector, work under regional prime contracts progressed well. The £40m project to build a new facility at Menwith Hill was awarded late in the year.

We made steady progress in the London refurbishment market, including major schemes for the London boroughs of Hammersmith and Fulham, Barnet, Ealing and Islington. Hackney was awarded late in the year as part of the Decent Homes scheme.

We were also very successful in private markets. Good progress continued on the Holborn Viaduct project for Castlemore, leading to our appointment for their new £70m Temple Quay project in Bristol. Elsewhere in London, we won major new projects in St Martins Lane, Tudor Street, Gresse Street and Bartholomew Lane. Balfour Beatty Construction successfully completed Atlantic Quay in Glasgow for Wilson Bowden.

Major works for BAA at the new Terminal 5 at Heathrow were completed on time and on budget and we have begun work, as complex build integrator, on the midfield pier project, also at Heathrow, which has the potential to be worth some £350m in total. Mansell has also been selected for BAA's new commodity building framework.

Mansell had a very good year under its major framework contracts, including work for the US Air Force at Liberty Village, Lakenheath and for Unite and BT. Good progress was made on the new swimming pool in Sunderland. In the early part of 2008, the Group secured the contract for the London Olympic Aquatic Centre.

### UK building services

It was another good year for **Haden Young** and **Balfour Kilpatrick** in UK building services, with aggregate profits improving once again. Haden Young's pre-eminent position in healthcare was augmented through a new generation of complex major hospital mechanical and electrical systems work at Pontefract and Pinderfields, Salford and Tameside to add to ongoing work in Birmingham, Glasgow and at UCLH. The company further augmented its leadership in this field, through the further development of its specialist off-site manufacturing units in Salford, West Bromwich and Weston-super-Mare.

Balfour Kilpatrick's position in the education market was also further strengthened, with ongoing projects in Birmingham, Bassetlaw and North Lanarkshire augmented by work under the new Knowsley BSF project. It also secured work at Sunderland Academy. Haden Young's work in the sector included projects for Highland Schools, Queen Margaret University in Edinburgh and a contract award for Mid-Kent College.

Elsewhere, we successfully completed Phase 1 of Liverpool Arena and Conference Centre as part of Liverpool's year as European Capital of Culture.



03 Integrated facilities management – Covion

## Building, Building Management and Services continued

Balfour Kilpatrick's work on the electrical systems for the rail works at Heathrow Terminal 5 was completed on time and budget and the company was awarded the power contract for the Victoria Line upgrade in London. Work at King's Cross Underground Station continues to be satisfactory, as is the case for the £60m Whitelee Wind Farm project.

In private sector markets, both companies continued to perform well, with Balfour Kilpatrick completing a refurbishment project for John Lewis in Oxford Street and winning new work for Selfridges in London, the St David's Centre in Cardiff and the Paradise Street project in Liverpool. Haden Young's work in the private sector is largely concentrated in London, with prospects good for major Olympic projects and new offices for Transport for London.

### UK facilities management

2007 was a year of strong revenue and profit growth for **Haden Building Management**, with its future prospects further enhanced by the acquisition of Covion, the integrated services provider, in October. Mobilisation programmes for the major Metropolitan Police and Department for Work and Pensions contracts were highly successful, a number of new PPP contracts were added to the portfolio and at the end of the year a major contract was secured for British Energy in conjunction with other Balfour Beatty companies.

Performance under the major contract for the Royal Mail, in which we have a 49% interest, improved following a significant amount of management restructuring in response to the challenges of 2006. Performance under the contract for BT was again good and in the early part of 2008 a major extension to this contract was secured. Performance under the company's portfolio of long-term PPP healthcare and education contracts continued to be good. During the year, new contracts for PPP hospitals in Pontefract, Pinderfields, Salford and Tameside and learning centres in Knowsley were secured.

In the private sector, new business was won for Nelson Bakewell, the property managers, and, most significantly, British Energy. Under a seven-year, £350m contract, Haden will work alongside Balfour Kilpatrick and Balfour Beatty Management to provide British Energy with facilities management and maintenance services for its portfolio of 11 nuclear power stations and two office complexes across England and Scotland.

In October, the acquisition of Covion broadened and deepened the company's range of expertise in technology, property and people-related services and increased its penetration of the private sector facilities management market.

### US building construction

**Balfour Beatty Construction US**, acquired as Centex Construction at the end of March 2007, has given Balfour Beatty a strong position in the US building construction market. Its performance during the remainder of 2007 was very strong and has exceeded our expectations at the time of acquisition.

In a full year, it will have sales of over \$2.2bn, and it has approaching 250 active projects and over 1,600 employees. Some 89% of its budgeted revenues for 2008 and 72% of its budgeted revenues for 2009 had been secured by the end of 2007. Almost all of its work is secured on the basis of technical capability and track record, with price being determined only after its selection as preferred contractor.

In 2007, its regional businesses, which are based in Texas, Florida, North Carolina and Washington DC, and its nationwide military housing business all performed well. Notable amongst many major projects wins during the year were: the \$1.2bn project, under the US Department of Defense's Base Realignment and Closure programme, to build a major new technical centre at Fort Belvoir in Virginia; and the \$500m Navy South-East military housing project, under which over 5,000 new married status housing units will be constructed at 11 bases in five different states.

Balfour Beatty Construction US entered 2008 with a record order book. The company's state markets, which show significantly higher predicted population growth than US averages, are likely to prove relatively resilient should any overall economic downturn develop.

### US professional and technical services

Profits in **Heery International** continued their steady growth, with organic expansion augmented by a full-year contribution from Charter Builders in Texas, acquired during 2006, and a first contribution from Sequeira and Gavarrete, the Miami-based project management company. Heery continued to win high-quality, publicly funded work, remaining a market leader in the K12 education, healthcare and correction markets, with its order backlog in schools at record levels.

In May, Heery secured a \$240m contract for the construction management and construction of Berlin Prison in New Hampshire. This is indicative of a growing penetration of the design and build market, to augment Heery's established positions in architecture, engineering, design and programme and project management. Its work on Miami International Airport progressed well as did major projects for the Food and Drugs Agency in Washington DC, three Veterans Hospitals in the south of the US and at San Jose, and the American football stadium, the Cotton Bowl, in Dallas, Texas.

Heery has made several successful acquisitions in the period 2004 to 2007 and continues to look at the potential for adding new operations through this route.

### Outlook

Despite some threat of a slowing in the rate of UK spending growth, and concerns about recession and the impact of the sub-prime market, principally in the US, Balfour Beatty's high-quality, long-term order books, strong blue-chip customer relationships and current pipeline give us confidence in further substantial progress in the sector in 2008.

#### 04 Great Ormond Street Hospital – Mansell

#### 05 John Lewis refurbishment, London – Balfour Kilpatrick





# Civil and Specialist Engineering and Services

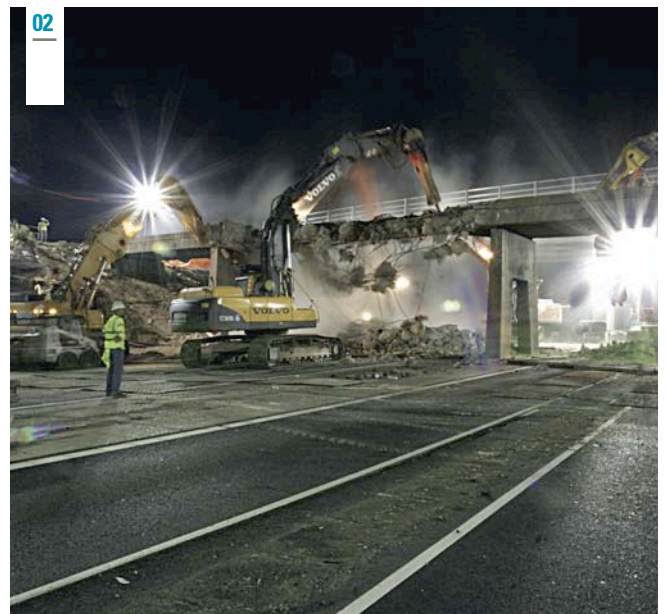
## Good progress in the UK, Dubai, Hong Kong and the US

<b>Highlights</b>	
Profits* up by 83%	
Sale of our interest in Devonport Management	
Eastern Overhead Alliance Contract worth £550m	
US business returns to profit	
<b>Financial summary</b>	
<b>Revenue†</b>	
<b>£2.7bn</b>	
(2006: £2.3bn)	
<b>Unexecuted orders</b>	
<b>£4.4bn</b>	
(2006: £4.55bn)	
<b>Profit*</b>	
<b>£86m</b>	
(2006: £47m)	
† From continuing operations, including £556m share of joint ventures and associates (2006: £594m).	
* Profit from continuing operations before £9m exceptional charges (2006: £21m) and £3m amortisation of intangible assets (2006: £1m).	
<b>Companies</b>	<ul style="list-style-type: none"> <li>– Balfour Beatty Civil Engineering</li> <li>– Balfour Beatty Ground Engineering</li> <li>– Balfour Beatty Infrastructure Inc</li> <li>– Balfour Beatty Infrastructure Services</li> <li>– Balfour Beatty Management</li> <li>– Balfour Beatty Utility Solutions</li> <li>– Balfour Beatty Sakti (49%)</li> <li>– Dutco Balfour Beatty (49%)</li> <li>– BK Gulf (49%)</li> <li>– Gammon (50%)</li> </ul>
<b>Specialist areas</b>	<ul style="list-style-type: none"> <li>– Professional and technical services</li> <li>– Design</li> <li>– Construction</li> <li>– Project management</li> <li>– Foundations, strengthening, testing</li> <li>– Civil engineering</li> <li>– Electrical engineering</li> <li>– Transmission lines</li> <li>– Road management and maintenance</li> <li>– Utility upgrade and maintenance</li> </ul>



01 UK transmission system upgrade – Balfour Beatty Utility Solutions

02 M1 widening – Balfour Beatty Civil Engineering



## Civil and Specialist Engineering and Services continued

### Major developments in 2007

In June, we completed the sale of our 24.5% interest in Devonport Management Limited (DML) to Babcock International. Long-term involvement in DML was not core to our strategy and the sale, part of a wider rationalisation in the ownership of the defence supply industry, represented excellent value to shareholders.

Towards the end of the year, Balfour Beatty Utilities and Balfour Beatty Power Networks were merged to form Balfour Beatty Utility Solutions. Subsequent reorganisation has created a structure designed to optimise the service levels which the business offers to its UK utility customers.

### Our markets

In UK civil and ground engineering, regional markets are showing the first signs of real growth for some time, particularly in Scotland and the south-east. Prospects for the major project business include major opportunities on Crossrail, M25 widening and the Olympics. The UK utilities market, conditioned as it is by the five-year regulatory cycle, is largely fixed for the next 2½ years and remains strong. The market for professional and technical services continues to grow in a number of sectors.

Outside the UK, the Dubai market continues to grow strongly, as do those in Macau and Singapore in South-East Asia. Markets in Hong Kong and the US are relatively flat, but continue to offer significant opportunity.

### Our 2007 performance

Profits for the year improved substantially, with particularly strong progress in the UK from the regional civil engineering business and the utility businesses and significantly improved performance in South-East Asia, Dubai and the United States.

### Review of operations

#### Professional and technical services

**Balfour Beatty Management** continued to make good progress in 2007 with another strong performance and significant expansion. By the end of the year the company employed over 500 professional and technical staff and had increased its order book by 50%. The market for professional and technical services continued to be buoyant, in particular in the area of sophisticated, blue-chip infrastructure owners.

Two small acquisitions were made during the year – a commercial development specialist based in London and a 130-strong commercial services business based in the north-east of England.

The company now leads and co-ordinates a range of the Group's major long-term contract activities including the overhead line and cabling alliance and the Greater Manchester Gas Alliance for National Grid, the Group's work as complex build integrator for BAA and the Group's major facilities management contract for British Energy. It also has substantial open market business in its own right including for Transport for London at King's Cross Underground Station, for Candy in the residential development of the Chelsea Barracks and at the Pollock retail centre in Glasgow. At King's Cross, all programme elements have been delivered on time with the remaining work due for 2009 completion. Work on the Victoria Line upgrade is progressing well and the company is leading Group bids for the M25 widening and maintenance PPP and for the Group's Olympic work.



03

### UK infrastructure

Results in **Balfour Beatty Civil Engineering** improved significantly, largely as a result of organic growth in the regional civil engineering business, augmented by a first full year's contribution from Birse which was acquired in mid 2006.

Our work on the Forth Rail Bridge has been extended for a further three years and we have been awarded the contract for the Isle of Man Airport, following the successful completion of a similar job in the Shetlands. Frameworks for County Councils, for BAA in Scotland and for the Environment Agency continued satisfactorily. A new framework contract for roads in the east midlands was secured during the year, as was the Sadlers Farm highway project. The Liverpool Cruise Liner Terminal was completed successfully.

In the major projects sector, good progress was made on the widening project on the M1 between junctions 6a–10, on the Northern Ticket Hall contract at King's Cross Underground Station and on the civil engineering works for the East London line. Construction work began on the £200m + A3 Hindhead project, one of several Early Contractor Involvement schemes won by the Group in recent years. Birse Rail, which carries out civil engineering works in the rail sector, made a good contribution, with strong performance on Network Rail frameworks in the midlands and the north-west and for local maintenance depots and disabled access work on a wide range of stations. A major project at Nuneaton Station was fully mobilised during the year. The complete recovery and restitution following the Grayrigg derailment was completed.

Bidding activity has been intense during the year and 2008 will see the outcomes of major tenders for the M25 PPP project, work on Thameslink and for a number of contracts related to the 2012 Olympics.

**Balfour Beatty Ground Engineering**, which comprises Stent Foundations and Pennine, had another very satisfactory year with a strong performance in both bored and pre-cast piling. Pennine, acquired in 2005, secured its first contract in Canada to add to established export business in Dubai. The company has excellent prospects for a range of 2012 Olympics-related work, building on its successful experience for the new Wembley and Emirates stadia in London.

**Balfour Beatty Infrastructure Services**, the road and other infrastructure management and maintenance specialist, performed well in a highly competitive market, albeit with slightly lower profits than 2006's particularly strong results. Performance within the existing portfolio of Highways Agency, local authority, and Balfour Beatty PPP contracts was good and the most recently won major contracts in Essex and north-west Scotland progressed well following a successful mobilisation period. New contracts for Windsor and Maidenhead, and Wokingham were secured and are currently in mobilisation. Other notable successes included the award of preferred bidder status for the Carlisle Northern Relief Road, which involves an extensive maintenance network, and contracting responsibility for all Balfour Beatty Capital's street lighting projects.

Contracts for Hampshire County Council and Highways Agency Area 3 were lost in competitive tender and will be handed over during the course of 2008.

The contract for Westminster continues to perform well. A number of new local authority contracts will be bid during the year, as will a number of Highways Agency Areas.

### UK utilities

In the electricity sector, **Balfour Beatty Power Networks'** volumes and profits improved. This was largely as a result of the first period of work on the £550m Eastern Overhead and Cable Alliance contract for National Grid, signed in March 2007, an increasing workload in Scotland and growing volumes in Australia. The Eastern Alliance contract is for an extensive programme of work to upgrade and develop the electricity transmission network in the eastern half of England.

Increasing pressure on the power infrastructure around the world and the relative scarcity of expert resource in new power line construction and existing system upgrade is offering the company a wide range of international bidding opportunities.

04



04 Burj Mall – Dutco Balfour Beatty

## Civil and Specialist Engineering and Services continued

It was another very good year for **Balfour Beatty Utilities** as work progressed on a large, settled portfolio of long-term contracts in the gas and water sectors, which represents a full order book until at least 2010. All the contracts are proceeding well, with particularly strong strategic relations developing further with both United Utilities and National Grid. Preparation for the next round of AMP bids will begin during the course of 2009.

During the year, we were successful in securing a new contract for Yorkshire Water, and the £420m Northern Gas Networks contract has been successfully mobilised and is performing well.

Towards the end of the year, the merger of Balfour Beatty Utilities and Balfour Beatty Power Networks to form **Balfour Beatty Utility Solutions** was announced. This business is, by some distance, the largest utilities provider in the UK and has been organised into three units – Power Solutions, which will work on National Grid and other network owners' major electricity projects; Network Solutions, which will include the majority of our regional water and low and medium voltage electrical activities; and Integrated Solutions, which will be responsible for the complex, long-term multi-disciplinary relationships with United Utilities and the North-West Gas Alliance with National Grid.

### International infrastructure

Good progress was made on all fronts outside the UK during the year. In the US, **Balfour Beatty Infrastructure Inc's** performance improved sharply and the company is now profitable after several years of losses arising from contract problems on the eastern seaboard and in its central division.

The actions taken to address performance issues in the company's central division have proved effective during 2007, with residual projects proceeding to satisfactory conclusions and good progress made in the resolution of outstanding accounts. Settlements have been achieved on a number of the eastern seaboard bridge projects which have contributed to losses in past years.

The company has a healthy order backlog and is pursuing selective bidding strategies in its chosen markets, most notably the West Coast and Texas. It is also looking at broadening its activities within these regions, where it has substantial knowledge and connections.

It was an excellent year in the water sector, particularly in California with three major and several minor new contracts contributing positively. Highways work in both California and Texas proceeded satisfactorily, particularly on the \$1.3bn SH130 project near Austin, which is now nearing completion. The \$140m SH45 project, also adjacent to Austin, was won during the year.

The Texas roads market is highly competitive and the potential for PPP procurement is being explored, with several projects coming to the market through this route. The traditionally procured market in Texas is also healthy.

Two major projects were completed successfully in New England during the year – the \$350m Greenbush commuter rail project, which had a high civil engineering content, and the Narragansett Water tunnel at Providence, Rhode Island. Substantial bidding activity is underway in Texas and on the West Coast in healthy transport and water markets.

In Hong Kong, **Gammon Construction**, in which we have a 50% interest, had an excellent year with a number of projects being completed to time and budget and final settlements achieved on a number of projects completed in previous periods. Bidding opportunities in Hong Kong, Macau and particularly Singapore are plentiful and the order book has almost doubled during the year.

Shortly after the year end, we announced the award of the £320m Tamar project to build a new Hong Kong Government complex in the period to 2011. Other notable project wins in Hong Kong included civil engineering and construction works for the university and at the airport and major building projects for Hong Kong Land and other developers. Good progress was made on major works on the Hong Kong rail system, most notably the Kowloon Southern Loop station project and for Swire Properties.

In Macau, the £200m Venetian Hotel and Casino project was completed on time and work is now underway on a new 42-storey, 2,000 room hotel tower for Venetian Orient as part of Macau's rapid development as a regional leisure and recreational centre.

In Singapore, the market is now strong and bidding activity is extensive. We were awarded the new Chinatown Interchange Station, the first stage of the new downtown mass transit line in late summer in addition to a major road improvement project at Woodsville interchange. Preparatory work commenced on the ITE PPP project in Singapore where we are the preferred bidder.

In Dubai, **Dutco Balfour Beatty** and **BK Gulf**, in which we have 49% interests, both had very good years in a strong market. The marine and construction businesses continued to grow strongly with several major project awards. The newly established interior fit-out business also had a very successful year and the company's operations have now been extended into Abu Dhabi.

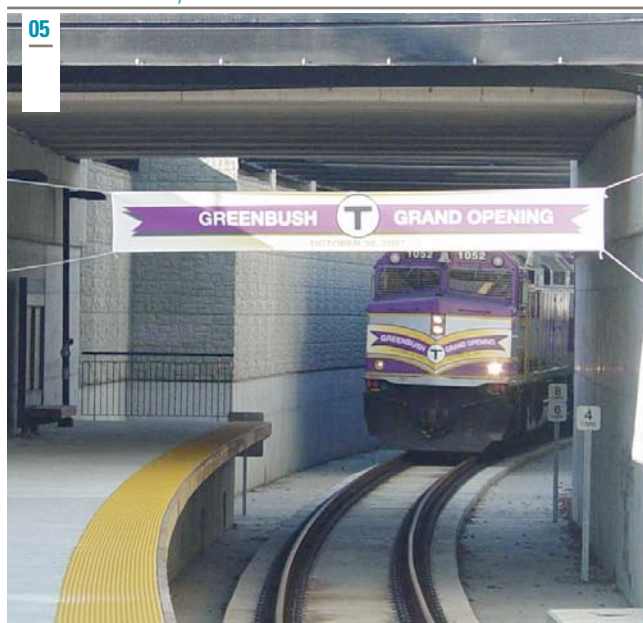
Substantial progress was made on the Burj Mall project, the world's largest shopping mall, which is due to open during 2008. Final settlement was agreed on the highly complex Royal Air Wing contract and several major road schemes, most notably the Jumeirah Lake Tower Interchange and the Emirates Road widening, progressed well. A new camel racing track was delivered on time and early works have begun on the new Tiger Woods Championship Golf Course and Sports Complex.

BK Gulf had an outstanding year and grew substantially. Complex mechanical and electrical work on the Atlantis Hotel and the Palms leisure complex progressed well and long-term framework agreements were signed for the company to be the M & E partner for work carried out by both Carillion and Multiplex. Major works at the airport are coming to a satisfactory conclusion. The facilities management business is set for a period of strong growth with contracts secured for the Atlantis complex and the National Bank of Dubai.

### Outlook

Our markets continue to offer substantial opportunity, with Dubai, Singapore and regional markets in the UK particularly buoyant. We expect to see another year of good progress in the sector in 2008.

### 05 Greenbush Line Boston, US – Balfour Beatty Infrastructure Inc and Balfour Beatty Rail Inc



## Rail Engineering and Services

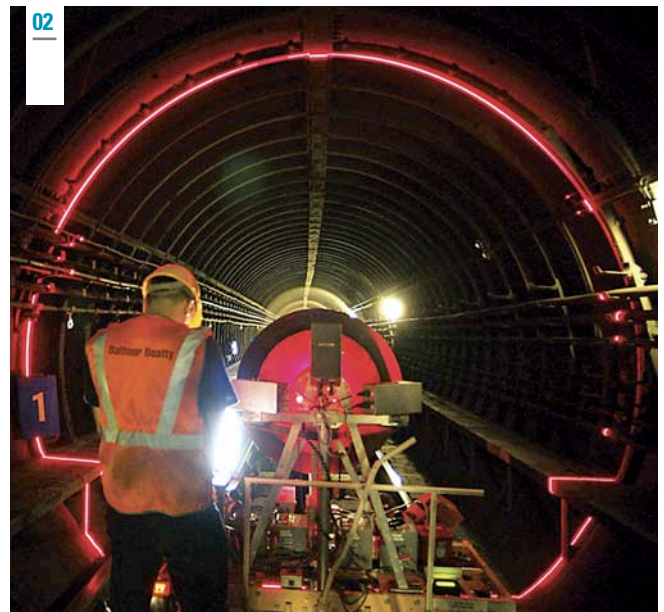
Good progress in performance, technology and organisation

<b>Highlights</b>	
Heathrow Terminal 5 rail works handed over on time	
Confirmation of ongoing renewals role for LUL and Network Rail	
New signalling joint ventures and technology systems acquisitions	
Good progress on the East London line	
<b>Financial summary</b>	
<b>Revenue<sup>†</sup></b>	<b>Companies</b>
<b>£785m</b>	– Balfour Beatty Rail Projects
(2006: £770m)	– Balfour Beatty Rail Services
	– Balfour Beatty Rail Systems and Solutions
	– Balfour Beatty Rail Germany/Austria
	– Balfour Beatty Rail International
	– Balfour Beatty Rail Inc
<b>Order book</b>	<b>Specialist areas</b>
<b>£0.9bn</b>	– Design
(2006: £0.95bn)	– Construction
	– Project management
	– Maintenance
	– Track renewals
	– Specialist plant, products and systems
	– Electrification and power supplies
	– Signalling
	– Remote condition monitoring
<b>Profit*</b>	
<b>£44m</b>	
(2006: £38m)	
† Including £10m share of joint ventures and associates (2006: £4m).	
* Profit from operations before £2m exceptional credits (2006: £2m).	



01 Signalling technology and installation – Signalling Solutions

02 Remote condition monitoring – Balfour Beatty Rail Systems and Solutions



## Rail Engineering and Services continued

### Major developments in 2007

The 2007 uncertainties for our rail business arising from the entry into PPP administration of Metronet and the stated intention of Network Rail to reduce its supply base for rail renewals from six to four were resolved positively, with confirmation of our ongoing role on both the underground and overground networks. The UK Government published a Rail White Paper which confirmed significantly increased future investment, including the go ahead for Thameslink. The Crossrail project was confirmed and prospects for the electrification of railways in Scotland improved.

We continued to strengthen our market position with acquisitions in systems technology and in the Swedish market at a total cost of £12m, and the formation of new signalling joint ventures in both the UK and Germany. The UK business was reorganised better to match evolving customer requirements.

### Our markets

During 2007, our rail businesses operated in largely flat markets, which are not expected to grow in 2008. There are now, however, clear signs of medium-term improvement in many of our principal markets. The stimulus of the UK Government White Paper and the confirmation of the Thameslink and Crossrail projects create the best market outlook in the UK for some years. Investment in mass transit systems and high-speed rail links around the world is growing and major project bidding opportunities are increasing.

### Our 2007 performance

Profits for the year improved by 16%. Performance was good in all business streams in the UK, with our rail projects, renewals, track systems and plant businesses making progress in a largely flat market. Outside the UK, our international rail electrification and power supply business continued to perform well and our performance in the US improved.

### Review of operations

#### UK rail

Following the appointment of a new Group managing director with responsibility for rail early in the year, the structure of our UK rail interests was revised significantly. The guiding principles of the reorganisation programme were to make the organisation more customer sensitive and responsive, to shorten reporting lines and to increase cost effectiveness through overhead reduction.

The UK rail headquarters operation was disbanded and three new divisions were created, all reporting directly to the Group managing director. The existing divisions were merged, with Renewals and Plant pulled together as **Balfour Beatty Rail Services**, Projects and London Underground Services combined as **Balfour Beatty Rail Projects**, and the Track Systems and Technologies divisions were integrated to become **Balfour Beatty Rail Systems and Solutions**.

**Balfour Beatty Rail Services** had a satisfactory year, with the renewals business performing well despite the absence of the settlement income in respect of the close-out of the previous generation of Network Rail renewal contracts which augmented its 2006 numbers. Operational performance continued to improve during the year and, in September, Network Rail confirmed that we were one of four renewals contractors to be retained for future work as they reduced their current supply base from a group of six.

It is anticipated that the new contracts, currently in negotiation, will be finalised during the first half of 2008. The new arrangements, under which Balfour Beatty will be responsible for the same geographic areas as before, are intended to provide long-term security for the successful contracts and facilitate improvements in defining and planning necessary work.

**Balfour Beatty Rail Plant**, now integrated with the renewals business, continued to perform very well as investment in new equipment continued and improvements in plant reliability and availability were achieved.

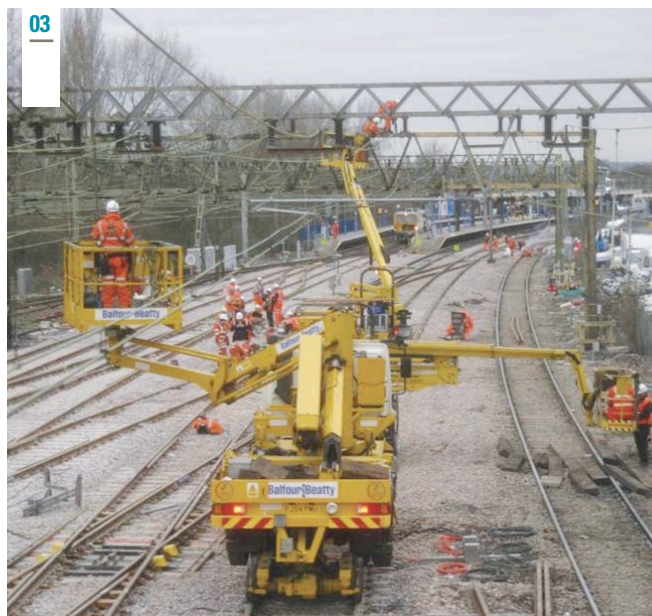
**Balfour Beatty Rail Projects** improved its performance in a year of significant activity arising from the final stages of the integration and delivery of all the rail systems and services related to the new Terminal 5 at Heathrow Airport for BAA. Other ongoing projects, including those in Australia, progressed well as did the early stages of the East London Line, largely civil engineering work, which provides the basis for the technical rail work which will be underway shortly.

In October, Signalling Solutions Ltd, a joint venture with Alstom was created, which combines the signalling resources of Alstom Transport Information Systems with those of Balfour Beatty Rail Projects to provide UK and Irish markets with a full-service signalling supplier.

The new business, which employs over 300 staff, provides planning, design, product supply, installation, testing and commissioning expertise for all types of railway. It has already secured over £70m of UK project work.

The contract on the Santiago Metro was completed and a £30m contract has been secured for the track and electrification on the next segment of the system. Bids are also in preparation for Metro system track and electrification works in Mumbai and New Delhi.

**London Underground Services**, now combined with Balfour Beatty Rail Projects, performed well with work continuing for London Underground at high volumes, despite Metronet's entry into administration. New contractual arrangements will come into force at the time of the handover of Metronet from the administrator to Transport for London.



03 Network Rail track renewals – Balfour Beatty Rail Services

**Balfour Beatty Rail Track Systems** performed well with a first full-year contribution from the Edgar Allen business acquired in 2006. The integration of the new business was successfully accomplished during the year. A condition of the purchase of Edgar Allen was that the land on which their current operations are undertaken would remain with the vendor. In consequence, the Edgar Allen business is moving to new premises at South Queensferry. The major capital investment programme involved is already well advanced and is proceeding on time. The existing key resources are being retained in the business as a result of the proximity of the new facilities to the old.

**Balfour Beatty Rail Technologies**, with which Track Systems has now been combined, continues to develop concepts and products aimed at improving network safety and reliability. Work continued on a patented track stabilisation technology and a low-speed specific solid-state interlocking signalling system.

During the year we acquired Laser Rail, the specialist technology, software and support services company which supports the engineering of the rail infrastructure and, particularly, its interface with trains. The company has developed and holds intellectual property rights for a variety of specialist software for the assessment of vehicles-to-structure clearance and also more general analysis and management of rail infrastructure data. UK market leadership in this area provides a strong base for international development in a fast-growing sector.



04 Rawang-Ipoh line, Malaysia – Balfour Beatty Rail International

#### Rail operations outside the UK

In **Balfour Beatty Rail Germany and Austria**, performance was good. The final elements of the complex Nuremberg to Ingolstadt electrification project were completed, and good progress was made on the year's largest Deutsche Bahn electrification investment – the fully-electrified, double-track Hamburg to Lübeck line project in northern Germany, which is a preparatory step for the anticipated direct rail link between Germany and Denmark.

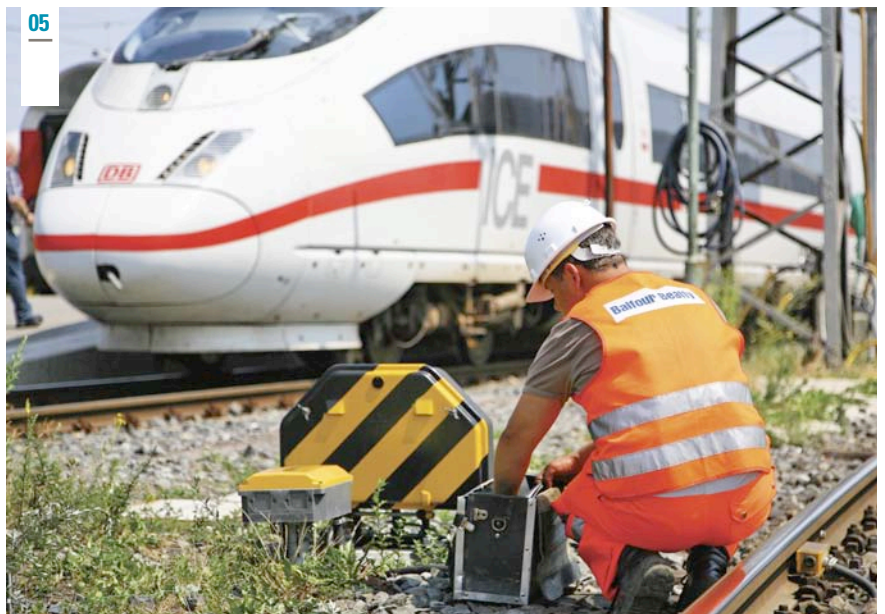
The signalling joint venture formed in 2007 with Bombardier Transportation progressed well, with £40m of work now secured for the development of the new European Rail Traffic Management System which will promote the adoption of a common European signalling system.

In early 2007, Balfour Beatty, together with partners, received a preliminary award for the rail systems work for the new Gotthard base tunnel in Switzerland by Swiss National Railways. The multi-disciplinary rail contract, likely to be worth approximately £250m to Balfour Beatty Rail, is due to be signed in April 2008. The work comprises the installation of all rail engineering equipment for two 57 kilometre long tunnels as well as the adjoining open north and south track sections.

Balfour Beatty will be responsible for total project management, complex logistics, trackwork, power supply and cable equipment, light and power systems, overhead catenary lines and other systems, equipment and technology.

**Balfour Beatty Rail International**, which comprises the Group's rail interests in Italy, Sweden, Spain, China and Malaysia, made good progress. In Italy performance was good, as work continued on the major high-speed electrification projects between Milan and Malpensa, Milan and Bologna and Bologna and Firenze. During the year, the business secured the €25 million project to design and install a trolley bus system in the city of Pescara, a congestion solution being considered currently by a number of other Italian cities. In Sweden, the electrification and track modernisation project on the Blekinge coastline was successfully completed and handed over on time. The work on the Botniabanan track project continued. Completion is scheduled for 2008 and we have now been awarded the consequent electrification contract.

During the year, two acquisitions were completed in Sweden to augment the existing business. The Nordic rail signalling and communications business of SAAB Systems, followed by the multi-disciplinary business previously owned by Carillion. As a result, Balfour Beatty is now the largest and most broadly-based rail infrastructure company in Sweden and the Nordic region in general.



05 Rail electrification, Dortmund – Balfour Beatty Rail Germany

## Rail Engineering and Services continued

In Spain, Balfour Beatty carried out work on the Madrid and Barcelona metro systems and is well placed for a number of new high-speed electrification projects due to come to market in 2008.

The development of our rail business in **China** continued to progress. During the year, we were awarded the £35m contract to design, supply, install and commission an overhead line system for the 968 kilometre Wuhan-Guangzhou railway. Work continued satisfactorily on our electrification project between Tianjin and Shenyang. We have also entered a bid for the Tianjin-Wuhan line and our joint venture for manufacturing components for catenary projects is now fully operational.

In **Malaysia**, work was completed successfully on the electrification of the Rawang-Ipoh line, with first rolling stock test runs now complete. We are now bidding for the electrification work for the northern section of the line up to the Thai border. Our contract for the maintenance of the Klang Valley line has been extended.

**Balfour Beatty Rail Inc** in the US, performed significantly better than in 2006 and in line with forecasts. During the year the major signalling project at Broad Street in Philadelphia and the Greenbush Commuter Line in Boston for the Massachusetts Bay Transit Authority were completed.

Major new projects were secured for the \$60m signalling, communications and electrification of the Denver Western Corridor and a bid for the \$340m multi-disciplinary West Valley Airport line project in Salt Lake City is in final adjudication. There is renewed life in the US mass transit market, including proposals coming forward for a number of Airport-City links, particularly in the western part of the US.

The regional rail services business continues to improve performance with some rationalisation to concentrate more effectively on the most profitable business areas. There was good progress on the Goldline project in Los Angeles.

During 2008, the rail headquarters operation will be moved from Jacksonville, Florida to Atlanta, the location of both Heery and Balfour Beatty Infrastructure Head Offices, in order to take advantage of both a more central business location and access to services shared with the other companies. The business is now well placed for growth on a more stable base in a strengthening market.

### Outlook

During 2007, our rail business operated in largely flat markets, which are not expected to grow during 2008. The medium and long-term market outlook is showing clear signs of improvement across the board.



06 Milan to Bologna electrification – Balfour Beatty Rail Italy



## Investments

# A year of progress in core markets and strategic expansion

### Highlights

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

### Financial summary

#### Revenue†

£394m

(2006: £320m)

#### Concessions in hand

27

(2006: 23)

#### Profit\*

£16m

(2006: £24m)

† From continuing operations, including £343m share of joint ventures and associates (2006: £306m).

\* Profit from continuing operations.

### Companies

- Balfour Beatty Capital UK
- Balfour Beatty Capital US
- Balfour Beatty Capital Germany
- Gammon Capital

### PPP

- Aberdeen Environmental Services
- Connect Roads
- Consort Healthcare
- Health Management (UCLH)
- Powerlink
- Transform Schools

### Other infrastructure investments

- Barking Power
- Exeter International Airport

### Specialist areas

- Healthcare
- Education
- Roads
- Power systems
- Water
- Airports



01 Exeter International Airport – Balfour Beatty Capital

02 Institute of Technical Education, Singapore – Gammon Capital



## Investments continued

### Major developments in 2007

The strategic extension of our investment business into non-PPP investments and PPP markets outside the UK was marked by the completion of our acquisition of Exeter International Airport and the award of preferred bidder status on our first non-UK PPP project – the £90m Institute of Technical Education in Singapore. Core UK PPP growth continued.

In July, the Metronet concessions for the London Underground PPP, in which we had a 20% interest, entered PPP administration. The investment in this project was written off as exceptional. The London Underground PPP was unique and we do not believe that any lasting negative impact on the PPP market will arise as a result of Metronet's administration.

### The market

The UK PPP market remains buoyant and is expected to continue to produce a steady flow of opportunities: in schools through the 14-year Building Schools for the Future initiative; in hospitals, particularly in Northern Ireland, although there has been a reduction in the number of very large hospitals coming to the market elsewhere; and in social housing. In transport, the award of the £1.5bn M25 widening scheme, which is expected in the first half of 2008, is likely to be followed by similar schemes to increase motorway capacity.

In the US, the road and rail transport sector is proving slow to take off, but both the schools and hospital accommodation markets look very promising. On completion of the acquisition of GMH Military Housing, we will become a leading participant in the US military accommodation PPP market. Markets in Germany and South-East Asia are developing steadily.

### Strategy

Given its clear competitive advantages and market leading positions, Balfour Beatty will continue to pursue UK PPP bidding opportunities and seek to apply its UK PPP expertise in selected international markets where our UK experience is relevant and where the complexity and size of projects provides opportunity for the construction and service capabilities of the Balfour Beatty Group.

In addition, we will seek to leverage our expertise to pursue selected opportunities through refinancing and carefully targeted acquisitions and divestments in the secondary PPP market and apply the skills we have acquired in PPP to the wider infrastructure market where there are attractive investment opportunities and the ability to generate work for the remainder of the Group.

### Directors' valuation 2007

£299 million	
Other	22
Education	22
Healthcare	121
Roads	134

### Directors' valuation

Using the same, blended, post-tax nominal discount rate of 8.1% as in 2006, the 2007 Directors' valuation of our UK PPP portfolio stands at £299m (2006: £341m).

A full explanation of our PPP valuation is on pages 6 to 7 of the Directors' report and accounts.

### 2007 performance

Profit from continuing operations, before exceptional items, in Investments reduced by £8m to £16m in 2007. This reflected good underlying concession performance, but also substantial and increasing investment in developing our PPP operations in the US, Germany and South-East Asia, in bidding for projects in these markets and for non-PPP assets.

Five PPP projects in the UK, with a total capital value of over £700m and involving equity investments totalling £48m, reached financial close and Exeter International Airport was also acquired in January 2007, involving an £18m equity investment for Balfour Beatty. Preferred bidder status was achieved for four projects, namely Fife Hospital, Islington Schools, the Institute of Technical Education in Singapore and Carlisle Northern Distributor Road.

Barking Power again performed satisfactorily, with profits in line with those of 2006. In its first year of ownership, Exeter International Airport performed at anticipated levels.

### Outlook

We anticipate that the operating performance of our concessions will continue to meet expectations in 2008. The UK PPP market remains buoyant and is expected to continue to produce a steady flow of opportunities. Our investment in resources to exploit new PPP markets and in bidding projects is accelerating, the costs of which will impact reported results in the sector in 2008.

### Alternative valuation 2007

£466 million	
Other	30
Education	54
Healthcare	211
Roads	171

### Alternative valuation

In response to the increased importance of infrastructure investment, Balfour Beatty is also providing an alternative valuation. This method uses DCF to value the portfolio but applies a single discount rate of 6% to the cash flows, excluding shareholder tax, of concessions which have reached financial close or are at preferred bidder stage.

A full explanation of our PPP valuation is on pages 6 to 7 of the Directors' report and accounts.



## Consort healthcare

### Hospitals

Consort Healthcare, Balfour Beatty's branded organisation in the healthcare market, continued to perform well in 2007. Consort's portfolio comprises interests in nine major hospital projects and a committed equity investment of £123m, of which £7m is at preferred bidder stage.

North Durham, Edinburgh Royal Infirmary, University College London Hospital and Royal Blackburn were already fully operational at the beginning of 2007. At Birmingham Hospital, the mental health facility is due to open in 2008 and the remainder by 2011.

In January 2007, Consort became preferred bidder for the Fife General Hospital and Maternity Services PPP project comprising a new £152m wing at Victoria Hospital in Kirkcaldy, Fife.

In June, Consort reached financial close on the Mid Yorkshire Hospitals NHS Trust's Pinderfields and Pontefract Hospitals Development PPP Project. The £311m project will deliver a new acute in-patient hospital in Wakefield on the existing Pinderfields Hospital site and a new Diagnostic and Treatment Centre in Pontefract. The new hospitals are due to open in 2009 and 2010.

In September, Consort reached financial close on the £136m Salford Royal NHS Foundation Trust PFI project and the £77m Tameside and Glossop Acute Services NHS Trust PFI project in Greater Manchester. On both projects, Consort will redevelop and provide new buildings on the existing hospital sites.

Consort Healthcare remains a clear market leader in UK PPP hospitals with a proven track record, a differentiated approach and high levels of client satisfaction.

Bids are in preparation for Enniskillen and Omagh (both in Northern Ireland) with a combined value of £405m, along with a number of opportunities in Germany and the UK.

Edinburgh Royal Infirmary	73.9%
University Hospital of North Durham	50%
University College London Hospital (UCLH)	33.3%
Royal Blackburn Hospital	50%
Birmingham Hospitals	40%
Pinderfields and Pontefract Hospitals	50%
Salford Hope Hospital	50%
Tameside Hospital	50%
Fife Hospital*	50%

\*Preferred bidder.



## Transform schools

### Education

Balfour Beatty's market-leading branded organisation in the UK education market, Transform Schools, continued to perform well in 2007. Transform's portfolio consists of seven large-scale schools schemes with £48m of committed equity investment, of which £3m is at preferred bidder stage.

Construction and operations are proceeding well at our Stoke, Rotherham, Bassetlaw, North Lanarkshire and Birmingham concessions.

In May, Transform was appointed preferred bidder by Islington Council for the £140m PPP concession to deliver eight secondary schools and two pupil referral units under the Building Schools for the Future (BSF) programme. Balfour Beatty will invest £3m in equity in the project, which will be delivered in three phases commencing in early 2008.

In December, Transform reached financial close on the £163m Knowsley Metropolitan Borough Council PPP concession to construct seven new learning centres under the Building Schools for the Future (BSF) initiative. The concession will replace all of the Borough's existing secondary schools over a three-year period. The project will involve state-of-the-art educational methods and techniques.

Bids are in preparation for Derbyshire, Southwark and Sandwell schools projects, with a combined value of £685m.

Stoke Schools	50%
Rotherham Schools	50%
North Lanarkshire Schools	50%
Bassetlaw Schools	50%
Birmingham Schools	50%
Knowsley Schools	100%
Islington Schools*	80%

\*Preferred bidder.

## Investments continued



### Connect roads

#### Roads and street lighting

During 2007, Connect Roads, Balfour Beatty's branded organisation in the highways market, performed strongly.

The total committed equity in the roads sector is £68m, of which £5m is at preferred bidder stage.

In April, Connect reached financial close on the 25-year, £36m PFI street lighting concession for Derby City Council. The project involves the replacement of 20,100 lighting columns and 3,200 illuminated signs during the five-year capital investment period.

In November, Connect was awarded preferred bidder status on the £150m Carlisle Northern Distributor Road PFI project by Cumbria City Council. The 30-year concession contract involves the design and construction of a new road and the provision of whole-life operation and maintenance services for a network of roads in the area.

We are one of three groups to have submitted a bid, as part of a consortium of companies, for the £1.5bn M25 widening project, for which preferred bidder announcement by the Highways Agency is expected in spring 2008.

Other bids are in preparation for the M80 road project and street lighting projects in Surrey, Nottingham and the south-east. These projects have a combined capital value of over £600m.



### Infrastructure projects

#### Other PPP concessions

Powerlink and PADCO have upgraded and now operate and maintain London Underground's high voltage power system. They have also procured and financed new power assets on behalf of LUL. The complex programmes involved in this concession are proceeding satisfactorily.

Aberdeen Environmental Services is responsible for wastewater treatment in Aberdeen. In June 2007, the Stonehaven plant which is now being constructed was incorporated into the project. The operations and performance of the concession are in line with expectations.

In November, Gammon Capital (in which Balfour Beatty has a 50% interest) was appointed preferred bidder for the £90m new Institute of Technical Education (ITE) in Singapore. Financial close is anticipated in the first half of 2008 with the first student intake scheduled for July 2010.

Balfour Beatty has committed £12m of equity to these concessions.

M1-A1	50%
A50 Stoke/Derby link	85%
A30/A35	85%
M77 Glasgow Southern Orbital	85%
Sunderland Street Lighting	100%
South Tyne Street Lighting	100%
Derby Street Lighting	100%
Carlisle Northern Development Route*	100%

\*Preferred bidder.

Powerlink/PADCO	10%/25%
Aberdeen Environmental Services	45%
Institute of Technical Education, Singapore*	50%

\*Preferred bidder.



## Non-PPP investments

### Barking Power

Barking Power in which Balfour Beatty has a 25.5% shareholding and which owns and operates a 1,000MW gas-fired power station in east London, again performed very well, with profits at a similar level to those of last year. For the majority of the year, the station operated reliably at high levels of its capacity. Open market electricity prices, which apply to 28% of the station's output, were again advantageous.

In the latter part of the year, a steam turbine fault limited the station's availability. Full service has now been resumed, with the output losses substantially covered by insurance. During the year planning permission was secured for a potential 450MW extension to the station.

### Exeter International Airport

Exeter International Airport is one of the fastest growing regional airports in the UK and currently handles over one million passengers per year, with passenger numbers forecast to double by 2016. Balfour Beatty Capital completed its acquisition from Devon County Council in January 2007 for £60m. The acquisition was financed by £30m of Balfour Beatty equity, with £12m of this sum subsequently sold to an infrastructure investment fund.

An airport development master plan is being prepared in consultation with a wide range of the airport's stakeholders and investment in the airport is developing in line with our acquisition plan, phased in anticipation of continuing increases in passenger numbers. This will eventually include new terminal facilities, aircraft stands and taxiway extensions.

Shortly after the acquisition, Flybe, the largest European regional airline, confirmed its intention to retain its headquarters at the airport and to invest in new technical and maintenance facilities there. The airport serves a strong local and regional economy and is expected to both increase market share and benefit from an increased propensity to fly.



### Metronet (discontinued business)

Metronet, in which Balfour Beatty was a 20% shareholder, operated and maintained the Bakerloo, Central and Victoria Lines (BCV) and the sub-surface lines (SSL) for London Underground from April 2003, in a concession planned to run for 30 years.

In June, Metronet made an application for an Extraordinary Review of the incurred and forecast costs for the BCV Line concession. This process was set out under the contract and allowed for an external arbiter to award additional funding to the extent that Metronet could demonstrate that it had acted in an "economic and efficient" manner. An application for the SSL concession was also in preparation.

Given the uncertainties pending the outcome of the Review, the level of unanticipated costs associated with the concessions' capital programmes and Metronet's funding position, Transport for London, on behalf of the Mayor, made an application to the Court for the BCV and SSL concession companies to be placed in PPP administration. Balfour Beatty has taken an exceptional charge in respect of Metronet, including the write-off of the equity invested in the Metronet concessions and the profits recognised in respect of these investments in prior years.

Barking Power Ltd	25.5%
Exeter International Airport	60%

## Corporate responsibility

### Governance and management

#### The Board

The Balfour Beatty Board sets policy for the Group's performance in safety, health, the environment, business ethics, risk management, human rights and other social issues. In early 2001, a Business Practices Committee of the Board was established to review policy and practice in these areas.

Its terms of reference are currently under review.

#### Guiding principles

Balfour Beatty first produced a coherent set of "Company Principles" in 1986. Since then, they have been regularly reviewed and updated, most recently in 2006.

Two companion codes were also developed at that time. "Business Conduct Guidelines" explains to every employee what is expected of them in terms of behaviour, procedures and attitudes, when they are working or otherwise representing their company. In 2008, employees will receive online training in these guidelines.

"Stakeholder Codes of Practice" sets key operating principles and minimum standards for the Group's operating companies when engaging with employees, customers, suppliers and the wider community.

Together, these documents constitute a comprehensive system of ethical governance.

#### Management systems

The Group-wide risk management framework provides a common system for identifying and controlling risks of all types. Each operating company, division and project is subject to rigorous risk analysis, evaluation and management. Major risks are reviewed regularly at senior management levels.

Safety and health issues are reviewed by the Health and Safety Council, with each main segment of the business having its own equivalent body. Balfour Beatty requires all its operating companies to have formal safety management systems, which are subject to external audit.

Environmental issues are reviewed at the Environmental Strategy Group comprised of representatives of the operating companies under the chairmanship of the director of Safety, Health and the Environment.

Environmental management systems are audited regularly and Group-wide statistics are collated in respect of the Group's major environmental impacts.

### Waste

22% less  
waste produced

↓22%

### Safety

The Group's stated aim is to operate in such a way as to have zero fatalities, zero permanent disabling injuries and to be accident-free overall.

Over recent years, the Group and its subsidiaries have made good progress in reducing accidents. In 2007, its Accident Frequency Rate (AFR) was reduced by 16%, the fifth consecutive year of improvement, and stood at 0.21 reportable accidents per 100,000 man-hours worked. This has been achieved despite very significant increases in numbers employed. The safety statistics are subject to external audit.

Performance is benchmarked against industry norms in the UK, Germany, US and Hong Kong. This performance compares favourably with these external benchmarks.

Regrettably, there were 18 fatalities during the year, 14 of which were in joint venture businesses not controlled by the Group or its subsidiaries. This high level of fatalities during 2007, which has particularly affected our businesses in Hong Kong and Dubai, is the subject of intense investigation and a range of corrective actions has been implemented. Significant effort is made in improving safety management standards in the Group's overseas subsidiaries, associates and joint ventures to match the high standards that are achieved in the UK.

#### Safety Performance

Accident Frequency Rate (AFR)/workforce (1,000s) (direct and indirect)

1993 to 2007



### Safety

Accident frequency  
rate reduced by 16%

↓16%



## Health

The rigorous standards which the Group applies to safety management are increasingly now being applied to occupational health. Occupational ill-health is often the result of prolonged exposure to substance, condition, process or activity and is not, therefore, easily tractable in the short term.

The Group's approach is to identify the potential causes of ill-health and develop specific policies and programmes for each one. Active programmes exist for hand-arm vibration syndrome, disorders arising from manual handling, alcohol and drug abuse and substances hazardous to health. Occupational health support services provision was improved in 2007 and stress management arrangements were also further enhanced.

## Environment

Balfour Beatty works systematically to prevent negative environmental impact from its activities and to improve its environmental performance at every stage of its work. The Group's approach is structured and risk based with formal environmental management systems. It continues to take the necessary steps to embed environmental management systems into the business both in the UK and overseas.

The Group reviews and maintains progress by monitoring trends and performance in five specific areas. These are energy use and global warming; resource usage; waste and recycling; water consumption; and impact on environmentally-sensitive areas. The robustness of the Group's environmental management systems is also measured.

### Resource usage

There is an increasingly systematic focus on our sourcing of materials, usage of non-renewable resources and evaluating and managing the Group's supply chain in respect of environmental issues.

### Waste

The construction process typically generates large volumes of waste. Over the last six years, Balfour Beatty has raised the awareness of this problem across the business, and has improved its focus on waste reduction, recycling and measurement of construction waste.

The total amount of UK waste generated in 2007 was 155 tonnes relative to £m NSV, a 22% reduction.

### Energy usage

Balfour Beatty has reduced its UK carbon footprint by 32% over the period 2002–2007. The Group invests in new and emerging technologies for vehicle emission reduction. Most particularly, significant improvements have been achieved by the use of GPS and vehicle tracking systems in more economical vehicle routing and usage.

### Water consumption

Improved reporting of waster consumption data following the installation of water meters has resulted in an increase of 6% in reported water consumption in 2007.

**Carbon footprint**  
UK carbon footprint reduced  
by 32% over five years

↓32%

## Environmentally sensitive areas

The Group has extended its range of key indicators to include positive and negative effects on environmentally sensitive sites and is developing its policy on biodiversity. Archaeological aspects of sites are explored thoroughly before commencement of use.

## Stakeholder engagement

There is a comprehensive corporate and operating company-based communications and engagement programme aimed at ensuring that all stakeholders most notably, employees, customers, suppliers, government, regulators and the communities around or affected by our projects, have access to the information they need and can represent their views to the company.

## Employees

Most operating companies conduct regular employee attitude and opinion surveys. During 2007, the first Group-wide survey of employee opinion took place. In addition to other measures, this confirmed that employees were aware of the Group's whistle-blowing policy and there were 16 cases raised during the year (eight in 2006).

The Group's equal opportunities performance is measured annually. In 2007, 20.7% of UK employees were women and 9.4% were of ethnic minority origin. These statistics are considerably improved from when measurement of the issue first took place in 1999. At graduate intake level, the proportion of women is 20% and of ethnic minorities is 10%.

## Shareholders

Balfour Beatty runs an active shareholder engagement programme involving regular roadshows and one-to-one meetings. During 2007, senior executives held over 100 meetings with shareholders, representing, in aggregate, approximately 60% of the issued share capital. All financial presentations are webcast in order to ensure that they are accessible to all shareholder groups and other interested parties.

## Customers

Most of the Group's operating companies run regular attitude and opinion surveys. A substantial proportion of the Group's business is conducted with organisations with which its operating companies have long-term relationships.

## Suppliers

An increasing proportion of the Group's supply base is retained in long-term relationships based on compatibility of their values and behaviour as well as product quality and price. The Group has developed and implemented a "Supply Chain Environmental Risk and Impact Grading Tool" to assess supply chain risks.

## Government and regulations

Over half of Balfour Beatty's work is carried out for governments. The Group seeks active and positive relationships with governments, their officers and advisers and relevant industry regulators to ensure its policies align with their key requirements.

## Communities around our projects

It is Balfour Beatty's policy that all its major projects have a dedicated community relations team. Typically, major projects will be preceded by exhibitions, and regular newsletters and letter drops will keep interested parties informed at key project milestones. Key stakeholders will be offered direct access and, when necessary, there will be liaison with local police and other emergency services and help lines.

## Corporate responsibility continued

### Building better communities

#### Our corporate responsibility programme

Balfour Beatty's work enhances the physical environment. It creates educational, healthcare, transportation and other social capital. The Group believes that it has a responsibility to extend the positive impact which its work has on the lives of asset users to the wider community in which the company operates.

A key theme in Balfour Beatty's CSR activities is enhancing the lives of young people, particularly those at risk or at some disadvantage, and improving the communities in which they live and grow. This theme finds expression through a number of initiatives, at corporate, operating company and local and individual project level.

#### London Youth Games

The London Youth Games is Europe's largest youth sports programme, with the potential to engage the entire population of London's state primary and secondary schools in sporting activities and competition.

In 2007, Balfour Beatty, which has been associated with the Games for the last two years, decided to take on the role of lead partner to the Games until 2013 with a sponsorship contribution of at least £1.7m over the period.

The organisers' ambition is to greatly increase the size of and participation in the Games and Balfour Beatty's funding and support guarantees that the Games will grow over the partnership period.

A substantial proportion of the funding is set aside for grant applications from the London boroughs for schemes that enhance grass roots participation and, in particular, promote involvement amongst disadvantaged groups including the disabled and children in areas of multiple deprivation.

#### Stoke Football Action

Over £100,000 of funding and substantial management support from Balfour Beatty has unlocked public sector funds to create a £320,000 three-year football coaching programme in Stoke, where Balfour Beatty is the PPP schools concession company. Now entering its final year, the programme has proven extremely effective in reducing vandalism and other anti-social behaviour amongst pupils at risk of social exclusion.

**01** Stoke Football Action – In its first year, over 500 young people from 13 schools received football coaching and played in competitive leagues. Vandalism rates have dropped steadily since the introduction of the scheme.

**02** Get into Construction – Disadvantaged young people are given the opportunity to acquire basic construction skills through the Prince's Trust "Get into Construction" initiative.



#### Groundwork UK

Balfour Beatty works with Groundwork UK, the network of local trusts which supports communities in need by working with partners to help improve the quality of people's lives, their prospects and potential and the places where they work and play. Every year, Balfour Beatty finances three schemes, which enhance the physical environment close to its major projects and, in so doing, engages the energies and time of disadvantaged young people. Projects in 2007 included upgrading a recreation site in Hertfordshire, a woodland regeneration scheme in Merseyside and the development of an environmentally friendly, sustainable allotment garden in Stoke-on-Trent.

#### NCH

2008 will be the second year that NCH has been Balfour Beatty's Charity of the Year.

NCH helps children achieve their full potential. Through its services, it supports some of the UK's most vulnerable and excluded children and young people affected by issues such as poverty, disability and abuse. It is the UK's leading provider of family and community centres, children's services in rural areas, services for disabled children and their families and services for young people in care.

The Group gave over £115,000 to NCH in 2007. Over £80,000 of this total was raised by employees through a wide variety of events and activities. This included a combined team of 21 walkers from Haden Young and Balfour Beatty Construction Northern raising over £18,000 on the three peaks challenge.

#### Get into Construction

About one in five young people in the UK are not in work, education or training. The Prince's Trust, the UK's leading youth charity, gives practical and financial support to 14 to 30 year olds, helping them to tackle their problems and get their lives back on track. The charity focuses on those who have struggled at school, have been in care, are long-term unemployed or have been in trouble with the law.

Balfour Beatty is a founding sponsor and leading member of the Trust's "Get into Construction" initiative, whereby young customers of the Trust are given a two-to four-week work experience programme which trains them in carpentry, plastering, bricklaying, painting and decorating.

Those who pass gain a Construction Skills Certificate Scheme Card and six months' support from an adviser at the start of their apprenticeship, employment or training.

By the end of 2008, over 500 young people will have been through the regionally based courses. The programme is continuing to grow strongly.





## Other aspects of our corporate responsibility programme include:

### Fighting corruption

Balfour Beatty is a corporate supporter of Transparency International, the not-for-profit private company set up in 1993 to fight corruption. It is also a leading and active member of the UK Anti-Corruption Forum which promotes effective and co-ordinated action to reduce corruption on both a domestic and international basis on both the demand and supply side of construction and infrastructure markets.

### Fighting poverty

Balfour Beatty is a major sponsor and principal supporter of the international charity, Engineers Against Poverty, which produces practical policies and innovative solutions to support the alleviation of poverty, create jobs and promote enterprise development in low income countries.

### Fighting homelessness

Balfour Beatty is a patron of CRASH, the construction industry charity for the homeless. The Group supports the charity through participation in a number of its fundraising schemes. Chief Executive, Ian Tyler, is the organisation's President.



**03** Groundwork – Amenity improvement projects across the UK, such as this one for Baytree's Community Garden in Manchester, give young people the chance to get involved in community work.

**04** London Youth Games – London Youth Games "graduates" and British Olympians, Christine Ohuruogu and Jo Fenn meet young competitors at the launch of Balfour Beatty's six-year sponsorship programme for the London Youth Games.



## Board of Directors

**Sir David John** KCMG  
Non-Executive Chairman to 15 May 2008



**Ian Tyler**  
Chief Executive



**Steven Marshall**  
Non-Executive Chairman from 15 May 2008



**Anthony Rabin**  
Deputy Chief Executive from 31 March 2008



**Duncan Magrath**  
Finance Director from 31 March 2008



**Peter Zinkin**  
Planning and Development Director



**Gordon Sage**  
Non-Executive Director



**Mike Donovan**  
Non-Executive Director



**Hans Christoph von Rohr**  
Non-Executive Director



**Stephen Howard**  
Non-Executive Director



**Robert Walvis**  
Non-Executive Director



### Sir David John KCMG

Non-Executive Chairman to 15 May 2008

Age 69. Appointed a Director in 2000 and became Chairman in 2003. He is chairman of Premier Oil plc and The BSI Group, and a past non-executive chairman of The BOC Group plc. Formerly a director of Inchcape plc, he is a member of the CBI's International Advisory Board.

### Ian Tyler

Chief Executive

Age 47. A chartered accountant. A Director since 1999, he became Chief Executive in January 2005, having been Chief Operating Officer since 2002 and prior to that, Finance Director. He joined Balfour Beatty in 1996 from the Hanson Group where he was finance director of ARC Ltd, one of its principal subsidiaries. He is currently president of Construction Industry Relief, Assistance and Support for the Homeless Ltd, the construction and property industry charity for the homeless.

### Anthony Rabin

Finance Director, Deputy Chief Executive from 31 March 2008

Age 52. A chartered accountant and a barrister. A Director since 2002, he is also responsible for the Group's Investments business, having previously been managing director of Balfour Beatty Capital. Prior to joining Balfour Beatty, he was a partner at Coopers & Lybrand and before that, a senior assistant director at Morgan Grenfell.

### Peter Zinkin

Planning and Development Director

Age 54. Joined the Group in 1981 and became Planning and Development Director in 1991 after a series of senior positions in the finance function. Previously, he worked at the London Business School and UMIST.

### Mike Donovan

Non-Executive Director

Age 54. Appointed a Director in 2006. He has an engineering background and was most recently chief operating officer of Marconi plc from 2001 to 2005. Prior to that he was chief executive officer of Marconi Systems and was previously responsible for managing major divisions of British Aerospace, Vickers and the Rover Group.

### Stephen Howard

Non-Executive Director

Age 55. Appointed a Director in 2006. He is a lawyer by background and was most recently group chief executive of Novar plc. Prior to that, he was chief executive of Cookson Group plc. He is also a non-executive director of SEGRO plc and is chief executive of Business in the Community.

### Steven Marshall

Non-Executive Director, Non-Executive Chairman from 15 May 2008

Age 51. Appointed a Director in 2005 and chairman of audit committee from January 2006. Currently also chairman of Delta plc and a non-executive director of Southern Water. He is also a former chairman at both Queens' Moat Houses plc and at Torex Retail plc. He was chief executive of Thorn plc and of Railtrack Group plc, having also served as group finance director at each company. His earlier career included a wide range of corporate and operational roles at Grand Metropolitan plc, Black & Decker and BOC. A Fellow of the Chartered Institute of Management Accountants.

### Duncan Magrath

Finance Director from 31 March 2008

Age 43. A chartered accountant and a graduate engineer. Joined Balfour Beatty as Deputy Finance Director from Exel plc, where he was director of investor relations and financial strategy, following a number of senior financial roles in the UK and US.

### Gordon Sage

Non-Executive Director

Age 61. Appointed a Director in 2003. A chemical engineer, he is a non-executive director of Merrill Lynch World Mining Trust plc. Between 1970 and 2001 he held a series of increasingly senior positions in Rio Tinto plc, finally as executive director responsible for its industrial minerals and diamonds businesses.

### Hans Christoph von Rohr

Non-Executive Director

Age 69. Appointed a Director in 2003. He is a partner of the international law firm TaylorWessing, a member of the Advisory Council of Deutsche Bank AG, a member and past chairman of the supervisory board of the Industrial Investment Council, a member of the supervisory board of SWB AG, and a member of the board of trustees of Underwriters Laboratories Inc. He is also chairman of the German Institute for Market Economy and Competition. Previously, he was chief executive officer of the German manufacturing group, Klöckner-Werke AG.

### Robert Walvis

Non-Executive Director

Age 61. Appointed a Director in 2001. Previously with the Royal Dutch Shell Group, latterly as chairman of the Global Corporate Centre of the Royal Dutch Shell Group of Companies. He is a non-executive director of Johnson Matthey plc and British Energy plc, and chairman of the supervisory board of Allianz Nederland Groep NV. He is the senior independent Director.

Board Committee membership during 2007 was as follows:

#### Audit Committee

Steven Marshall (Chair)  
Mike Donovan  
Stephen Howard  
Gordon Sage  
Christoph von Rohr

#### Business Practices Committee

Sir David John (Chair)  
Mike Donovan  
Christoph von Rohr  
Robert Walvis

#### Nomination Committee

Sir David John (Chair)  
Mike Donovan  
Stephen Howard  
Steven Marshall  
Gordon Sage  
Ian Tyler  
Robert Walvis

#### Remuneration Committee

Robert Walvis (Chair)  
Stephen Howard  
Steven Marshall  
Gordon Sage  
Christoph von Rohr

# Summary Directors' report

## Dividends

The Directors recommend a final dividend on ordinary shares of 6.9p (net) per share, making, with the interim dividend of 4.6p, a total dividend for 2007 of 11.5p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2007.

## Share capital and major shareholders

During the year to 31 December 2007 no ordinary shares were repurchased for cancellation and 4,957,163 preference shares (representing 4.23% of the preference share capital) were repurchased for cancellation for a total consideration of £7,500,534 at an average price of 151.3p. 1,286,018 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 1,271,342 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes. No other shares were issued during the year.

At 31 December 2007, the Directors had authority, under the shareholders' resolutions approved at the AGM and separate class meeting held in May 2007, to purchase through the market 43,071,984 ordinary shares and 17,245,795 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which follows the 2008 Annual General Meeting.

As at 4 March 2008, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

Standard Life Investments Limited	9.06%
Lloyds TSB Group plc	6.30%
Schroder Investment Management Limited	6.06%
Legal & General Group plc	4.01%
Prudential plc	3.43%

## Corporate governance and the Combined Code

### Overview

The Board continues to endorse and apply the principles of good corporate governance reflected in the 2006 Combined Code (the "Code"), as appended to the Listing Rules of the UK Listing Authority.

The governance of the Company through the year in the light of the principles and supporting principles and provisions of the Code is described in the following paragraphs. Throughout the year ended 31 December 2007 and save as otherwise explained in the paragraph headed "Compliance with the Code" on page 51, the Board believes that the Company was in compliance with the provisions of the Code.

### Honorary President

Viscount Weir is Honorary President of the Company, having been appointed to this position in May 2003 following his retirement as Chairman.

### The Board

The Board currently comprises 10 Directors, of whom seven, including the Chairman, are non-executive. Duncan Magrath was appointed an executive Director from 31 March 2008. Jim Cohen, an executive Director throughout 2006, retired on 18 February 2007. The Directors believe that the Board continues to include an appropriate balance of skills and, with them, the ability to provide effective leadership for the Group.

Throughout 2007 and as at the date of this report, the Chairman was Sir David John, the Chief Executive was Ian Tyler and the senior independent Director was Robert Walvis. The chairman of the Audit Committee in 2007 was Steven Marshall who remains chairman as at the date of this summary report. Sir David John continued as chairman of each of the Nomination Committee and the Business Practices Committee, and Robert Walvis continued as chairman of the Remuneration Committee, throughout the year, and each remains chairman as at the date of this summary report.

The Board operates both formally, through Board and Board Committee meetings, and informally through regular contact between Directors as required. Decisions on a list of specific matters, including the approval of financial statements, major tenders and capital expenditure, and most acquisitions and disposals, are reserved to the Board or Board Committees. Matters falling outside the list are delegated to management. The list of these reserved matters is reviewed by the Board from time to time, most recently in December 2006.

### Chairman

Sir David John became Chairman in May 2003, having joined the Board in August 2000. Sir David spends an average of two days per week on the business of the Company. He has other significant commitments as non-executive chairman of The BSI Group and of Premier Oil plc. The Board considers that his other commitments are not of such a nature as to hinder his activities as chairman of the Company or those as chairman of the Nomination and Business Practices Committees. It was announced on 25 February 2008 that Sir David was stepping down as Chairman after the AGM on 15 May 2008 and that Steven Marshall would succeed him as Chairman.

### Directors

Brief biographical details of the Directors, including the Chairman, are given on pages 48 and 49. All the Directors pictured served throughout the year other than Duncan Magrath, who will join the Board on 31 March 2008.

From September 2003, non-executive Directors have been appointed for specific three year terms, and it is part of the terms of reference of the Nomination Committee to review all appointments of non-executive Directors at three year intervals or as near to that as is practicable and make recommendations to the Board accordingly.

The Board considers that all the non-executive Directors continue to be independent.

### Rotation of Directors, election and re-election

The Articles of Association of the Company provide that each Director shall retire from office in the third year following the year in which last elected or re-elected, and shall be eligible for re-election. This year, the only Director to retire is Anthony Rabin. He is seeking re-election, being eligible. In addition, Duncan Magrath, who was appointed from 31 March 2008, seeks election for the first time.

### Board Committees

The main Board Committees, the membership of which is either wholly or substantially comprised of non-executive Directors, continue to be the Audit Committee, the Nomination Committee, the Remuneration Committee and the Business Practices Committee.

The terms of reference of the Board Committees are available on the Company's website.

### Board, Committee and individual director evaluation

The Board as a whole and its main Committees were the subject of an evaluation exercise carried out in 2004 by an external consultant. The actions agreed which arose from the report were implemented through 2005. A full evaluation exercise of the Board and its main Committees was carried out in 2007. While no substantive issues emerged from this, a number of minor procedural matters were identified as meriting attention and these are under consideration for implementation during 2008 together with any changes to Board procedures necessitated by the coming into force of the Companies Act 2006.

### Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. As for previous years the Board has continued to assess the effectiveness of the risk management processes and internal controls during 2007 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

- the results of internal audit's reviews of internal financial controls;
- a Group-wide certification that effective internal controls had been maintained, or, where any significant non-compliance or breakdown had occurred with or without loss, the status of corrective action; and
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is properly managed, but the Board recognises that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group. Where they are not, systems of internal control are applied as agreed between the parties to the venture.

Central to the Group's systems of internal control are its processes and framework for risk management. These accord with the revised Turnbull Guidance on internal controls and were in place throughout the year and up to the date of signing this report.

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. These include:

- the annual review of the strategy and plans of each operating company and of the Group as a whole in order to identify, inter alia, the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions;
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and line management, including particular areas of business or project risk. This is used to update both management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified;

- individual tender and project review procedures commencing at operating company level and progressing to Board Committee level if value or perceived exposure breaches certain thresholds;
- regular reporting, monitoring and review of health, safety and environmental matters;
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself;
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions;
- the formulation and review of properly documented policies and procedures, updated through the free and regular flow of information to address the changing risks of the business;
- specific policies set out in the Group Finance Manual, covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls;
- a Group-wide risk management framework which is applied to all functions in the Group, whether operational, financial or support. Under it, the key risks facing each part of the Group are regularly reviewed and assessed, together with the steps to avoid or mitigate those risks. The results of those reviews are placed on risk registers and, where necessary, specific action plans are developed;
- reviews and tests by the internal audit team of critical business financial processes and controls and spot checks in areas of perceived high business risk; and
- the Group's whistle-blowing policy.

### Annual General Meeting

Sir David John, who chairs the Nomination and Business Practices Committees, Steven Marshall, who chairs the Audit Committee, and Robert Walvis, who chairs the Remuneration Committee, will be available at the Annual General Meeting to answer any questions arising from the work of these committees. The Board continues to regard the Annual General Meeting as an important occasion on which to communicate with shareholders, and research into subjects of likely interest to shareholders is undertaken so that questions can be answered during the meeting for the benefit of all shareholders present. Shareholders may also put questions in advance of the Annual General Meeting by writing to the Company Secretary. The business to be put to the Annual General Meeting is set out in the separate circular to shareholders.

### Compliance with the Code

The Company believes it is compliant with the Code save only in the following respect, namely, that the effectiveness of the Group's whistle-blowing procedures is reviewed by the Business Practices Committee, and not the Audit Committee. This is because, based on the Company's experience, the great majority of "whistle-blowing" type complaints arise out of non-financial matters, mainly employment related. The Audit Committee is copied with all reports made to the Business Practices Committee on the whistle-blowing procedure and practice.

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# Summary remuneration report

A resolution to approve the full Directors' remuneration report, which can be found on pages 16 to 22 of the Directors' report and accounts 2007, will be proposed at the AGM of the Company to be held on 15 May 2008.

## Remuneration Committee

The Remuneration Committee ("RemCo") consists entirely of independent non-executive Directors and has been chaired by Robert Walvis since November 2003. Its other members are Stephen Howard, Steven Marshall, Gordon Sage and Christoph von Rohr. Sir David John attends meetings by invitation. No member of the RemCo has any personal financial interest, other than as a shareholder, in the matters to be decided by the RemCo, nor potential conflicts of interest arising from cross-directorships, and no member of the RemCo has any day-to-day involvement in the executive management of the Group.

## Executive Directors' remuneration

### General policy

It is the policy of the RemCo to provide an overall remuneration package that is competitive and which facilitates the recruitment and retention of high calibre management. The annual and long-term incentive plans make up an important part of each executive Director's remuneration and are structured so as to motivate senior managers to deliver high standards of performance, without encouraging excessive risk taking. It is intended that the share-based elements of the package will not only drive performance over the long term but will also assist in aligning the interests of senior management with those of shareholders.

The structure of executive Directors' remuneration was similar in 2007 to that in 2006 and no significant changes to the existing policy are currently envisaged for 2008. Under the current arrangements, if target performance is achieved, basic salary will represent around one-half of total earnings. If maximum is achieved, which would involve a superior level of performance substantially in excess of business plan, basic salary will represent around one-third of total earnings.

### Basic salaries

It is the policy of the RemCo to set basic salaries at levels which it believes are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. The RemCo looks to set basic salaries at around the median of the market, but also takes into account its own judgement of the performance of the Group's businesses and the performance of individual Directors. The RemCo intends to continue to use this approach in the foreseeable future. The basic salaries of executive Directors are reviewed annually at 1 July.

### Annual incentive plan

Each executive Director participates in an annual incentive plan, under which predetermined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2007 was 80% of basic salary and the performance indicator chosen was profit before tax and exceptional items ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of these bonuses are payable in cash, while the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time (unless specified leaver conditions are met in which case early vesting may be permitted under the rules of the DBP). Bonuses are non-pensionable.

It is currently intended that the annual incentive plan for 2008 will operate in the same way as for 2007 and the RemCo will continue to review the competitiveness and structure of the annual incentive plan in future years.

### Long-term incentive scheme

The RemCo believes that performance related long-term incentives which align executives with both business strategy and shareholders' interests are an important component of overall executive remuneration arrangements.

The Company operates a Performance Share Plan (the "Plan") under which conditional awards of shares in the Company are made to executive Directors and other selected operational and functional senior managers. The maximum market value of any award, at the award date, will be 150% of basic salary, other than in exceptional circumstances, where the limit is 200% of basic salary. It is currently the intention of the RemCo that an award of 150% of salary will only be made to the Chief Executive, with the other executive Directors receiving conditional awards over shares with a market value of 125% of basic salary.

The awards will vest, subject to the achievement of performance conditions, three years after the date of grant. It is the intention of the RemCo to make awards under the Plan in 2008 and that the performance conditions will follow a similar format to those which apply to the award made in 2007. For this award there are two performance conditions each applying to separate parts of the award. 50% of an award is linked to an adjusted earnings per share growth target and the remaining 50% is linked to total shareholder return performance relative to a comparator group. There is no provision for the re-testing of these performance conditions.

The RemCo considers that the EPS and TSR performance conditions provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market performance, providing a strong and direct alignment with investors.

### Pensions

The executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). This provides for a pension at a normal retirement age of 62 (under the Fund's rules) and each Director pays an annual contribution equal to 5% of pensionable salary. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. If members choose to opt out of the Fund as a result of their benefits reaching or exceeding the Lifetime Allowance, a cash supplement will be payable to them. A Fund specific earnings cap has been maintained in the Fund for those members who were subject to the HMRC earnings cap and, in line with previous policy, a discretionary cash supplement will be paid in lieu of pension provision above the Fund specific earnings cap.

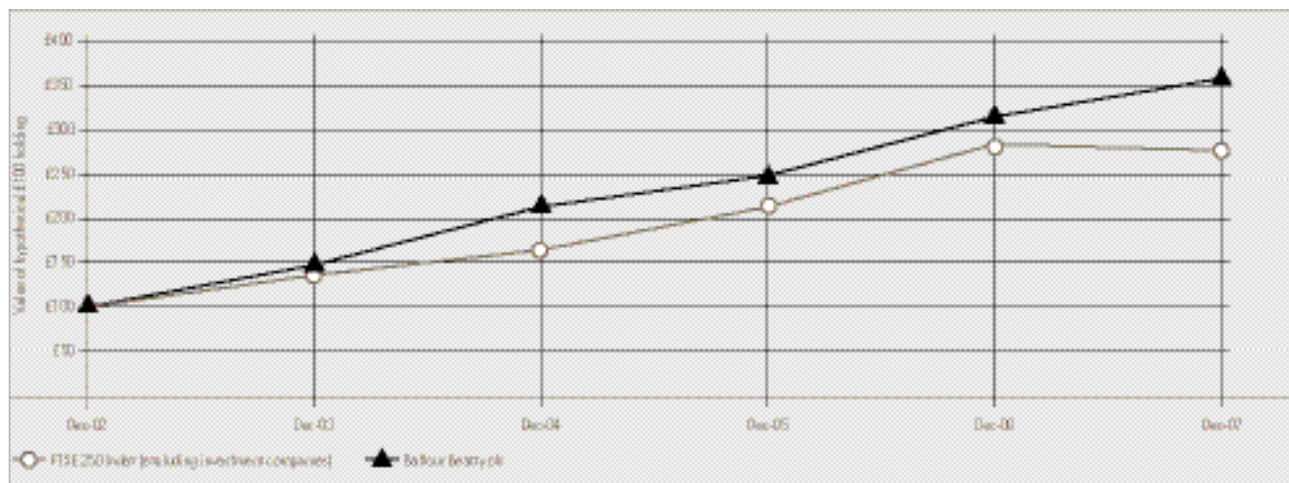
### Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and other key senior managers are subject to share ownership guidelines. Executive Directors are required to build up a holding in ordinary shares in the Company to the value of 100% of their basic salary at a reference date. In order to achieve this, they will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the Plan and the DBP. At 31 December 2007, each executive Director's shareholding in the Company exceeded this guideline. Details of the shareholdings of all the Directors can be found in the table on page 54.

### Performance graph

The graph below shows Balfour Beatty's Total Shareholder Return ("TSR") performance compared to the FTSE 250 Index (excluding investment companies) TSR over the five financial years ended 31 December 2007. This index has been chosen principally because this is a broad index of which the Company is a constituent member.

The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index at the start of the period and have been calculated using 30 trading day average values.



### Service contracts

It remains the Company's policy and practice to include in executive Directors' contracts a 12 month rolling notice period from the Company and six months' notice on the part of the Director. This policy will continue in the future.

Service contracts of executive Directors do not include provision for specific payment in the event of early termination, nor do they provide for extended notice periods or compensation in the event of a change of control. The RemCo would seek to ensure that the Director fulfils his obligation to mitigate his losses in the event of termination and would also give consideration to phased payments where appropriate.

### Non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's remuneration falls within the remit of the RemCo and the Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are elected for a term of three years and must retire and, if eligible, seek re-election at the AGM in the third calendar year following the year in which they were elected (or last re-elected). They are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share option, annual incentive or long-term incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause. The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2006.

## Summary remuneration report continued

### Directors' remuneration earned in 2007

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual cash bonus £	Total remuneration 2007 £	Total remuneration 2006 £
J L Cohen	42,731	—	5,000	2,477	—	50,208	587,023
M J Donovan	—	42,000	—	—	—	42,000	22,500
S L Howard	—	42,000	—	—	—	42,000	21,000
Sir David John	—	190,000	—	—	—	190,000	181,500
S Marshall	—	49,000	—	—	—	49,000	44,000
A L P Rabin	367,500	—	64,129	19,655	202,667	653,951	561,928
G H Sage	—	42,000	—	—	—	42,000	37,500
I P Tyler	548,500	—	65,217	26,378	309,333	949,428	793,287
Dr H C von Rohr	—	62,548	—	—	—	62,548	58,048
R J W Walvis	—	49,000	—	—	—	49,000	44,000
P J L Zinkin	367,500	—	—	17,123	202,667	587,290	521,301
Former Directors	—	—	—	—	—	—	23,500
<b>Total</b>	<b>1,326,231</b>	<b>476,548</b>	<b>134,346</b>	<b>65,633</b>	<b>714,667</b>	<b>2,717,425</b>	2,895,587

#### Notes:

- Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors. Jim Cohen retired from the Company on 18 February 2007.
- Jim Cohen, Anthony Rabin and Ian Tyler received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- The performance target for annual bonus was profit before tax and exceptional items ("profit"). The profit for the year ended 31 December 2007 resulted in a bonus of 80% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third will be deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2011, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2008.
- Awards made under the Performance Share Plan in 2004 to Jim Cohen, Anthony Rabin, Ian Tyler and Peter Zinkin vested during the year. At the date of vesting the closing market price was 476p and the value of the shares which vested was £280,516, £275,594, £324,813 and £305,126 respectively.
- Jim Cohen, Anthony Rabin and Peter Zinkin exercised savings-related share options during the year. The closing market prices on the dates of exercise ranged between 438.5p and 462.75p and the values realisable on exercise were £2,525, £1,603 and £2,888 respectively.

### Directors' interests

The beneficial interests of the Directors and their immediate families in the ordinary share capital of Balfour Beatty plc during the year are set out below.

Name of Director	Number of ordinary shares	
	At 1 January 2007	At 31 December 2007
M J Donovan	—	5,000
S L Howard	—	5,000
Sir David John	5,000	5,000
S Marshall	5,000	5,000
A L P Rabin	101,153	101,728
G H Sage	5,000	5,000
I P Tyler	113,005	133,005
R J W Walvis	10,000	10,000
P J L Zinkin	102,110	122,171



For the year ended 31 December 2007

## Summary Group income statement

Notes	2007			2006		
	Before exceptional items* £m	Exceptional items* (Note 3) £m	Total £m	Before exceptional items* £m	Exceptional items* (Note 3) £m	Total £m
<b>Continuing operations</b>						
Revenue including share of joint ventures and associates	<b>7,488</b>	–	<b>7,488</b>	5,506	–	5,506
Share of revenue of joint ventures and associates	<b>(1,022)</b>	–	<b>(1,022)</b>	(1,019)	–	(1,019)
<b>Group revenue</b>	<b>6,466</b>	–	<b>6,466</b>	4,487	–	4,487
Cost of sales	<b>(5,959)</b>	<b>(33)</b>	<b>(5,992)</b>	(4,121)	–	(4,121)
<b>Gross profit</b>	<b>507</b>	<b>(33)</b>	<b>474</b>	366	–	366
Net operating expenses						
– amortisation of intangible assets	–	<b>(9)</b>	<b>(9)</b>	–	(1)	(1)
– other	<b>(381)</b>	<b>(6)</b>	<b>(387)</b>	(286)	(19)	(305)
<b>Group operating profit</b>	<b>126</b>	<b>(48)</b>	<b>78</b>	80	(20)	60
Share of results of joint ventures and associates	<b>65</b>	<b>6</b>	<b>71</b>	48	–	48
<b>Profit from operations</b>	<b>191</b>	<b>(42)</b>	<b>149</b>	128	(20)	108
Investment income	<b>29</b>	–	<b>29</b>	26	–	26
Finance costs	<b>(19)</b>	<b>(2)</b>	<b>(21)</b>	(18)	(7)	(25)
<b>Profit before taxation</b>	<b>201</b>	<b>(44)</b>	<b>157</b>	136	(27)	109
Taxation	<b>(53)</b>	<b>65</b>	<b>12</b>	(35)	1	(34)
<b>Profit for the year from continuing operations</b>	<b>148</b>	<b>21</b>	<b>169</b>	101	(26)	75
(Loss)/profit for the year from discontinued operations	4	<b>2</b>	<b>(18)</b>	16	–	16
<b>Profit for the year attributable to equity shareholders</b>	<b>150</b>	<b>1</b>	<b>151</b>	117	(26)	91

\*and amortisation of intangible assets.

Notes	2007 pence	2006 pence
<b>Basic earnings per ordinary share</b>		
– continuing operations	5	17.6
– discontinued operations	5	3.6
	<b>35.1</b>	21.2
<b>Diluted earnings per ordinary share</b>		
– continuing operations		17.4
– discontinued operations		3.6
	<b>34.8</b>	21.0
<b>Dividends per ordinary share proposed for the year</b>	<b>11.5</b>	9.1

For the year ended 31 December 2007

## Summary Group statement of recognised income and expense

	2007 £m	2006 £m
Actuarial gains on retirement benefit obligations	<b>2</b>	36
PFI/PPP cash flow hedges – fair value revaluations	<b>(7)</b>	32
– reclassified and reported in net profit	<b>7</b>	–
PFI/PPP financial assets – fair value revaluations	<b>(26)</b>	(2)
– reclassified and reported in net profit	<b>(3)</b>	–
Changes in fair value of net investment hedges	<b>(4)</b>	14
Currency translation differences	<b>7</b>	(17)
Tax on items taken directly to equity	<b>5</b>	(26)
<b>Net (expense)/income recognised directly in equity</b>	<b>(19)</b>	37
Profit for the year from continuing operations	<b>169</b>	75
(Loss)/profit for the year from discontinued operations	<b>(18)</b>	16
<b>Total recognised income for the year attributable to equity shareholders</b>	<b>132</b>	128

At 31 December 2007

## Summary Group balance sheet

	2007 £m	2006 £m
<b>Non-current assets</b>		
Intangible assets – goodwill	694	427
– other	59	9
Property, plant and equipment	215	183
Investments in joint ventures and associates	381	458
Investments	57	46
PFI/PPP financial assets	62	22
Deferred tax assets	125	102
Derivative financial instruments	3	2
Trade and other receivables	77	50
	<b>1,673</b>	1,299
<b>Current assets</b>		
Inventories	72	75
Due from customers for contract work	338	252
Derivative financial instruments	1	3
Trade and other receivables	881	626
Cash and cash equivalents – PFI/PPP subsidiaries	3	–
– other	391	323
	<b>1,686</b>	1,279
<b>Total assets</b>	<b>3,359</b>	2,578
<b>Current liabilities</b>		
Trade and other payables	(1,718)	(1,289)
Due to customers for contract work	(415)	(265)
Derivative financial instruments	(6)	(1)
Current tax liabilities	(7)	(28)
Borrowings – PFI/PPP non-recourse term loans	(3)	–
– other	(16)	(17)
	<b>(2,165)</b>	(1,600)
<b>Non-current liabilities</b>		
Trade and other payables	(135)	(77)
Derivative financial instruments	(6)	–
Borrowings – PFI/PPP non-recourse term loans	(61)	(21)
– other	(1)	(1)
Deferred tax liabilities	(7)	(5)
Liability component of preference shares	(87)	(90)
Retirement benefit obligations	(286)	(288)
Provisions	(128)	(109)
	<b>(711)</b>	(591)
<b>Total liabilities</b>	<b>(2,876)</b>	(2,191)
<b>Net assets</b>	<b>483</b>	387
<b>Equity</b>		
Called-up share capital	216	215
Share premium account	52	43
Equity component of preference shares	16	16
Special reserve	164	169
Share of joint ventures' and associates' reserves	178	243
Other reserves	9	5
Accumulated losses	(152)	(304)
<b>Total equity</b>	<b>483</b>	387

The summary financial statement, extracted from the Directors' report and accounts, has been approved for issue by the Board and signed on its behalf by

**A L P Rabin** Director  
4 March 2008

For the year ended 31 December 2007

## Summary Group cash flow statement

	2007 £m	2006 £m
<b>Cash flows from operating activities</b>		
Cash generated from operations	281	217
Income taxes paid	(24)	(24)
<b>Net cash from operating activities</b>	<b>257</b>	<b>193</b>
<b>Cash flows from investing activities</b>		
Dividends received from joint ventures and associates	83	24
Interest received	26	29
Acquisition of businesses, net of cash and cash equivalents acquired	(198)	(80)
Purchase of property, plant and equipment	(80)	(57)
Purchase of investments	(11)	(8)
Investment in and loans made to joint ventures and associates	(50)	(22)
Investment in financial assets	(39)	(12)
Disposal of businesses, net of cash and cash equivalents disposed	92	–
Disposal of property, plant and equipment	9	9
<b>Net cash used in investing activities</b>	<b>(168)</b>	<b>(117)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	5	6
Purchase of ordinary shares	(4)	(3)
Proceeds from new loans	42	35
Repayment of loans	(1)	(27)
Finance lease principal repayments	–	(1)
Buy-back of preference shares	(8)	(19)
Ordinary dividends paid	(42)	(52)
Interest paid	(7)	(5)
Preference dividends paid	(11)	(12)
<b>Net cash used in financing activities</b>	<b>(26)</b>	<b>(78)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>63</b>	<b>(2)</b>
Effects of exchange rate changes	8	(6)
Cash and cash equivalents at beginning of year	308	316
<b>Cash and cash equivalents at end of year</b>	<b>379</b>	<b>308</b>

# Notes to the summary financial statement

## 1 Basis of preparation

The summary financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. The Group's accounting policies are set out in the Directors' report and accounts 2007.

## 2 Segment analysis – continuing operations

	Building, building management and services 2007 £m	Civil and specialist engineering and services 2007 £m	Rail engineering and services 2007 £m	Investments 2007 £m	Corporate costs 2007 £m	Total 2007 £m
<b>Performance by activity:</b>						
<b>Results</b>						
Group revenue	3,527	2,112	775	51	1	6,466
Group operating profit	75	63	43	(25)	(30)	126
Share of results of joint ventures and associates	–	23	1	41	–	65
Profit from operations before exceptional items and amortisation	75	86	44	16	(30)	191
Exceptional items	(26)	(9)	2	–	–	(33)
Amortisation of intangible assets	(6)	(3)	–	–	–	(9)
Profit from operations	43	74	46	16	(30)	149

	Europe 2007 £m	North America 2007 £m	Other* 2007 £m	Total 2007 £m
<b>Performance by geographic origin:</b>				
Group revenue	4,958	1,471	37	6,466
Profit from operations before exceptional items and amortisation	145	18	28	191
Exceptional items	(27)	(6)	–	(33)
Amortisation of intangible assets	(4)	(5)	–	(9)
Profit from operations	114	7	28	149

	Building, building management and services 2006 £m	Civil and specialist engineering and services 2006 £m	Rail engineering and services 2006 £m	Investments 2006 £m	Corporate costs 2006 £m	Total 2006 £m
<b>Performance by activity:</b>						
<b>Results</b>						
Group revenue	2,030	1,677	766	14	–	4,487
Group operating profit	42	46	35	(19)	(24)	80
Share of results of joint ventures and associates	1	1	3	43	–	48
Profit from operations before exceptional items and amortisation	43	47	38	24	(24)	128
Exceptional items	–	(21)	2	–	–	(19)
Amortisation of intangible assets	–	(1)	–	–	–	(1)
Profit from operations	43	25	40	24	(24)	108

	Europe 2006 £m	North America 2006 £m	Other* 2006 £m	Total 2006 £m
<b>Performance by geographic origin:</b>				
Group revenue	3,893	572	22	4,487
Profit from operations before exceptional items and amortisation	125	(12)	15	128
Exceptional items	(1)	(18)	–	(19)
Amortisation of intangible assets	(1)	–	–	(1)
Profit from operations	123	(30)	15	108

\*Other principally comprises the Group's operations in Hong Kong and Dubai.

### 3 Exceptional items and amortisation of intangible assets

	Group			Group 2006 £m
	Metronet 2007 £m	Other 2007 £m	Total 2007 £m	
<b>Charged against profit before taxation</b>				
Metronet – net contract losses	(27)	–	(27)	–
North America integration and reorganisation costs	–	(6)	(6)	(2)
National Engineering and Contracting Company – impairment of goodwill	–	–	–	(16)
Other items	–	–	–	(1)
Premium on buy-back of preference shares	–	(2)	(2)	(7)
	(27)	(8)	(35)	(26)
<b>Credited to taxation</b>				
Tax on items above	9	2	11	1
Recognition of US deferred tax assets	–	51	51	–
Credited to/(charged against) profit from continuing operations	(18)	45	27	(25)
<b>(Charged against)/credited to profit from discontinued operations</b>				
Profit on sale of operations	–	57	57	–
Metronet – impairment of investment	(87)	–	(87)	–
– tax thereon	10	–	10	–
<b>Exceptional items credited to/(charged against) profit for the year</b>	<b>(95)</b>	<b>102</b>	<b>7</b>	<b>(25)</b>
Amortisation of intangible assets	–	(9)	(9)	(1)
Tax thereon	–	3	3	–
<b>Credited to/(charged against) profit for the year</b>	<b>(95)</b>	<b>96</b>	<b>1</b>	<b>(26)</b>

### 4 Discontinued operations

Discontinued operations include the Group's 24.5% interest in Devonport Management Ltd, which was sold on 28 June 2007 and resulted in a profit on sale of operations of £57m, and the Group's 20% interests in Metronet Rail BCV Holdings Ltd and Metronet Rail SSL Holdings Ltd, following the appointment of a PPP Administrator to the concession companies on 18 July 2007, resulting in a £87m impairment of investment, before a tax credit of £10m.

### 5 Earnings per ordinary share

	Earnings Basic 2007 £m	EPS Basic 2007 Pence	Earnings Basic 2006 £m	EPS Basic 2006 Pence
Continuing operations	169	39.3	75	17.6
Discontinued operations	(18)	(4.2)	16	3.6
	151	35.1	91	21.2
Exceptional items	(7)	(1.6)	25	5.9
Amortisation of acquired intangible assets	6	1.5	1	0.2
<b>Adjusted earnings/earnings per ordinary share</b>	<b>150</b>	<b>35.0</b>	117	27.3

The weighted average number of ordinary shares used to calculate basic earnings per share was 430.0m (2006: 427.1m). Adjusted earnings per ordinary share, before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

### 6 Post balance sheet events

On 11 February 2008, the Group agreed to acquire the military PPP accommodation business of GMH Communities Trust for a cash consideration of approximately US\$350m. The transaction is conditional upon certain US military division, funder and regulatory consents.

# Independent auditors' statement to the members of Balfour Beatty plc

We have examined the Group's summary financial statement for the year ended 31 December 2007 which comprises the summary Group income statement, the summary Group balance sheet, the summary Group cash flow statement, the summary Group statement of recognised income and expense, the notes to the summary financial statement, the summary Directors' report and the summary Directors' remuneration report.

This report is made solely to the Company's members, as a body, in accordance with Section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual review and summary financial statement in accordance with United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the full annual accounts, the Directors' report and the Directors' remuneration report, and their compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual review and summary financial statement as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

## Basis of opinion

We conducted our examination in accordance with Bulletin 1999/6 "The auditors' statement on the summary financial statement" issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's and Company's full annual accounts describes the basis of our audit opinion on those financial statements and on the Directors' remuneration report.

## Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts, the Directors' report and the Directors' remuneration report of Balfour Beatty plc for the year ended 31 December 2007 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London  
4 March 2008

## Summary reports

The Annual review and summary financial statement includes a summary of information contained in the Directors' report and accounts 2007. The aim is to provide shareholders with information in a clear and concise manner. For this reason, the Annual review and summary financial statement does not contain all the information to allow for a full understanding of the results of the Company and the Group and their state of affairs. For further information, the full Annual report and accounts 2007, comprising the Annual review and summary financial statement and the Directors' report and accounts (containing the Financial review, the Directors' report, the Directors' remuneration report, the financial statements and the independent auditors' report, which is unqualified), should be consulted. A copy of the Directors' report and accounts 2007 may be obtained, free of charge, by writing to the Company Secretary, Balfour Beatty plc, 130 Wilton Road, London SW1V 1LQ. It is also available on the Group's website at [www.balfourbeatty.com](http://www.balfourbeatty.com). If you wish to receive the Directors' report and accounts in future years you should write to Capita Registrars at the address on the inside back cover.



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## Shareholder information

### Registrars and transfer office

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrars and clearly state the shareholder's registered address and, if available, the full shareholder reference number. Please write to:

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU  
Telephone 0871 664 0300 from the UK (calls cost 10p per minute plus network extras) and +44 20 8639 3399 from outside the UK (Monday – Friday 9.00 a.m. – 5.30 p.m., UK time). Alternatively you can email them at: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com).

They can help you to:

- check your shareholding;
- register a change of address or name;
- obtain a replacement dividend cheque or tax voucher;
- record the death of a shareholder;
- amalgamate multiple accounts;
- resolve any other question about your shareholding.

### Dividend mandates

If you wish dividends to be paid directly into your bank or building society account, you should contact the Registrars for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS). Information about Balfour Beatty's Dividend Reinvestment Plan ("DRIP") can also be obtained from the Registrars.

### Shareholder information on the internet and electronic communications

The Balfour Beatty website at [www.balfourbeatty.com](http://www.balfourbeatty.com) offers shareholders and prospective investors a wealth of information about the Company, its people and businesses and its policies on corporate governance and corporate responsibility. It should be regarded as your first point of reference for information on any of these matters.

In conjunction with Capita Registrars, you can access and manage your shareholdings whenever and wherever you like. By creating a Share Portal account, you are able to access the full range of online services, including the ability to:

- view your holdings and indicative share price and valuation;
- view movements on your holdings and your dividend payment history;
- register a bank mandate to have your dividends paid directly into your bank account;
- change your registered address;
- sign-up to receive e-communications or access the online proxy voting facility;
- download and print shareholder forms.

The Share Portal is easy to use. You can take control of your shareholding and keep your details up to date. Please visit [www.balfourbeatty-shares.com](http://www.balfourbeatty-shares.com). Alternatively, you can email: [shareportal@capita.co.uk](mailto:shareportal@capita.co.uk).

Balfour Beatty actively supports Climate Care, a not-for-profit organisation that funds global sustainable energy and forest restoration projects that reduce greenhouse gases.

As well as cutting greenhouse gasses, Climate Care's projects also help to improve people's standard of living and to protect wildlife habitats. For more information on Climate Care, visit [www.climatecare.org](http://www.climatecare.org).

In support of the Climate Care programme, Balfour Beatty will donate £1 to Climate Care for every shareholder that registers to receive shareholder communications electronically.

### Unsolicited mail

Balfour Beatty is obliged by law to make its share register available on request to other organisations who may then use it as a mailing list. This may result in you receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail, you may do so by writing to the Mailing Preference Service, an independent organisation whose services are free to you. Once your name and address have been added to its records, it will advise the companies and other bodies that support the service that you no longer wish to receive unsolicited mail. If you would like more details, please write to:

Mailing Preference Service, Freepost 29 LON20771, London W1E 0ZT  
or visit the Mailing Preference Service website at [www.mpsonline.org.uk](http://www.mpsonline.org.uk).

### Gifting shares to your family or to charity

To transfer shares to another member of your family as a gift, please ask the Registrars for a Balfour Beatty gift transfer form. Alternatively, if you only have a small number of shares whose value makes it uneconomic to sell them, you may wish to consider donating them to the share donation charity ShareGift (registered charity no. 1052686), whose work Balfour Beatty supports.

Any shares that you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £11m has been given to almost 1,500 charities. The relevant share transfer form may be obtained from the Registrars; further information about the scheme is available from the ShareGift Internet site [www.ShareGift.org](http://www.ShareGift.org).

### Share dealing services

Capita IRG Trustees Limited provide a telephone and online share dealing service for UK resident shareholders. To use this service, shareholders should contact Capita Registrars on 0870 458 4577 or visit [www.capitadeal.com](http://www.capitadeal.com).

The Company has also established an execution-only postal share dealing service, through JPMorgan Cazenove Limited, for private investors who wish to buy or sell Balfour Beatty plc's shares. Further details can be obtained from:

The Balfour Beatty Share Dealing Service, JPMorgan Cazenove Limited  
20 Moorgate, London EC2R 6DA, Telephone: 020 7155 5155

Alternatively, a low-cost, execution-only postal share dealing service for the purchase and sale of Balfour Beatty plc shares is available from Pershing Securities Ltd. The service is restricted to UK residents, and transactions are limited to €15,000 (approximately £10,000) in value. For details, please contact:

Pershing Securities Ltd, Broker Services Team, The Royal Liver Building, Pier Head, Liverpool L3 1LL, Tel: 020 7661 6616 (purchases), 020 7661 6617 (sales)

Capita IRG Trustees Limited, JPMorgan Cazenove Limited and Pershing Securities Ltd are each authorised and regulated by the Financial Services Authority. Pershing Securities Ltd is also a member of LIFFE and the London Stock Exchange.

### Share price

The Balfour Beatty share price can be found at the Balfour Beatty website at [www.balfourbeatty.com](http://www.balfourbeatty.com) and in the appropriate sections of national newspapers under the classification "Construction and Building Materials". It is also available on Ceefax and Teletext and a number of personal finance websites on the Internet. Historic share prices are available from the library at Hoare Govett. Telephone: 020 7678 5926.

The London Stock Exchange Daily Official List (SEDOL) codes are:  
Ordinary shares: 0096162  
Preference shares: 0097820

The London Stock Exchange "ticker" codes are:  
Ordinary shares: BBY  
Preference shares: BBYB

### Capital gains tax

For capital gains tax purposes the market value on 31 March 1982 of Balfour Beatty plc's ordinary shares of 50p each was 307.3p per share. This has been adjusted for the 1-for-5 rights issue in June 1992 and the 2-for-11 rights issue in September 1996.

### Enquiries

Enquiries relating to Balfour Beatty's results, business and financial position should be made in writing to the Corporate Communications Department at the Company's Registered Office address or by email to [info@balfourbeatty.com](mailto:info@balfourbeatty.com).

Balfour Beatty plc  
Registered Office: 130 Wilton Road, London SW1V 1LQ  
Registered in England Number 395826

**Balfour Beatty plc**

130 Wilton Road  
London SW1V 1LQ  
Telephone: 44 (0) 20 7216 6800  
Facsimile: 44 (0) 20 7216 6950  
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