

BUILDING A LONG-TERM FUTURE

Sustainability report 2009

Full version

Balfour Beatty has a firm and explicit commitment to fulfilling its responsibilities to stakeholders. The long-term success of our business depends on us fulfilling these responsibilities, while continuing to deliver profit through applying our expertise.

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Our approach

Committed to sustainable business.

As we grow the scale and breadth of our activities, we need increasingly robust systems, processes and policies to help us manage our sustainability performance. This section of our report gives an overview of our Group-level advances in the management of sustainability issues.

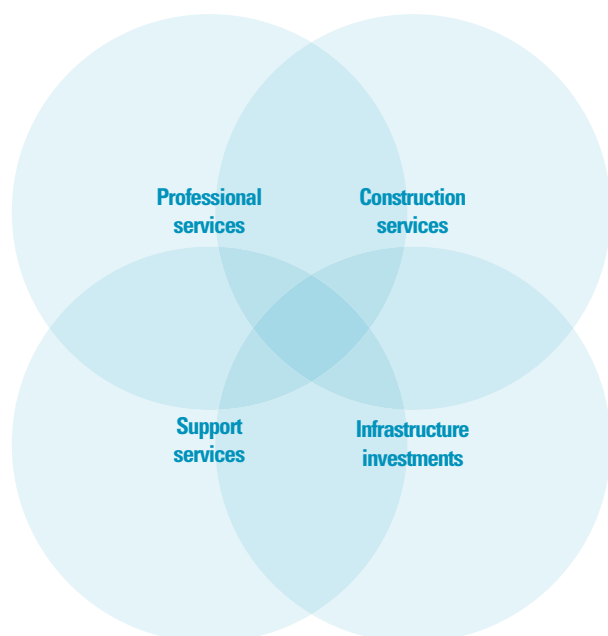
About Balfour Beatty

Infrastructure is a long-term business offering outstanding opportunities.

Balfour Beatty has created a high-quality business operating throughout the infrastructure lifecycle, with strong positions in major markets.

Our four market-leading businesses – in Professional services, Construction services, Support services and Infrastructure investments – are mutually reinforcing.

And we are well diversified across markets and geographies. This gives us the resilience and agility to prosper throughout the economic cycle.



Our model

Together our four businesses provide a full range of infrastructure services. Where they meet, we are at our most competitive and capable.

Balfour Beatty has maintained revenue and profit growth throughout the financial crisis. We have demonstrated our resilience and can face the future with even greater capability, a strong balance sheet based on robust cash generation, and excellent long-term prospects.

In 2009, we took important steps forward in all these areas. In particular, we transformed our capabilities in professional services, redefined our business in four new segments, rolled-out our 2020 sustainability vision and roadmap and reinforced our shared culture and values.

Balfour Beatty plc's head office is located in London, UK. We operate in over 100 countries around the world.

2009 in numbers

Revenues¹

£10.3bn

Order book

£14.1bn

Total employees

50,000

Average net cash

£283m

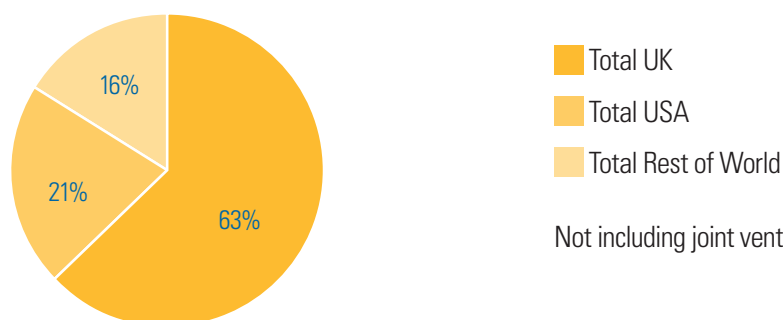
Pre-tax profit²

£267m

¹ Including joint ventures and associates.

² Before exceptional items and amortisation of intangible assets. For further information see our online Annual report at: annualreport09.balfourbeatty.com

Percentage of employees by geography (2009)



Not including joint venture employees

Integrating Parsons Brinckerhoff

Our acquisition of Parsons Brinckerhoff (PB) in October 2009 transformed our professional services capabilities for the management of large complex projects in the transportation, power, building and water sectors. PB enhances our global reach and gives us strong positions in the US, Australia and the emerging markets in South-East Asia as well as in the UK power sector.

We are excited about the opportunities that PB will bring us in terms of delivering our sustainability vision and roadmap. Their expertise brings real opportunity to deliver a range of sustainability solutions for our customers in terms of renewables such as wind, hydro and geothermal as well as emerging technologies such as carbon capture and storage, tidal energy and climate change adaptation solutions. We also have the opportunity to learn from each other regarding training courses and HR practices.

During 2010, PB will be developing and implementing plans to deliver our Zero Harm and sustainability visions as well as our ethics and values programme. We will report progress in next year's report. An acquisition of this size does of course carry with it a number of risks. The enforcement of ethics and values in other markets and geographies will be subject to different cultures, and the potential for fraud, bribery and corruption. Sustainability failure in one part of the enlarged group could have reputational impacts elsewhere in the Company. Customers may also wish to keep professional services and construction services separate thus minimising the synergies of more sustainable thinking in the early stages of project conception and planning.

Message from the Chief Executive

“True corporate sustainability means being confident of survival, and success, over the long term.”

Sustainability at Balfour Beatty

Balfour Beatty celebrated its centenary in 2009. While we are proud to have been in business for such a long period of time, what do we, as a company and as a leadership team, need to consider and put in place today to ensure that Balfour Beatty continues to thrive and has a sustainable, long-term future?

True corporate sustainability means being confident of survival, and success, over the long term.

To achieve this, we need to have the financial strength to withstand the market volatility that we inevitably face from time to time. In spite of economic uncertainty, I am pleased to say that our strategy is robust, and that we have continued to perform well.

Furthermore, we need the right strategy. Our goal is to be a world-leading provider of services to infrastructure owners. The acquisition of Parsons Brinckerhoff means we have now created an integrated portfolio of substantial businesses operating across the infrastructure lifecycle. Together with the diversity of our geographic and end-user markets, we have an excellent platform for future, long-term success.

As society and its expectations change, we are focused on setting the industry standard for sustainability and meeting all our responsibilities as a market-leading business. Undoubtedly, the leaders in our industry in the future will be those who put key issues such as safety, the environment and ethical behaviour at the core of their strategy.

We believe that our focus on the right types of sustainability initiatives gives us access to new markets in the low-carbon and resource-efficient economy of the future, which will drive business growth.

Our sustainability vision, and our roadmap to achieve it, commits us to achieve minimum standards on a range of issues in three areas – profitable markets, healthy communities and environmental limits – by 2020, with a checkpoint at 2012. These three areas do not compete; they represent shared outcomes that closely align with one another.

Delivering on these commitments is good business: good for our customers, good for employees; good for business partners; good for our supply chain; and good for society at large.

We have changed our sustainability reporting this year. Our report encompasses the wider sustainability agenda and is aligned to our 2020 vision and roadmap to allow clearer reporting of progress going forward.

We have come a long way in a short time and set ourselves ambitious goals which we will need to deliver. As in many other areas, if we can demonstrate that we have the right processes in place to ensure the highest standards throughout Balfour Beatty, we will have a clear, competitive advantage.

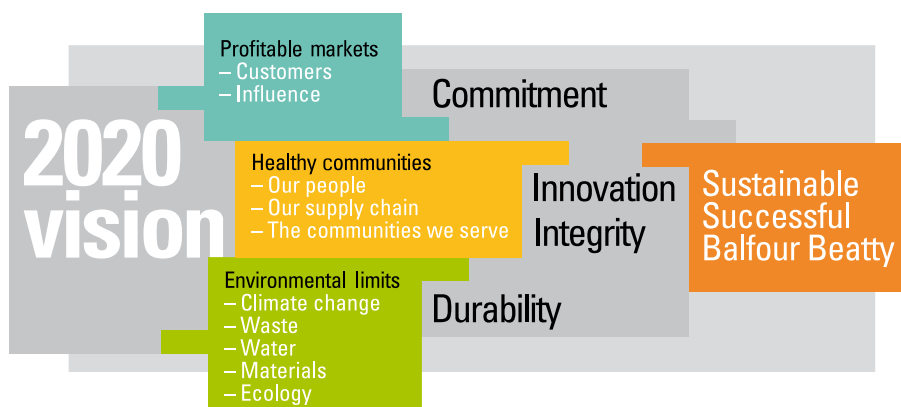
This is an exciting time for Balfour Beatty. We have great people, excellent long-term prospects and a robust business model.

We know there are significant challenges ahead. The scale and breadth of our activities gives us a real opportunity to make a strong and positive social, environmental and economic impact.

Ian Tyler
Chief Executive
May 2010

Our sustainability vision

We are committed to responding to the sustainability challenge. Through working together to develop and implement a sustainability strategy covering our global operations until 2020, we recognise that sustainability is a collective responsibility.



Where we are now

Balfour Beatty aims to be a leader in sustainability and play a significant role in helping our customers make sustainable choices. We also recognise that the impacts of climate change, resource depletion and the expectations of our customers, investors, employees and society will continue to intensify. During 2009 we critically evaluated our sustainability vision and roadmap, outlining where we wish to be in 2020.

The 2020 vision and roadmap was the culmination of extensive deliberation which included wide consultation within and outside the Company. We are particularly thankful for feedback and improvements suggested by National Grid, Network Rail, Schroders, Hermes, the UK Green Building Council and Business in the Community. Their feedback resulted in modifications to the vision and the addition of diversity, leadership and talent to the roadmap.

The details of the vision were shared publicly at an external launch in November 2009 to coincide with a conference organised by the UK Green Building Council.

We also developed a user guide to ensure that the strategy is consistently implemented in all our businesses.

The roadmap aims to ensure that by 2020, no matter where we are operating in the world, sustainability will be embedded into everything we do. Sustainability is a collective responsibility and the entire Balfour Beatty Group is focused on this challenge.

The roadmap addresses 31 key issues grouped into 10 focus areas, and sets three critical milestones for each:

[Minimum expectations by 2012 – mandatory first steps for all our businesses](#)

[Excellence for 2012 – the goal for those pursuing best practice standards](#)

[The aspirational goal for 2020 – providing a clear direction for businesses' thinking and practices](#)

A renewed focus on sustainability, facilitated by the vision, positions us better to manage non-financial risk, to exploit opportunities for increasing efficiency and entering new markets, and to enhance our reputation as a leader in infrastructure development and management.

In addition to a launch event to key external stakeholders, including the media, the vision and roadmap has now been launched in all businesses through a series of roadshows, presentations and Q&A sessions. 21 sessions with management teams have been held (November 2009 to February 2010) in the UK, US, Italy, Germany, Dubai and Hong Kong. Feedback from these sessions has been encouraging and although our businesses have recognised the goals set are challenging, they see sustainability as a way of differentiating themselves in the marketplace and to win new work.

Our targets

Our roadmap comprises a comprehensive mix of management and performance based targets across the Group for the first time. The key performance targets for 2012 are summarised below.

Issue	2012 Performance Target
Our People	Involve at least 90% of staff employees in annual appraisals of their performance Conduct exit interviews for at least 90% of leavers
Zero Harm	Zero deaths, zero injuries to members of the public and zero permanently disabling injuries, accident frequency rate of 0.1 while aiming for zero
Energy and carbon	Reduce our direct and indirect greenhouse gas emissions by 10% per £m revenue against a 2010 baseline
Waste	Reduce our disposal of waste to landfill by 50% per £m revenue against a 2010 baseline Achieve a minimum 25% recycled content of major materials (by value)
Materials	Procure at least 25% (by value) of major materials from recognised responsible sourcing schemes Procure 100% of timber/timber products from recognised responsible sourcing schemes
Water	Reduce our direct use of water by 10% per £m revenue against a 2010 baseline

We will summarise progress against these targets in future reports.

What's next?

The next step is for our businesses to create action plans detailing how to achieve the mandatory minimum expectations for 2012. It will be up to each of our operating companies to determine how these targets will be applied to their business. Action plans will be evaluated by the sustainability working group comprising representatives from our businesses worldwide, which helps to strengthen collaborative working across the Group. It is committed to providing feedback and sharing plans across the business, and will also ensure consistency with journey plans submitted for our Zero Harm safety vision.

We will launch the vision and roadmap in Parsons Brinckerhoff during 2010 and review their action plan later in the year.

The roadmap itself will be periodically reviewed and updated over time introducing new milestones between 2012 and 2020. These new milestones will reflect external developments and emerging best practice within and outside our business. What is identified as excellence in 2012 could well become the minimum expectations for all operating companies worldwide in 2015 as we continue on our journey for a truly sustainable business by 2020.

Our progress at a glance

This section gives an overview of our sustainability performance and provides an update on progress made against the objectives and other commitments made in last year's report.

Key Performance Indicator	2005	2006	2007	2008	2009	Trend 2005-09
Absence rate (%)	2.60	2.30	2.1	2.30	2.12	●
Graduate recruitment	107 (UK)	150 (UK)	258	311	454	●
Fatal accidents (employees and sub-contractors)	6	8	18	8	3	●
Accident frequency rate (employees and sub-contractors)	0.33	0.25	0.21	0.20	0.17	●
Carbon emissions (tonnes CO ₂)	148,000	228,100	252,400	324,000	383,400	●
Carbon emissions (tonnes CO ₂ /£m revenue)	38.0	40.8	39.1	32.8	34.8	●
Waste to landfill (tonnes)	–	851,800	703,700	833,400	878,300	●
Waste to landfill (tonnes/£m revenue)	–	153	109	84	80	●
Total waste recycled/recovered (%)	–	49	77	77	85	●
Water use (m ³ /£m revenue)	207.7	248.5	205.8	170.4	190.9	●
Sustainably sourced timber (% total timber spend by value)		–	69	77	89	●

We have established a new HR reporting system in 2010 and intend to report trends in the future.

We have also reflected the feedback from last year's stakeholder panel review within this year's reporting.

What we said we would do in 2009	Our Progress
Roll-out a comprehensive sustainability strategy across the Group.	2020 vision and roadmap launched in all our businesses.
Extend detailed review of anti-corruption measures to all businesses	Independent audit completed of all our businesses
Roll-out Group values and e-learning across the Group	Launched our new code of conduct and e-learning course
Provide an update on the Office of Fair Trading investigation into tender activities in the construction sector.	Balfour Beatty was fined £5.2m for breaches of competition law .
Extend the Balfour Beatty Group Audit Protocol (BBGAP) to our US operations.	Following a pilot in 2008 , a full audit programme was completed in 2009.
Through our Building Better Futures charitable trust, raise £500,000 in support of disadvantaged young people	Raised £599,000
Extend environmental data collection systems to US and UAE businesses.	Not complete. Data now collected for BK Gulf and our US construction and communities businesses. US Rail and Infrastructure businesses to establish systems during 2010.
Establish environmental targets.	Through our sustainability roadmap , we established a range of environmental targets to be measured against a 2010 baseline.
Respond to stakeholder panel recommendations	See progress to date in our assurance section .

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Focusing on what matters

This section of our report describes how we compiled our 2009 report, and details our newly introduced materiality process.

Focusing on what matters

Balfour Beatty's sustainability and corporate responsibility agenda and strategy have matured considerably since we began reporting in 2000.

Our sustainability vision and roadmap defined in 2008 with support from Forum for the Future, and rolled-out in 2009, has provided the Group with a clear direction of travel and ultimate vision of how we wish to be seen as an industry leader in sustainability. This year's Sustainability report has therefore been structured to reflect our vision, and aims to effectively communicate to all our stakeholders where we are heading.

One of our key goals for this year's reporting is to give more emphasis to the issues that have the most potential to affect our business significantly.

To help us to prioritise, we held workshops with members of the executive team and other senior managers. The aim of these sessions was to identify which sustainability issues are most material to the business from a number of issues that had already been identified through the work done on the sustainability vision.

By analysing issues relative to their potential impact on our ability to deliver on strategic aims, and their significance to stakeholders, we wanted to gain a clearer idea of which issues have most potential to materially affect the success of the organisation. This helped to give us a better idea of the issues we should give most weight to in this year's report.

The stakeholders considered were investors, employees, customers, government, NGOs, local communities, media and suppliers. Firstly, participants considered to what degree are stakeholders interested in how we manage each issue, secondly the issues were ranked by relevance to stakeholders, and finally issues ranked against ability to deliver our business strategy.

Materiality

The issues prioritised were then grouped into a structure for our report, highlighting nine topics as being particularly material for our business:

Leadership and governance

Ethics and values

Meeting customer needs

Influencing for sustainability

Safety

Talent and training

Energy and carbon

Waste

Materials

We hope this helps us to focus our communications and to be more transparent on the issues of concern to stakeholders that matter most to our business.

Additional issues considered

These issues are covered within our full online report, and made reference to in our summary report.

Supplier relationships

Employee engagement

Community engagement

Community investment

Protecting ecological resources

Pensions

Materials lifecycle management

Water management

Employee health and well-being

Incentives for non financial performance

Diversity

Turnover and absence

Local employment

Migrant workers

Issues not explicitly covered in sustainability reporting

Senior level remuneration

Innovation (though this is evidenced throughout)

*Output from materiality workshop 02.02.10

Attendees

Andrew McNaughton, Chief Operating Officer

Andy Rose, Group Managing Director (Engineering and Safety)

Mike Peasland, Group Managing Director

Paul Willis, Head of HR

Paul Stead, Group Safety, Health and Environment Manager

Andrew Hayward, Head of Compliance

Duncan Murray, Director of Corporate Communications

Jonathan Garrett, Group Head of Environment

Hannah James, Senior Corporate Communications Executive

This is our full report online and addition to this, we also produce a summary document, available here. Again this year's report has been aligned to relevant sections of the Global Reporting Initiative (GRI) Framework.

Scope

This is Balfour Beatty's ninth report and covers our worldwide operations for the 12 months ending 31 December 2009 (unless stated otherwise).

Our approach and management systems cover our global activities and we report on incidents and penalties on a global basis.

We collate safety data for all of our wholly-owned activities and for those joint ventures where we have management control. Sub-contractor safety performance is included for all activities apart from the US, where it is not common practice.

Our environmental data is reported for all wholly-owned UK and European operating companies and for those joint ventures where we have management control. This year, our US construction and communities businesses and our joint venture businesses in Dubai (BK Gulf and Dutco Balfour Beatty) have progressed towards reporting environmental performance to the same standards. We report data in both absolute numbers (eg tonnes of waste) and normalised against £m revenue (tonnes of waste/£m revenue). The turnover figure used differs therefore from the total revenues for the Group as it excludes environmental data from minority interests where we do not have management control.

We report on employee data for all our wholly-owned businesses worldwide. Where possible we refer to the people that work directly for Balfour Beatty or our joint venture businesses as employees throughout the report. Our HR data is reported in terms of "staff" (people who are primarily office-based) and "operatives" (people who are primarily site-based).

In October 2009, Balfour Beatty acquired Parsons Brinckerhoff (PB). This acquisition has led to a number of structural changes across the Group, meaning we are better placed to meet our customers' needs. Our 2009 report includes PB safety data from time of acquisition, and HR data for the full year.

There were no significant divestments during the year. We continue to restructure the business to meet market needs and opportunities. During 2009, our UK rail businesses were brought together into a single operating company and our two UK mechanical and electrical businesses merged to form Balfour Beatty Engineering Services.

Additional reporting

Some of our businesses publish their own reports aimed at their stakeholders:

[Mansell](#)

[Gammon Construction](#)

[Balfour Beatty Capital](#)

[Parsons Brinckerhoff](#)

Ethics and values

Our Group values: reflecting the way we already work when we are at our best

- Integrity – We always aim to do what is right
- Teamwork – We are better together
- Excellence – We strive to improve and exceed expectations
- Respect – We appreciate others and care about the wider community
- Values leaders identified in all businesses
- End of 2010 programme goals:
 - All employees have received a values presentation, understand the values and employ them in their everyday work
 - All managers have attended one or more workshops
 - HR directors have attended the HR workshop
 - Each operating company has embedded the values in their HR processes
 - Measurable metrics in place to gauge buy-in to the programme

Our Code of Conduct: How we work, what we value

- Issued to all operating companies from 2009
- Issued in five languages, with more to follow
- 2010 roll-out to Parsons Brinckerhoff (to include a further three languages)
- Online training programme rolled-out

Ethics Helpline: Consistently reporting concerns across the Group

- Website available in five languages (interpreters also available for concerns reported by telephone)
- Publicity materials to be used in 2010 in various languages

Ethics and values

We need to ensure that all our employees across the world are confident in their ability to make decisions that will consistently prevent the organisation from conducting its business unethically or being exposed to serious risks.

The Balfour Beatty Group has grown fivefold since 2000 and operates in many diverse markets globally. We have recognised not only changing markets and customer needs, but that further growth will potentially stretch the boundaries of our operating companies, their management teams and individuals.

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

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

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

Redefining our values

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

The articulation of our four values followed a process, both internally and with key customers to gauge their opinions on the Group and what we need to do to sustain our business. These values are not new to Balfour Beatty, but behaviours our customers and other stakeholders recognised within our company culture. What is new is our plan to embed the values further through a structured programme.

Recognising the diverse nature of our internal audience, the programme has been designed to focus on cascade briefing methods and strongly encourages face-to-face workshops to create internal debate around the values. By allowing each operating company to customise their plans to suit their audience, the programme aims to create unity, but not uniformity.

Our new Code of Conduct

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

Launched to all employees in 2009, the Code of Conduct recognises that people face difficult decisions every day of every week. It is not a rules-based document. It provides a framework within which individuals can make decisions, and highlights the need for everyone to do the right thing, rather than just following rules. To accompany the physical document, during 2010 employees will complete online training, to ensure they fully comprehend the importance of ethical behaviour.

In the past, we have had instances where the behaviour of individuals within the business have fallen short of the standards we expect and this has exposed the Group to legal and reputational risk. With the increased size and complexity of the Balfour Beatty Group, the Company recognises that the actions of one individual can increasingly impact our financial or reputational position as a whole.

Balfour Beatty was one of a number of companies subject to an industry-wide investigation by the Office of Fair Trading (OFT) into tender activities across the construction sector, and in 2009, we were fined £5.2m for breaches of competition law. In light of the original investigation, we had already carried out a thorough and detailed audit of all our businesses, and introduced a rigorous training programme, to ensure we are fully compliant with all aspects of competition law.

As set out in more detail below, as part of our settlement with the Serious Fraud Office in 2008, £2.25m was paid by way of Civil Recovery Order, and an external monitor was appointed to review our anti-corruption policies and processes.

Introducing the Ethics Helpline

Also in 2009, we supplemented the existing internal channels for employees to raise concerns about unethical conduct. Employees can now use a confidential third-party service accessible by phone or online. Employees can speak to an operator in any language, and the website is available in five languages.

In 2009, 42 whistleblowing cases were reported and thoroughly investigated and, where appropriate, remedial and/or disciplinary action taken (28 in 2008). The business practices committee reviewed all 42 cases. We believe that this increase reflects growing awareness of the role of whistleblowing channels and of the Company's high ethical standards. The introduction of the new ethics helpline may lead to a further increase this year.

We are currently reviewing which performance measures will be most meaningful in tracking the impact of our new Code of Conduct and ethics reporting hotline. We expect to report our progress in next year's report.

Balfour Beatty is a corporate supporter of the Institute of Business Ethics and Transparency International, and it works closely with the Anti-Corruption Forum.

Our growing business

Acquisitions challenge the depth of cultural alignment across the Balfour Beatty Group, which is particularly relevant as we enter more diverse market sectors and new geographies. The acquisition of Parsons Brinckerhoff has increased the Group by 12,500 people and our Code of Conduct will be rolled-out across this business during 2010. The Code will be translated into a further three languages. We are currently also in the process of agreeing with our four joint venture businesses how we apply the Code to those businesses.

Leadership and governance

Why this matters to us

Managing our business responsibly and for the long-term is a key part of Balfour Beatty's strategy.

We are a leader in many of the markets in which we operate and that position and reputation has been built over many decades.

In October 2009, we acquired Parsons Brinckerhoff (PB), one of the world's leading professional services firms.

The acquisition means we have created a substantial, integrated portfolio of businesses operating across the infrastructure lifecycle and have a sustainable business model with the capabilities to meet the long-term demand for infrastructure and the needs of customers.

Leadership is not only about having the biggest market share, however.

We must behave like an organisation of real substance and stature and we aim to be a leader in a broader sense, setting the standard in areas such as ethics, safety and environmental management and in our relationships with our customers, our supply chain and our people.

The future success of the business depends on it.

Our renewed focus on sustainability, facilitated by the sustainability vision and roadmap, and building on best practice within the Group to date, will help us to:

[Be at the forefront of sustainability in our industry](#)

[Work with customers to help achieve, and where possible, exceed their sustainability aspirations](#)

[Enhance Balfour Beatty's reputation as a leader in infrastructure development and management](#)

Leadership is part of our heritage

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

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

The founder of Parsons Brinckerhoff (PB), William Barclay Parsons, wrote, over a century ago, that the development of infrastructure required not only technical excellence but also "the mind and the knowledge to conceive that which is useful and will be for the convenience of mankind in the long-run."

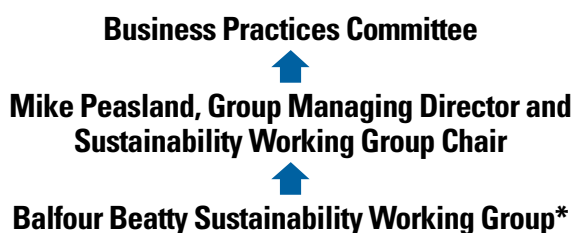
His belief, which remains PB's philosophy today, was that it is "not the design that governs, but its adaptability to the economic and social needs of the time."

Governance

The Balfour Beatty Board sets policy and takes responsibility for the Group's non-financial performance, including issues relating to sustainability.

The Business Practices Committee, which comprises non-executive Directors, chaired by Mike Donovan, reviews these activities and provides guidance on future activity.

The Committee met three times in 2009. The main topics considered by the Committee during the year related to health, safety and sustainability, and ethics, values and business conduct.



Brent Mitchell	Balfour Beatty Utility Solutions	Head of Support Services
Caroline Parsons	Balfour Beatty plc	HR Manager
Chris Whitehead	Balfour Beatty Construction Northern	New Work Director
Colin Smith	Gammon Construction	HSEQ Director
Dominic Grace	Balfour Beatty plc	Innovation and Knowledge Manager
Ed Bartlett	Balfour Beatty Capital	Whole Life Cost Director
Jonathon Garrett	Balfour Beatty plc	Group Head of Environment
Louise McCulloch	Balfour Beatty plc	Senior Corporate Communications Executive
Martin Brock	Balfour Beatty Major Civil Engineering	Head of HSEQ
Rich Rantala	Balfour Beatty Construction US	Senior VP, Shared Services
Simon Wright	Mansell	Supply Chain and Sustainability Director

*2010 working group

A sustainability vision and a roadmap to deliver it, was launched in October 2009 and Group-wide targets set for the first time in many areas of performance. Central to the vision is playing our part to align the interests of profitable markets and the needs of communities within environmental limits.

Internally, the vision is owned by the sustainability working group, consisting of senior managers with responsibility for Group policy and strategy on key issues.

Dow Jones Sustainability Index

Balfour Beatty has been a member of the Dow Jones Sustainability Index since 2007. Our score of 67% (2008: 65%) for the global business in 2009 year reflects the Company's improving performance across economic, environmental and social criteria and compares well with the industry average of 48%.

Policies

Balfour Beatty has clearly stated policies and principles for key issues such as:

[Risk management](#)

[Safety and health](#)

[Environment](#)

[Human rights](#)

[Equal opportunities](#)

[Ethics and competitive behaviour](#)

Policies are available on the sustainability pages of www.balfourbeatty.com

Within this framework, operating companies are required to develop specific policies and practices, relevant to their particular business.

Managing risk

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

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

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

More details on our risk management can be found within our 2009 Annual report

Developing leaders in the business

Our world is changing.

As a Group with in excess of £10bn in revenue, and one which operates in more than 100 countries around the world, it is now more critical than ever that we recruit, attract and develop the best people to lead our business in the future, working in different ways to achieve results for our customers and our shareholders.

There will be new demands on our senior leaders, who have the responsibility of leading our business in the future, so that we:

Continue to exceed the expectations of our customers, employees, business partners and shareholders

Facilitate greater innovation and collaboration across the Group, and

Meet our sustainability vision by 2020

In order to ensure that our leaders have the right skills and attributes, we are developing a senior leadership framework, identifying the particular qualities that characterise a successful leader in Balfour Beatty and highlighting the additional behavioural attributes and skills necessary to lead in the future.

Some practical examples of our strong commitment to effective leadership are as follows:

In November 2009, over 250 senior managers attended our regular Management Conference, including representatives from Parsons Brinckerhoff, where key sustainability issues, people management and leadership were discussed

Each year, our top 40 senior management group meets over two days to discuss the strategic direction of the business

We run a management development programme for managers aspiring to senior roles, which involves delegates from around the world

Looking forward

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

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

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

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

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

We will add value for our stakeholders by:

Helping our customers reach their own sustainability goals

Increasing returns for our shareholders

Creating a better place for our employees to develop and prosper

Providing infrastructure which benefits the wider community and the environment

Independent assessment of anti-corruption measures

In early 2005 we identified payment irregularities relating to a joint venture contract in Egypt which had been completed in 2001 by a Balfour Beatty business that was discontinued over seven years ago. The matter was reported voluntarily to the Serious Fraud Office (SFO), and after settling this case in 2008, we appointed the Global Infrastructure Anti-Corruption Centre (GIACC) to report on our anti-corruption measures.

During 2009, GIACC undertook a detailed review of all operating companies, other than Parsons Brinckerhoff, which will be assessed in 2010.

The main conclusions of its 2009 report were:

There is a strong ethical culture from the top of Balfour Beatty

There is a high level of awareness of the risks of corruption, a belief and desire that Balfour Beatty should be run in all respects as an ethical company and in compliance with the law, and a commitment to ensuring, as far as is reasonable, that no corruption takes place in relation to our business

Documentation and procedures were well-written and in compliance with international best practice. Some areas for improvement in such procedures, or their implementation, were identified and have been or are being addressed

Major steps have been taken in 2009 to enhance our ethical compliance programmes, including:

Launch of the values and new Code of Conduct

Publication of Group-wide minimum standards for commercial management

Enhanced ethical training programme and new helpline

Compliance function established at Group Head Office, with compliance officer in each operating company

The process used to approve the appointment of agents and the payment of commissions is robust and rigorously operated

While due diligence is undertaken in respect of joint venture partners and the supply chain, this could be enhanced and more formally documented

Certain specific weaknesses in the programme and some differences in the level of implementation of these policies and processes across the Group were identified. These will be addressed during 2010

The Board receives regular reports on our anti-corruption programme and we will provide further updates in future sustainability reports.

Stakeholder engagement

Balfour Beatty aims to treat stakeholders with integrity and professionalism at all times. We believe that engaging with our stakeholders systematically and pro-actively is an essential element in being a responsible company.

Here are some of the ways in which we have been maintaining dialogue with them in 2009.

Customers

Why we engage

We seek to work closely with customers, to have a thorough understanding of their needs and processes and to achieve outstanding levels of customer satisfaction.

A substantial proportion of the Group's business is conducted with organisations with whom we have long-term relationships, so customer feedback is regular and promotes two-way communication.

Our Code of Conduct clearly states that we are committed to communicate truthfully, clearly and regularly with our customers.

How we engage

Running regular customer attitude and opinion surveys

Involving customers in our Zero Harm safety vision

Collating our customers' perspectives on Balfour Beatty to help define our Group values of integrity, teamwork, excellence and respect

What's next?

Recognising that much of our business is carried out through partnering, we have launched an alliance exchange programme across UK businesses. A toolkit is being developed to help our employees communicate effectively with current customers

We need to engage with our customers further and work with them to agree deliverables, so that our businesses can meet our 2012 sustainability expectations

Investors

Why we engage

We seek to provide shareholders with improving returns over the long-term and give them the information they need to make well-informed investment decisions.

How we engage

Running an active investor engagement programme involving regular roadshows and one-to-one meetings.

During 2009, senior executives held over 140 meetings with institutional investors. An Investor Day was held in London, which included a visit to the London Aquatics Centre we are building for the 2012 Olympics and provided us with the opportunity to showcase Zero Harm and sustainability in action

With the acquisition of Parsons Brinckerhoff in October 2009, senior executives conducted over 30 investor meetings to communicate effectively about the deal

All our financial presentations are webcast

Balfour Beatty shareholders can access details of their shareholding over the internet, and our registrars provide them with clear guidance regarding topical issues

Our Annual General Meeting provides shareholders with the opportunity to speak directly to our Board

What's next?

Increase our shareholder communications in 2010 by providing them with a focused piece of communication explaining the Company results and new business segmentation

We have recently appointed an independent external corporate and investor relations consultant. They provide advice on the relationship between the Company and its institutional investors

Broaden investor engagement outside the UK

Employees

Why we engage

Balfour Beatty aims to create a safe, healthy, challenging, rewarding, participative and fair working environment for all employees. Giving our employees a “voice” is central to creating a unified culture where our employees feel motivated and understand the direction in which the Company is heading.

How we engage

Our businesses use a variety of methods to communicate key business goals and issues and also consult and involve their employees through local publications, briefing groups, consultative meetings, representative bodies, training programmes and working groups

All employees receive the Group’s six-monthly magazine, Update, which was refreshed in 2009 to reflect the growing Group and its strategic priorities

Employee surveys are conducted in the majority of our businesses

We regularly meet with employee representatives to discuss topics of mutual interest and to keep them informed about our business

Our Code of Conduct, and accompanying online training, aims to ensure that all employees feel well-equipped to make the right decisions

The acquisition of Parsons Brinckerhoff has led to various integration communications, such as roadshows, webcasts and e-newsletters, going to those employees involved, plus employees of the wider Balfour Beatty Group. A “Who’s Who” directory of management teams across the business was also published in 2009, connecting people across the Group

Our Zero Harm safety vision has led to an increased level of employee roadshows across the business

We hold regular management conferences

An assistance network is in place for all pensioners needing help and advice. Regular pensioner roadshows are also held and a twice-yearly magazine published

What’s next?

Communicate the strategic direction of the Company through an employee booklet, and page-turn PDF for intranets, issued after the financial results

The workshops developed to roll-out the Group Values programme prioritise face-to-face communication, and values leaders across the business will collate employee feedback on the programme

Develop an e-learning and off-line sustainability course to support the embedding of the 2020 vision

HR working group set up to review employee satisfaction surveys with a view to having some consistent questions across the Group

Conduct a readership survey for Update magazine, and include a questionnaire to gather feedback

Contribute to promote greater knowledge sharing across the Group

Government/Regulators

Why we engage

Over half of Balfour Beatty’s work is undertaken for governments. We seek to operate fully within legal and regulatory boundaries and wish to engage with governments and regulators to understand the issues that may impact our business, particularly those that affect our customers and the communities in which we operate.

How we engage

We seek active and positive relationships with both our public sector customers and those departments and organisations which regulate the activities of our sector to ensure that our own policies and practices meet all their key requirements

We make sure any public policy or political activity we undertake is lawful, ethical and within our code, and as a company we do not participate directly in party political activities

We run a pro-active Government affairs programme and senior executives often attend conferences to discuss governmental issues

What’s next?

Initiate a new public affairs programme following the UK election to engage with key Government officials

Expand our public affairs activity in the US

Local communities

Why we engage

Balfour Beatty aims to make a lasting positive impact on the communities in which we operate. By engaging with local communities, we believe we protect and strengthen these communities. We also want to deliver better projects and services to help us secure future work.

How we engage

Consultation on our projects involves leaflet drops, project websites and community discussions or exhibitions. Most of our larger sites have community relations officers

We have developed a number of national and local initiatives which reflect our commitment to and which are targeted at improving the life prospects of young people

What's next?

With more long-term projects and maintaining assets for our customers for many years, we need to work constantly to improve the planning and implementation of community liaison work

We plan to build on the momentum of charitable giving started in our centenary year to include our international operations further

Suppliers

Why we engage

We want to create long-term partnerships with suppliers based on the compatibility of their values and behaviour as well as product quality and price. We need the support of sub-contractors to deliver the majority of our projects, and consistent engagement helps us to work together to understand each others' needs, and to exceed customer expectations.

How we engage

During 2009 our businesses shared and involved many of our suppliers in our Zero Harm and Sustainability visions. In partnering with key suppliers, we hope that they will align their own sustainability programmes with our roadmap and seek to influence our energy consumption, waste and responsible sourcing of materials in a positive way

Many of our operating companies organise meet the supplier days, fostering a collaborative working culture

What's next?

During 2010, our UK operating companies are working to deliver industry-leading procurement and supply chain management solutions, involving our suppliers in this journey

We will work to engage further with our suppliers to embed Zero Harm and sustainability within our supply chain

Industry groups

Why we engage

We believe that co-operation with other companies in our sectors on sustainability issues can help us drive improvement in a way that we cannot do on our own. Sector-led initiatives can drive the adoption of best practice.

How we engage

During 2009 we worked with a number of companies to promote best practice in safety and environment through the UK Contractors' Group, such as helping to develop best practice in water conservation during construction and share carbon best practice through the CBI construction council climate change sub-group

Through Dutco Balfour Beatty, we continue to chair BuildSafeUAE which develops and shares safety information across the construction sector in the Gulf

What's next?

During 2010 our operating companies are reviewing their interactions with trade associations and other companies in our sectors to determine the best methods of positively influencing markets for more sustainable outcomes.

Case studies

Widening the M25 motorway, London.

When work started on the widening two significant sections of the M25 motorway in London, the Skanska Balfour Beatty joint venture set out to follow the Considerate Constructor's principles and work with the local communities from the outset.

When work started on the widening two significant sections of the M25 motorway in London, the Skanska Balfour Beatty joint venture set out to follow the Considerate Constructor's principles and work with the local communities from the outset. The first section of the road to be widened passed through a heavily populated residential area, with many people living very close to the M25 motorway than on any other part of the route, so this area was a particular challenge. Despite the very tight programme to widen the motorway, the project team has liaised consistently with residents and has been able to amend original plans in some locations along the route to provide environmental mitigation bunds rather than exposed sheet-piled walls. These bunds will help reduce the impact of the widened motorway to leave a lasting benefit for the local community. The project team also engages with local organisations, charities, schools and colleges to provide safety talks, site visits and work placements to help build long-lasting relationships.

Global issues

Collectively, the global construction, civil engineering and infrastructure services sectors have significant economic, social and environmental impacts. The sector as a whole accounts for:

37% of the world's energy use

40% of its waste and 40% of its CO₂ emissions

10% of global GDP (Gross Domestic Product)

28% of the world's employment

40% of the world's consumption of resources

14% of the world's water consumption, and

40% of all workplace fatalities

Source: OECD

Trends relevant to Balfour Beatty

In 2008, in conjunction with Forum for the Future, we identified those issues likely to be critical to the future global success of our business from a sustainability perspective. The priority areas, identified through horizon-scanning techniques, included:

The availability and cost of raw materials and water as populations grow and key natural resources dwindle, impacting the way we manage waste, source our materials and conserve water resources but also presenting new commercial opportunities such as water and waste water treatment technologies

The physical and economic impacts of climate change are likely to increase over time with investment in adaptation likely to grow and encouraging more innovative ways of managing existing assets being impacted by climate change

Globalisation and the rise of the Indian and Chinese economies impacting on the demand for infrastructure and other business opportunities

Increasing costs of energy (for fossil fuels) and the price of carbon will encourage our customers and ourselves to seek low-carbon opportunities to reduce costs, increase security of supply and potentially profit from carbon trading

The availability of finance could determine investment priorities and hence the size and nature of future market opportunities

The attraction and retention of skilled workers will be influenced by their perception of which businesses respond effectively to their corporate responsibilities, including the availability of opportunities to make a real difference to society's sustainability challenges

These issues helped to underpin the development of our 2020 sustainability vision and roadmap.

Opportunities

Although there are many uncertainties over the next decade, this horizon-scanning exercise highlighted major opportunities in the transition to a low-carbon and resource-efficient economy.

There will be further opportunities for our continued growth and development arising from new markets driven by the move towards sustainable development. For example:

Growth in renewable energy and waste infrastructure such as wind, tidal and solar power, new nuclear, waste-to-energy plants and upgrading of transmission grids for renewables

Increased demand for the construction and renewal of rail infrastructure

Increased demand for more sustainable buildings – both new and refurbishment of the existing building stock

Carbon capture and storage at power generation plants

Continuing demand for more sustainable social housing, schools and hospitals, as populations continue to grow

Profitable markets

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Sustainable businesses need to be consistently profitable. Here, we examine how our approach to sustainability can itself generate profitable business growth.

We believe that sustainability will have a growing influence on our business, our customers and other stakeholders over the coming decade. It will therefore be a competitive issue in the marketplace. Through our leadership we can influence the market so that sustainable infrastructure is consistently the best option. We want our customers and investors to choose Balfour Beatty because we contribute to their long-term profitability through more sustainable infrastructure.

Case study – Profitable markets in action

Sustainable solutions: Tamar Complex, Hong Kong

We are building the Tamar Complex as Hong Kong's new seat of government. We won the contract for our ability to provide world-class design and construction as an integrated package, and for the high standards of sustainability, safety and sensitivity to local needs that we embodied in our approach. Rather than focusing on upfront capital costs, we applied whole-life cost thinking to explore a range of environmental and cost-saving opportunities over the operational life of the building.

“The Tamar development project will be an iconic place to mark Gammon's leading position and Balfour Beatty's involvement in the Hong Kong construction industry.”

Edward Yeung

Project Director, Gammon Construction

“This project is a fantastic platform to advance sustainable construction. There are many environmental aspects to the programme, from waste management, partnering with the university on bio-remediation, to materials sourcing.”

Shirlee Algire

Group Sustainability and CSR Manager, Gammon Construction

Meeting customer needs

Meeting customer needs is fundamental to any business. As sustainability moves up our customers' agenda, we need to ensure we are best placed as a business to work with customers to help achieve, and where possible, exceed their sustainability aspirations.

Why this matters to us

Sustainability is becoming an increasingly important consideration for customers and meeting customer needs is fundamental to Balfour Beatty's long-term future. We believe that the way we deliver more sustainable solutions will be a key differentiator in increasingly competitive markets. Through our scale and leadership, we can positively influence the growth of these markets. Over time, growing numbers of customers will want sustainability to be part of the way we meet their requirements. This is already particularly evident in Hong Kong, where our focus on sustainability is helping us to win work.

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

We also need to innovate to enhance the service we offer to customers and to be recognised as a market-leading business.

Our 2020 sustainability vision in this area is to:

Deliver an appropriate range of products and services that respond to the needs and aspirations of customers and a sustainable society

Work in partnership with customers to help them align their sustainability goals to society's expectations and to environmental limits

Our approach

In order to ensure that we continue to meet customer needs, we undertake a range of activities:

We evolve our strategy to meet customers' requirements. In our experience, major infrastructure owners increasingly want to work with integrated suppliers. Following the acquisition of Parsons Brinckerhoff, Balfour Beatty has substantial businesses operating across the infrastructure lifecycle in professional services, construction services, support services and infrastructure investments, which will help to fulfil this customer need

We undertake regular customer satisfaction surveys to ensure that we are performing to a high level and are exceeding customers' requirements

We share knowledge across the Group to ensure that best practice and innovative ways of meeting and solving complex problems are captured

We have close relationships with customers through relationship managers across the Group who maintain an open, two-way dialogue

We carefully monitor our order book, which is a good indicator of the health of the business. At the end of 2009, our conservatively-calculated order book stood at £14.1bn, which does not include contract extensions, framework contracts or long-term concession income

In the area of innovation, we:

Develop product and process innovations within all of our operating companies

At Group-level, we drive best practice through the innovation forum and are developing more sophisticated knowledge management systems and processes, which is particularly important as the Group gets bigger and more geographically diverse

What's next?

The 2012 expectations in our sustainability roadmap set out our plans for meeting and where possible, exceeding, our customers' sustainability aspirations by:

Formally confirming the sustainability objectives on all projects at the outset of engagement with the customer

Identifying sustainability solutions achievable within existing project budgets

Presenting sustainability options for customers, where no sustainability objectives exist, for their consideration

We will also include sustainability considerations in our project risk and opportunity reviews. Further development is also needed to create key performance indicators to track the value of sustainability products and services delivered by our businesses and those projects where sustainability deliverables have been agreed by the customer.

Case studies

Our ability to meet customer needs and to work with them to achieve their sustainability aspirations is best illustrated through a number of examples:

It's never too late to change your LEED

The highest and most demanding level of green building certification in the US is the LEED (Leadership in Energy and Environmental Design) platinum certification.

Washington DC became the first major US city to require LEED compliance for private projects when the Green Building Act came into effect in 2007.

With the 700 Sixth Street office building in Washington nearly complete, our customer, Akridge Services, upgraded the original sustainability goal of silver certification to platinum.

Our project team rose to the challenge with the building being awarded the highest LEED rating in 2009, the first time this had been achieved by Balfour Beatty.

Sustainable features include an innovative green roof and a design to optimise energy performance.

The market for greener buildings in the US is forecast to rise from US\$12bn to US\$60bn by 2010, underlining the significance of meeting customer needs in this area.

Building energy-efficient homes

Mansell built the UK's first row of terraced Level 6 (the highest possible rating) homes under the Code for Sustainable Homes in 2009 in Northampton for Metropolitan Housing Partnership.

These highly energy-efficient homes included solar panels and wood pellet boilers plus attractive sunspaces to regulate temperatures.

Rainwater harvesting, a composting system, LED lighting and a sustainable drainage system contribute to the homes' exceptional green credentials.

Getting the message across

Across the Department of Defense, energy conservation programmes are being put in place as part of the plan to reduce overall energy consumption on military bases in the US by 20%. As a result of this, the US Army is working with Balfour Beatty Communities, which is responsible for the development, renovation, operation and management of military privatisation housing projects, to develop ways of encouraging soldiers and their families living on base to be responsible for their energy consumption.

Balfour Beatty has developed a series of educational tools to get the message across, which has resulted in lower utility usage and conservation of resources.

The fun programme aimed at all residents, especially children, has included the BAL-4 mascot being used in a range of educational and marketing materials.

What does a sustainable building mean for occupants?

On average, US citizens spend 85% to 95% of their time indoors and the US Environmental Protection Agency ranks indoor air quality as one of the top five environmental risks to public health.

When Heery was appointed to carry out the construction management for the Lewis Library and Technology Centre, it worked with the City of Fontana in California to provide better air quality and better lighting in the building for staff and visitors and, at the same time, to reduce long-term owner operating costs through a sustainable solution.

A model for sustainable education

As part of the Islington Building Schools for the Future contract, Balfour Beatty is on track to deliver the Council's goal of 20% of renewable energy being generated from on-site sources.

At Highbury Grove School, this is being achieved through ground-source heat pumps, a wind turbine and small combined heat-and-power plant.

Rainwater harvesting will meet half the site's water needs and pedestrian access and cycling is being encouraged by halving the available number of car parking spaces.

Influencing for sustainability

Through our scale, diversity of operations and global spread, we have a major opportunity to influence the direction of the emerging sustainability agenda to help grow our business. We have been particularly successful in developing sector-based approaches to low-carbon infrastructure and sustainable schools.

Why this matters to us

Influencing the market to adopt more sustainable outcomes is a strategic priority for Balfour Beatty. Ultimately, sustainability is about the long-term growth and survival of our business. The sustainability agenda provides exciting opportunities to expand into new markets for the low-carbon, low-waste and resource-efficient economy. Government data states that the growth in environmental markets worldwide is predicted to grow from US\$700bn in 2010 to US\$3 trillion by 2050.

We aspire to be a market leader in making sustainable development happen.

Achieving a leadership position will have a number of business benefits, including:

Reducing our operating costs through environmental excellence and resource efficiency

Assisting in the recruitment and retention of the best people in our industry

Differentiating our products and services to help us to win work and capitalise on new business opportunities

Through our scale and breadth of capabilities we have a real opportunity to encourage the market to adopt more sustainable solutions. This, in turn, will help our business continue to grow. Influencing a range of stakeholders is central to our sustainability vision's theme of sustainability being a collective responsibility.

Our approach

Influencing for sustainability is a key element of the profitable markets segment of our 2020 vision and roadmap. Our approach has focused on:

Targeting research and thought leadership on emerging issues (especially energy and carbon)

Identifying and delivering innovative solutions for our customers' sustainability challenges through excellence in our people

Sharing our successes, capabilities and expertise, through conferences, our marketing materials for customers and features in the trade and technical press

The addition of Parsons Brinckerhoff (PB) to the Group will accelerate our influence across a range of issues and sectors. In addition to advancing renewable energy sources such as wind, hydro and geothermal, PB is a pioneer on emerging technologies such as carbon capture and storage and tidal power. Through the technical strength of PB's people, we have the opportunity to transform our capabilities in the delivery of sustainable solutions to a wide range of customers.

Influencing for sustainability is best illustrated through a number of examples.

Case studies

Powering the future

The UK's commitment to an 80% reduction in CO₂ emissions by 2050 represents a major challenge for all sectors of the economy. But can such an aspirational target be achieved? Parsons Brinckerhoff carried out a comprehensive piece of research over two years to answer this question. The report, *Powering the Future*, was published in December 2009.

The research team assessed CO₂ emission reduction technologies from all sectors of the UK economy and created models to predict the likely impact of each in emissions reduction. The good news is that the target is achievable. However, delivering it will require strong leadership from Government, urgent action and co-ordination between sectors to avoid wasted investments and failed commitments.

The most effective reduction measures identified during the study were:

A rapid and large-scale shift to electric vehicles

Radical improvements in industrial energy efficiency

Intensive and substantial improvement in the insulation of new and existing homes and buildings

Large-scale application of renewable heating using solar energy and making maximum use of available biomass

Substantial decarbonisation of electricity generation by the application of nuclear and diverse renewable technologies

Development and application of carbon capture and storage for large emitters in the industrial sector, in addition to its application to coal-burning power plant

Quick wins will come from improved building insulation, industrial energy efficiency and electric vehicles. Download a copy of the full report at: www.pbpoweringthefuture.com

Towards sustainable schools

We launched a new website in 2009 to share our research and inform debate on sustainable schools. The UK education sector represents 15% of the public sector's carbon emissions or 2% of total UK emissions. Although carbon is only one aspect of a school's environmental impact, it has become a key area of focus in delivering sustainability in the sector through zero-carbon schools by 2016.

Zero carbon means the "energy used to heat, cool and light the building, together with the energy used to power equipment within the school". This approach is clearly limited. A more holistic approach to sustainability is required, examining the wider carbon impacts from school travel, commuting and catering as well as impacts from bought-in services and equipment. Our website presents UK and international case studies on what can be achieved in delivering truly sustainable schools, going beyond carbon to include wider environmental and social impacts such as sustainability in the curriculum.

"We are committed to achieving real sustainable outcomes in educational facilities beyond simply proposing technical engineering approaches that focus on energy" – Ed Bartlett, Whole Life Cost Director, Balfour Beatty

Learn more about our research at: www.towardsustainableschools.org

Westborough zero-carbon refurbishment

Our sustainable schools research programme identified an urgent need to understand better how schools can be refurbished in a sustainable, affordable and low-carbon manner.

Westborough zero-carbon refurbishment is a pioneering project that is exploring how the carbon footprint of an existing primary school can be reduced. The school has taken this opportunity to develop a sustainable masterplan for future developments. Balfour Beatty is partnering with The Department of Schools and Families' Zero Carbon Task Force on this Southend Primary Capital Programme-funded project.

Phase 1 of this two-phase project is targeting a 90% energy reduction in carbon emissions. Combined with real-life monitoring results being fed into improvements on Phase 2, the project team will aim to get as close as possible to zero carbon. Low-carbon strategies being developed include improving the school's insulating fabric and air tightness, installing ultra-energy-efficient power and lighting systems, supplemented by renewable energy through biomass boilers, photovoltaics and a wind turbine.

Carbon management framework for major projects

We believe that in addition to cost, quality and safety being considered in mainstream engineering design, whole lifecycle carbon should feature too. A variety of carbon tools exist but there is little guidance on whole-lifecycle carbon management for infrastructure projects.

We teamed up with the Highways Agency, Network Rail, Atkins and Forum for the Future to produce a lifecycle carbon management framework for major infrastructure projects. A project team of young engineers, working through the Engineers for the 21st Century (E21C) initiative, helped develop the framework, which was published in December 2009.

The Framework is aligned to existing project management systems being used by the Highways Agency and Network Rail. It sets out the importance of understanding the relative proportion of carbon arising from each stage of the project and a process for working out where the biggest reductions can be made. These interventions may be areas of direct control and/or influence. The next phase in its development is to use the framework on a real project.

Download the framework at: www.forumforthefuture.org/project/carbon-management-for-infrastructure

Quantifying the environmental impacts of rail infrastructure

Railways are perceived as the transportation mode with the lowest environmental impact compared to road and air travel. Data exists for the environmental impact of rolling stock but little reliable information exists to quantify the environmental impacts of rail infrastructure such as the construction and maintenance of track, stations, tunnels, bridges, signalling and electrification. In conjunction with academia and national rail authorities, our Milan-based rail business is working on a two-year research project funded by the EU to quantify the environmental impacts of this infrastructure in terms of materials use, waste, energy use, noise and landscape. A specification, commissioned by the Union Internationale des Chemins de fer (UIC) will be produced by the end of 2010 to enable the rail industry to quantify and improve the environmental performance of rail infrastructure. More information at: www.infraguider.eu/

Striving for leadership

We believe that the influence sustainability will have on our business, our customers and other stakeholders will continue to increase over the coming decade, and therefore it will be a competitive issue in the marketplace. Through our leadership we can influence the market so that sustainable infrastructure is consistently the best option. We want our customers and investors to choose Balfour Beatty because we contribute to their long-term profitability through more sustainable infrastructure.

We need to be more effective in promoting our sustainability capabilities and successes to our customers to encourage them, and prospective customers, to want more. We need to change our customers' perception that sustainability is a cost and do so in a way that has real active substance.

Influencing the market will be challenging in a tough economic climate, where the short-term focus is on cost and capital budgets are disconnected from operational budgets. Sustainable technologies are often more cost-effective when considering the lifecycle of an asset rather than up-front capital cost in isolation.

Through our roadmap, our key commitments by 2012 are to:

Raise our profile and actively promote sustainability in relevant industry and trade bodies

Measure our success in promoting our sustainability solutions in the media

Ensure that sustainability is actively promoted in all our marketing plans so that our customers appreciate our capabilities and increasingly select more sustainable options

Be transparent and open in reporting our sustainability performance to stakeholders

Communicating sustainability in a language that our customers can understand will be critical in delivering the aspirations of our sustainability vision.

Healthy communities

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Balfour Beatty consists of over 50,000 people, designing, building and maintaining infrastructure to serve communities. So people and communities are at the heart of our business. This section reviews how we see our responsibilities to them, and how we translate those responsibilities into action.

Our pre-eminent concern must be safety – protecting the well-being not only of our own people but of everyone we come into contact with. Our sustainability as a business depends on how successfully we recruit, develop and motivate our people, so this must be a priority too. We, and our customers, also recognise that we have a wider responsibility to the local communities wherever we work. So we seek to make a long-term contribution to society through our community investment as well as the infrastructure we create.

Case study – Healthy communities in action

Creating real communities: Travis Air Force Base, US

Our operation at Travis Air Force Base (AFB) in California has been named Private Sector Partner of the Year by the Association of Defense Communities. The award reflects the care we take to provide not just military housing but neighbourhoods with a real sense of community. For example, our LifeWorks programme offers a wide range of activities, builds friendships and enriches lives. It is open to over 100,000 residents in the 44 installations we serve.

“My family and I found that Balfour Beatty really goes that extra mile to create a community where service members want to live and raise their families. Their resident-life programmes give my family a chance to meet other families and build friendships – and that really helps us feel welcome here.”

Tamara Leon
Resident of Travis AFB

“We have really worked hard to embrace the Zero Harm safety vision here at Travis AFB. The great thing is that Balfour Beatty employees engage with our residents on our journey to achieving Zero Harm, which has strengthened relationships by working towards the same goal.”

Patrick Hoppaugh
Community Manager, Travis AFB

Safety

The safety of our people and everyone we come into contact with is a key priority. Our safety performance continues to improve and embedding our Zero Harm philosophy has captured the imagination of our people which will help us to achieve our goal of safety excellence by 2012.

Why this matters to us

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

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

We have always set ourselves high standards in safety, but in October 2008 Balfour Beatty went further still, committing to reach Zero Harm across all of our businesses by 2012.

Our Zero Harm vision

We believe that this vision is one of the most challenging ever declared by a major infrastructure group. Continuing to build a sustainable business will depend on reaching it.

By 2012 our goals are:

Zero deaths

Zero injuries to members of the public

Zero permanently-disabling injuries

During our Zero Harm journey, we have mobilised an incredible shared fund of knowledge, creativity and the determination to succeed and lead our sector in eliminating the risk of serious harm across our operations.

Our businesses are collectively focusing their efforts on six key principles to turn our vision into reality:

Leading	Every leader commits to Zero Harm and inspires their people to make it their personal priority
Simplifying	We make sure our systems and processes help people do this, not get in the way
Re-thinking	We look at what we do with “fresh eyes”, challenge the status quo, and re-engineer how we do it to eliminate the risks
Involving	We engage everyone who works for us to make safety personal, contributing to Zero Harm through all that they do
Learning	We seek out and share what works well, adapt it for our own environment then make it what we do
Tracking	We identify where we can improve, how to close the gap and when we have achieved success.

You can download our Zero Harm brochure at: sustainabilityreport09.balfourbeatty.com

Our Zero Harm journey

Capturing the imagination of our people

Zero Harm has fired the collective imagination of our businesses and the people that work within them.

We have made significant progress in the first full year of our Zero Harm journey:

Developed detailed zero harm implementation plans within each business

Identified the key fatal risks in each business

Engaged our people, sub-contractors, suppliers and customers (the “village”) to explore how we can deliver Zero Harm together

Shared 70 case studies and other examples of best practice across our business

Conducted over 25 detailed reviews of best practice at exemplar work sites in each business (deep dives) to examine how far Zero Harm had penetrated across our business

Held a number of Zero Harm summits with our senior management

Engaged the Board on Zero Harm, spending a full day reviewing progress

Key Risks

Zero Harm has prompted a thorough re-thinking of our key health and safety risks in the business. Detailed analysis of 2009 actual and potential fatal incidents identified five key risks:

Road traffic accidents

Falling objects

Working at height

Electricity, and

Utilities service strikes

Our businesses are addressing these key risks, and others specific to their activities, in their Zero Harm journey plans.

Our Safety Management Framework

Balfour Beatty has an established and comprehensive safety management framework which underpins and supports Zero Harm:

Group policy and formal management expectations

Safety management systems, certified to OSHA 18001 or equivalent

Comprehensive audit programme conducted by DNV and ERM against the Balfour Beatty Group Audit Protocol (BBGAP). Following a successful pilot, BBGAP was rolled-out across all US businesses in 2009 with a total of 15 audits completed during the year. Corrective actions are focusing on a number of areas including occupational health surveillance, equipment testing, waste management and pollution prevention

Regular communications and sharing of good practice through newsletters, the SHE portal (intranet), conferences and other events

Senior management health and safety forums to review performance

Our performance – aiming for zero

Embedding Zero Harm

We encourage all employees to **Make Safety Personal** and have engaged our supply chain to innovate and redesign equipment, tasks and safe systems of work, so that hazards are recognised and safety risks are removed or reduced to the lowest possible levels.

“We succeeded in removing three employees from potential fatal or disabling risk, through the realisation of a concept developed by the team, including shop floor workers, to engineer out the risk.”

Bob Laird

Head of Cast Manganese Products, EMT, South Queensferry, Scotland

We have maintained close links with suppliers of plant and equipment who support our Zero Harm objectives. For example, one UK supplier of mobile elevated working platforms (MEWPs) has integrated an operator crush-protection system (SiOPS) into its medium/large reach equipment. We have sent information to all businesses supporting the use of these MEWPs across our operations.

Case studies

Eliminating working at height

When undertaking track renewals in the UK, the old panels of track that are removed have to be secured on wagons. Previously employees had to work at height to fit the straps to secure the track. Innovative thinking by staff has eliminated this risk. Extendable poles now hold the straps in place so employees' feet can remain firmly on the ground.

“This safety innovation is a perfect example of simplicity having maximum effect as it completely eliminates the requirement for individuals to climb onto the load to position the straps.”

Andy Brown
Safety Advisor

Thinking inside the box

Transporting piling equipment has not always been simple for our ground engineering business. However employees have developed a new system of stillages for boxing up equipment to reduce lorry movements, saving time and money, and improving safety. Lorries are now loaded or unloaded in just three lifts in 15 minutes, instead of a couple of hours, with no work at height.

“It’s safer, easier, quicker, saves money and is better for the environment. What could be better than that?”

Steve Wilkinson
Yard Staff Foreman

Engaging the “village” to improve equipment

Our US\$6m RM 80 Ballast Undercutter machine for rail is the largest single equipment investment we have made in the US. Our technical team requested numerous Zero Harm enhancements in addition to the standard safety features before taking delivery of this specialist equipment from Austria.

Tracking

We track three key indicators of safety performance:

The number of fatalities

The number of permanently disabling injuries (preventing a person returning to their normal duties on a permanent basis)

The Accident Frequency Rate (AFR) i.e. the number of reportable (major and over three-day) accidents per 100,000 hours worked

Our data covers all workers on our project sites (both our own employees and sub-contractors) in our businesses and joint ventures where we have operational control. US sub-contractor data is not reported as this is not common practice to provide this information.

Progress against targets

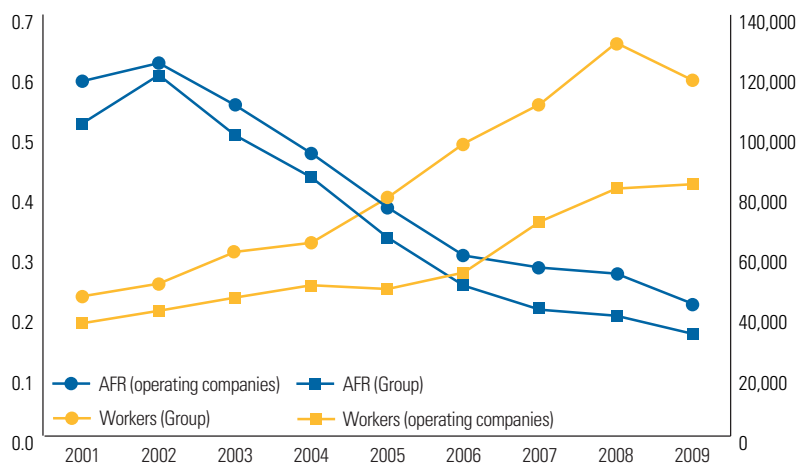
Our target is zero deaths. Tragically in 2009, there were two fatal accidents on our work sites (one in US and the other in Hong Kong) and one fatal accident while driving on the public highway in the UK (eight fatalities in 2008). Three fatalities are still three too many and prompt us to re-energise our efforts on eliminating fatal risks. All fatalities are subject to full investigation and review involving senior management, resulting in comprehensive action plans to prevent reoccurrence.

There were three permanently disabling injuries in 2009, an improvement compared to the six reported in 2008 but still a significant concern.

156 injuries to the public were reported in 2009 (178 in 2008, restated), of which 92% were of a minor nature.

Our AFR in 2009 was 0.17 for the Group, a 15% reduction on the previous year (0.2 in 2008) and a reduction of 70% since 2002. Our target was that no business would exceed an AFR of 0.2 in 2009. Fourteen businesses, around half of our total, achieved this goal in 2009. In addition, all four joint venture businesses achieved this in 2009.

Trend in accident frequency rate for 2001–2009 (split by operating companies and Group)



Occupational health

In 2009, 6,721 employees worldwide received occupational health screening (8,627 in 2008). Of these 14% were referred for further medical examination (5% in 2008). We collected data for the first time in 2009 on the incidence of silicosis across our business. No cases were reported.

Benchmarking

In many regions, we continued to perform better than industry benchmarks for accident frequency rates. For example, Gammon Construction recorded an incident rate per 1,000 workers of 6.2 in 2009 (slightly up from 5.9 in 2008), which is 90% (91% in 2008) better than the Hong Kong construction industry average of 61.4 (source: Construction Industry, Labour Department).

In Italy, compared to the equivalent INAIL/ISTAT reportable incident rate for industry per 1,000 workers of 52.8 in 2008 (2009 data not yet available), in 2009 our Italian rail business had a reportable incident rate of 7.69 – a performance 85% better than the national industry average.

All our US businesses fared significantly better than the most onerous industry averages in both total recordable and also lost time injury rates, with the exception of Balfour Beatty Rail Inc. for which recordable injury rate was, at 4.12, slightly higher than the BLS Building Construction rate of 4.0.

Balfour Beatty US businesses	Total recordable injury rate	Lost time rate
Balfour Beatty Infrastructure Inc.	2.56	0.47
Balfour Beatty Rail Inc.	4.12	1.37
Heery	0.62	0.12
Balfour Beatty Construction	0.71	0.06

US Benchmark Data for 2008

OSHA Construction 2008	4.7	1.7
Heavy and Civil Engineering Construction 2008	4.2	1.4
Construction of Buildings 2008	4.0	1.5

Rate of injuries for US Construction Sector vs. Balfour Beatty US businesses
(2008 data published by US Bureau of Labor Statistics in October 2009)

Fines and convictions

Balfour Beatty operating companies were convicted and fined in 2009 for health and safety offences:

The UK civil engineering business was fined £50,000 for a fatal accident to a sub-contractor in 2003

Our local authorities business, now Balfour Beatty WorkPlace, was fined £15,000 for an incident in 2006 (known then as Balfour Beatty Infrastructure Services)

Mansell pleaded guilty to two separate incidents that occurred in 2005 and 2006 (former Birse and Dean & Dyball businesses) and were fined a total of £35,000

Balfour Beatty Utility Solutions was fined AUS\$800 by Queensland H&S Inspectorate in Australia in respect of a Prohibition Notice issued due to the position of an emergency stop button and inadequate guarding

Gammon Construction was fined HK\$30,000 for a number of minor safety offences

	2009	2008	2007	2006
UK	£ 100,000	£200,000	£260,747	£100,000
Continental Europe	0	£4,930	0	0
North America	pending	US\$7,900	0	US\$12,660
Rest of World	AUS\$800 HK\$30,000	£7,500	0	Dhs 3,000 HK\$ 38,000

What's next?

Our priorities for the year ahead are:

Continue to refresh and strengthen our Zero Harm journey plans, eliminating fatal risks and life-changing injuries and engaging with our key stakeholders to enable this across the business

Continue to learn from each other, share and replicate good practice

Roll-out a new safety leadership programme, to support all our senior managers (approximately 400) in rethinking their roles as leaders in the context of the challenge of achieving and sustaining Zero Harm

We want our safety leadership programme to set an industry benchmark by offering a completely different development experience – one that we hope we will become an important “rite of passage” for all leaders across Balfour Beatty.

During the second half of 2010 we will introduce a new approach, called Zero-In, to establish a clear and accurate idea of further workstreams required to make sure our 2012 goals are reached. This will involve a comprehensive assessment of what further action needs to be taken in each business to close outstanding gaps and embed a sustainable approach to achieving Zero Harm into everything we do.

Employee well-being and absence

We value our employees and their continuing contribution to making our business successful. As they invest their energies in Balfour Beatty's activities, our duty of care is to ensure a meaningful work-life balance such that they can lead healthy and fulfilling lives both in and beyond the workplace.

Why it matters to us

Higher levels of physical fitness and well-being are associated with fewer accidents, improved mental acuity and a more productive "can-do" attitude to work.

We have people policy statements which support our employees' well-being within our Code of Conduct which cover the following:

Developing our people

Equal opportunity and diversity

Harassment, bullying and discrimination

Human rights

Our approach

Those feeling valued by their employer are more likely to contribute to our success and care about the health, safety and well-being of their work colleagues. This year has seen a further reduction in absence levels due to ill-health from 2.3% to 2.1%.

Employee expectations vary across the world, so we organise local programmes to ensure that all needs are met effectively. Some examples are:

Our plant and fleet business in the UK have an active well-being programme. They hold a "HATS OFF!" (Healthy, Active, Trim, Supported, Over the Moon, Fit and Fun) club once a week providing dietary information and advice, a walking group and external speakers to provide professional advice to employees.

Our construction business in the US is also continuously seeking new and better ways to help employees balance their work and personal lives. Acknowledging there is not a "one-size-fits-all" answer, they have established work/life balance committees in each division to explore solutions. These committees provide fresh fruit in break rooms and periodically offer nutritious breakfasts free of charge to employees to promote healthier diets. Other promotions include providing free hand sanitizer to each employee, offering free chair massages, and sponsoring the quarterly "Biggest Losers" competition, in which teams are rewarded for weight loss. The annual "Bring Your Kids to Work Day" enables parents to help their children better understand and feel proud of "what they do all day."

Many of our employees have completed active fundraising challenges in 2009, including for the Group's charitable trust Building Better Futures. Sixty-six employees participated in The Prince's Trust's Palace to Palace event – a 45-mile bike ride. A further 50 runners completed the Windsor Half Marathon, and 41 outdoor enthusiasts raced across the Lake District.

For employees normally based on Balfour Beatty work sites, we provide pre-employment health screening and monitor them on a regular basis throughout their time with us. Where any evidence of health problems arises, we work with the affected person to ensure that nothing in their work activities causes further deterioration or risks doing further damage. In many cases, a simple job rotation or transfer onto alternative duties can solve a potential problem.

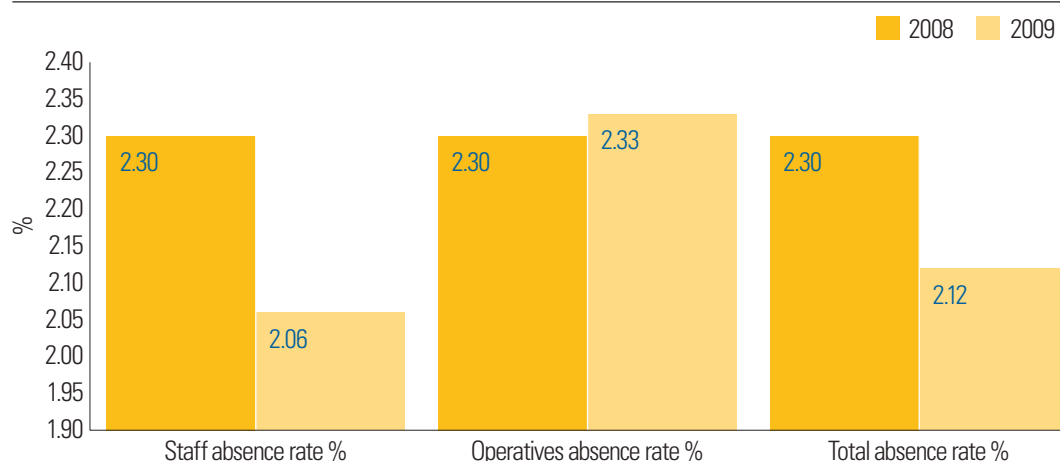
Our businesses now focus on a holistic approach to employee well-being, both within and beyond work. However, where workplace stress is reported or suspected, we will always act to assist those affected. In 2009 this meant that stress recognition programmes were delivered to 272 employees in the UK globally (748 in 2008).

We take a "no-blame" approach to safety near misses in the workplace and actively require recording of such events via our Tr@ction system. Where our employees feel they can report health and safety incidents with no recriminations, we believe they will continue to trust Balfour Beatty to look after them. We also believe that by investigating and trending this data, we can make our workplaces safer, healthier and more conducive to the quality work we seek from our employees.

Employee absence

Senior executives and our Business Practices Committee are updated on employee absence numbers from across the Group. In 2009, total employee absence rate was 2.12% (2.3% in 2008). PwC Saratoga research gives an average percentage of 4.3% sickness absence in engineering/manufacturing businesses in Europe and 4.2% for all industries/businesses in Europe.

Group absence rate 2008–2009



What's next?

During 2010, our Group Safety Health and Environment team is promoting the Global Corporate Challenge® (GCC) <http://www.gettheworldmoving.com> across all of our businesses worldwide, fostering a spirit of intra- and inter-company competition and helping our employees to improve their physical fitness in the process. The GCC has clinically proven results and the endorsement of some of the largest organisations in the world. In 2009 60,000 participants from nearly 1,000 workplaces in 55 countries achieved lasting health benefits.

Take up of this challenge by our employees, and also our contractors, has been positive with over 1,500 people signed up (March 2010).

Through our 2012 expectations in the sustainability roadmap, we will continue to promote healthy lifestyles across our businesses.

Talent and training

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

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

Management Today in its 2009 poll of the UK's "Most Admired Companies" placed Balfour Beatty top in the "heavy construction" sector for the fourth year running and 19th overall out of 236 companies.

The integration of 12,500 additional employees through the acquisition of Parsons Brinckerhoff (PB) in 2009, significantly increases the size of the Group and further enhances our position as an international business.

We now employ a large number of people in professional services, who often have different training needs than people employed in other parts of the Group.

Parsons Brinckerhoff was previously employee-owned. Asked to vote on whether they wished to join Balfour Beatty 99% voted and, of these, 99% voted in favour of joining the Balfour Beatty.

We have recognised that as a large Group operating in diverse markets, we have to rise to these challenges:

How do we engage large numbers of people in an international Group with diverse skills and experience working in decentralised businesses which have significant responsibility and autonomy?

How do we retain our talented individuals and how do we continue to attract the best people?

How do we integrate acquisitions successfully into our business such that the people joining us feel that their working lives and career opportunities are enhanced?

The last year has seen progress on a number of fronts:

Attracting and retaining our talent

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

With a substantially larger Group, we need people who are able to share their knowledge and expertise internationally across the traditional boundaries of our businesses, and to work collaboratively to exceed our customers' expectations.

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

What we are doing

Career opportunities

What sets Balfour Beatty apart from the competition is the geographic spread and broad scope of our opportunities.

We build rail infrastructure in Malaysia and electrify lines in China; we carry our professional services and utilities work in Australia; we build hospitals and schools in the UK; we build and manage housing and fit-out buildings in the US; we own airport assets and build and maintain roads in the UK.

The breadth of opportunity is enormous.

Making our current employees aware of the scope of career opportunities within the Group was a priority in 2009, and will remain so during 2010. We know that our business success depends on the technical and leadership capabilities of our people, and by moving people within the Group we can not only retain talented people, but we benefit from the varied skill sets they gain from working in different businesses.

During 2009 we rolled-out our e-recruit system that allows our employees to view vacancies across the UK, and in 2010 we aim to be able to look at how we can advertise our vacancies across the world to all Balfour Beatty employees.

Wherever possible we try to give those people seeking career enhancement, or those working on projects coming to an end, the opportunity to move within the Group. Mobility has been improved by our businesses being actively encouraged to circulate the details of these people across the Group. Being a large and diverse business, we are able to provide people with a wide range of opportunities to allow them to maximise their contribution and experience and to enjoy a long-term career within the Group.

Sam Bennett joined Balfour Beatty in 2000 and, as well as working in the UK, he has worked on projects in Indonesia, Dubai and is currently in Singapore. He acknowledges that this experience has made him a more rounded project manager. "I now have a better appreciation of cultures around the world and different ways of working, which has definitely enhanced my career."

Organisation and people review and high potentials

All our businesses undertake an organisation and people review with members of the Executive team. The review focuses on the performance and potential of the senior leaders and technical experts within the business. It looks at the succession and development plans to ensure that we have a talent pipeline in place.

We identify potential leaders at all stages of their career through personal development reviews, conducted by line managers within each business. Recognising that we need our top management to be seen as the best in our sector to achieve our sustainability vision in 2020, senior managers review a list of those people classed as high potential which is monitored to ensure that we integrate their development into succession planning.

Graduates

We firmly believe that graduates can add exceptional value to our business. Many graduates join Balfour Beatty and have long-term careers with us. Some have progressed to senior management and become managing directors. Recruiting new talent brings energy, enthusiasm and fresh ideas inside our business.

Peter Anderson joined our UK civil engineering business as a graduate in 1990, and managed the M25 widening scheme before being promoted to the Managing Director of our rail renewals business in 2007. In 2009 he became the Managing Director of Balfour Beatty Rail UK

In 2009 we maintained our graduate recruitment programme in the overall difficult economic climate and recruited 454 graduates across the Group (2008 total: 311).

Through our graduate development schemes, our graduates have access to a wide range of development and career opportunities, including professional qualifications, courses and mentors.

Feedback has shown us that graduates value contact with senior managers across the Group, networking opportunities with other graduates across the business, and the chance to provide feedback on their experiences with Balfour Beatty.

In response to this, in recent years we have given graduates greater access to, and support from, senior management. This demonstrates our willingness to invest time, and interest, in their development and helps them to feel part of the wider Balfour Beatty Group.

Each business conducts an induction specific to that business, but containing elements of Group content such as our focus on Zero Harm and Sustainability

A two-day conference held annually brings graduates together from across the UK and European businesses. This provides the opportunity for networking, meeting directors and learning more about the wider Group and our strategic priorities

Further networking opportunities are aided by the production of a graduate yearbook

At the end of their first year with the Group, graduates are invited in small groups to our Head Office. In meetings with directors they are asked to provide feedback on their experience to date. Conversations are captured and any issues reported back to the relevant business

"I just wanted to say thank you for the meeting. As I think I said at the time, it was a really good opportunity to meet with a member of the Board, with whom, I would not normally come into contact, and discuss matters which directly affect myself and my peers."

We launched the Chairman's Graduate Prize for Innovation in 2007. This annual prize recognises and rewards the contribution that our graduates make to innovation across the Group. It is open to graduates who joined the Group two years prior to the year of the prize. For the 2009/2010 prize, we received 61 entries, 22 of which were from Parsons Brinckerhoff (PB) graduates. Ben Muncey from Balfour Beatty Utility Solutions won the 2009/2010 prize with his idea to re-design traditional safety goalposts. The innovation consists of an advanced detection/warning system to prevent over-height vehicles colliding with overhead hazards.

In terms of retention, 90% of graduates are still with us after one year and 67% after three years (as of 1 December 2009). (For 2008 84% (1 year) and 60% (3 years)).

We want to be able to continue this level of retention across the Group and believe that the opportunities presented to our graduates through the acquisition of PB, and vice versa, will help us to achieve this. In so doing, we will continue to embed best practice in graduate recruitment and development across our businesses.

In the Target Jobs Graduate National recruitment awards 2009 we were voted most popular graduate recruiter in the quantity surveying and building surveying sector and a finalist in the construction and civil engineering sector.

Apprentices and trainees

We offer employment, training and real prospects in a range of apprenticeships and traineeships, which can provide progression through to degree qualifications by part-time study.

One example of us delivering long-term skills to local communities is the Balfour Beatty Apprenticeships programme. Through our work within the Blackburn with Darwen and Bolton Building Schools for the Future (BSF) project and delivered in partnership with the North West Apprenticeship Company, the scheme aims to be a flexible and sustainable apprenticeship model for Balfour Beatty and its supply chain which will deliver a long-term skills legacy to local communities. Our aim to create first-class, learning environments as well as facilities available to the whole community including leisure, learning, sports and ICT provision, not only offers infrastructure regeneration, but through this we want to provide social regeneration.

We have made a number of other commitments to the local community in Blackburn, Darwen and Bolton including mentoring and work placements; a target of between 40% and 60% of employment on the schools' sites to local people; and engagement of local businesses as part of the supply chain.

Development

In 2009 we spent over £30m on employee training, with an £869,000 on soft skills/leadership training and £170,000 on competency-based training. (Total £20m in 2008).

We provided a total of 81,333 days of training across the Group during 2009.

Each of our business has its own leadership programmes. In addition, we run the Balfour Beatty Management Development Programme for managers aspiring to senior roles, which involves delegates from all over the world. Responses to the course from both delegates and invited guests are highly favourable.

"This programme has been a catalyst for my future personal development,"
Richard Gould, Operations Manager, Mansell

2010 will see our top 350 leaders attend a programme entitled "Leading Change: Driving the Safety Agenda" designed to support our business leaders in the challenge of achieving and maintaining Zero Harm.

2010 will also see the expansion of a Balfour Beatty e-learning platform, including building on PB University, a well-used platform for training within Parsons Brinckerhoff. This will provide online training courses in areas from personal growth to functional skills.

Leadership Framework

Great companies are built upon the capability of their leaders. With our ambitious plans for further growth, it is now more critical than ever that we attract, recruit, develop and retain the best people to lead our business into the future. So during 2009 we are developing a leadership framework mapping out what it takes to be a successful leader in Balfour Beatty.

We have identified four key areas we expect leaders in Balfour Beatty to focus their attention on. These are:

[Leading into the future – how do we maintain our success for the next 100 years?](#)

[Leading our wider communities which highlights the importance of relationships with customers, partners, suppliers, shareholders and the communities in which we work, and relationships within the Group](#)

[In a fast-changing world, leading change becomes ever more important](#)

[Leading by example is about the vital importance of our leaders being role models for our values and behaviour.](#)

We use these as the organising framework to ensure the relevance of the more detailed components of the model. The model is built upon our core values of integrity, teamwork, excellence and respect.

Sustainability is included in our leadership framework to equip our leaders with the appropriate knowledge and skills. Looking forward to 2020, we believe that a successful leader in Balfour Beatty will be one with a passion for sustainability.

Employee engagement

We want our people to stay with the Group, and to recommend Balfour Beatty as an exciting place to work. We are working hard to harness our employees' energy and skills to achieve our aims and those of our customers.

With our strategy to move to a more unified Group culture, we need to engage our employees now more than ever. We will continue to develop strategies that build on our success to date in employee engagement.

Creating Zero Harm culture

A number of Group programmes in 2009 have aimed to unify our business. Our Zero Harm safety vision has captured the imagination of our people and been adopted throughout all our businesses. The philosophy behind Zero Harm has proved successful in engaging our employees.

The increased number of entries for our Chairman's Graduate Prize for Innovation in 2009/2010, (61 in 2009, 15 in 2008) many of which focused on improving safety, may have been due to the successful engagement of our graduates with Zero Harm.

Conducting roadshows and deep dive safety briefings across the Group has increased face-to-face communication. The Safety, Health and Environment (SHE) intranet portal was rolled-out across the business in 2009. The portal encourages businesses to publicise their Zero Harm journey plans and share best practice in managing out risk.

"A significant benefit our journey towards Zero Harm has provided is a genuine sense of "ownership" among all employees in the organisation. As a result, our employees feel more involved, empowered and inspired about the direction our safety programme is headed and their ability to contribute in a meaningful way to the change and refinements we are making in how we do business".

Bruce Robinson

President and CEO, Balfour Beatty Capital Group Inc.

Inform, engage and embed our values

We defined our values programme in 2009. We consulted widely across our businesses and with values leaders, who were nominated by managing directors, to determine the programme content. This process is ongoing and open-ended to ensure that the programme continues to work to support us in becoming a sustainable business. The tool-kit designed to support the values programme is designed with three aims:

Inform – this is about telling everyone about the values and why they're important

Engage – involves guiding people through workshops, activities and communications designed to help them understand how the values are relevant to them

Embed – ensures the values become part and parcel of how our companies do business on a daily basis

One aim of the values programme is to make it easier for everyone within Balfour Beatty to understand the bigger picture. The values help to make it clear that our employees belong to their individual operating company and the overall Group in equal measure. They aim to create unity, not uniformity, by emphasising our similarities while leaving room for different cultures to flourish.

We recognise that although each business will submit a programme plan in 2010 there will be some variation in terms of focus, inspiration and application within each business. The programme focuses on face-to-face communication to engage employees.

During 2010, our HR teams will be seeking to ensure that our values are embedded in a range of our people processes, including personal development reviews, recruitment processes and engagement surveys.

In the US, Balfour Beatty Construction was voted one of Fortune's 100 Best Companies to work for. This was based on an external survey of our employees, a culture audit and a detailed questionnaire on our management practices.

97% of employees responded to an employee engagement survey. 96% agreed with the statement, "I am willing to put in a great deal of effort beyond what is normally expected to help my company succeed." 93% said they "would recommend Balfour Beatty Construction to a friend as a place to work."

Driving forward our sustainability goals

In Balfour Beatty, sustainability is a collective responsibility and our vision explains that by 2020, no matter where we are operating in the world, sustainability needs to be embedded into everything we do. Therefore we clearly need to engage all employees in this process.

The vision and roadmap has now been launched in all operating companies through a series of roadshows, presentations and Q&A sessions. 21 sessions with management teams have been held (November 2009 to February 2010) in the UK, US, Italy, Germany, Dubai and Hong Kong. Our sustainability branding and the alignment of this report with the vision, aims to help to inform employees about this journey, so they can see how they can play their part in it.

Sharing behaviours

A direct product of our Group values is our Code of Conduct published in 2009. The Code underlines our ethics and responsibility we all have to protect the Company from risk, both legal and reputational. This document, supported by online learning in 2010, is not a rule book but works to guide our employees to do the right thing. Each employee received a personal copy of the Code.

Employee surveys are conducted in many of our businesses, some annually and others biannually. Eleven of our businesses conducted surveys in 2009 (10 in 2008). Overall satisfaction increased by 2% in 2009. In 2010 an HR working group will be set up to review employee satisfaction surveys.

Communicating across the Group

Each of our businesses has internal communications systems, typically including newsletters, briefing meetings and an intranet. Our businesses aim to encourage two-way communication and so feedback mechanisms are in place wherever possible. Our joint ventures often have their own branding so that employees identify with their project and colleagues from different businesses.

Messages from Group conferences are cascaded throughout the businesses via management teams. In 2009, the top 250 managers, which included Parsons Brinckerhoff (PB) employees, attended a two-day conference in London where they were updated on the Group's progress and encouraged to network with colleagues. Forty of the top management team meet annually to discuss key issues to the future success of the Group.

A Group intranet project was under development during 2009 and, during 2010, various portals will be launched, before these come together to form the Group intranet. This aims to connect all our employees across the world. Our Group magazine, "Update", is distributed to all employees twice a year. In 2009, the strategy of the magazine and look and feel was refreshed to work to unite employees across the business so they feel more connected to the wider Group. In 2010, we will conduct a readership survey and feedback questionnaire to ensure we are succeeding with engaging our employees through this channel.

The acquisition of PB has increased the size of the Group by 12,500 people, and we worked hard to ensure this was a smooth transition for those involved. During 2009, the integration team worked on various forms of communication including newsletters, FAQs, roadshows and webcasts, to ensure employees affected by the acquisition were kept informed at all stages of the process. We published a Group-wide "Who's Who" document in 2009. This mapped out the top level management teams in all our operating companies with their contact details, connecting people across the Group.

Labour turnover

One of the reasons for engaging our employees is to retain them. Staff voluntary turnover in 2009 was 7% (10.2% in 2008) with the total voluntary turnover in 2009 7.8% (11% in 2008) Staff absence was 5.4 days per employee (6.1 in 2008).

Managing a diverse workforce

We want our employees to have the opportunities to grow and maximise their potential within the Group, irrespective of age, gender, ethnic background, colour, disability, sexual orientation or religion. We do this not only because it is right, but also because many of our customers require it of us and many of our stakeholders look to us to take a lead. The wider the talent pool, the greater the experience and expertise we have to draw upon.

Why it matters to us

We want to maintain an environment where diversity is valued. We need to be responsive to the needs of our employees, customers and the community at large and regularly review our policies to make sure they are legally compliant. Cultures, ethnicity, education levels and use of language vary considerably across the Group. Embracing this diversity can help us to appeal to a wider range of customers, suppliers and local people within the communities in which we operate.

Our approach

We are committed to:

Providing equal opportunities for all

Maintaining a supportive work environment free for discrimination, harassment, victimisation and bullying

Complying with all employment laws

Hiring the best-qualified people

Promoting talent on the basis of merit

Our code of conduct gives guidance for us all on these commitments.

Our businesses already do much to celebrate individual differences, and our Group equal opportunity and diversity policy makes clear that discrimination of any kind is not tolerated. Many of our customers recognise the importance of a diverse workforce, and so, in order to maintain our market competitiveness, we need to continue to address this issue.

Our work to extend the East London Line, in joint venture, included customer-led diversity standards. We have since adapted these standards and worked with external consultants to produce an independently-accredited course and model of best practice. This "respect for people" training has been rolled-out across our roads and bridges contracts within our UK civil engineering business.

We are a Tier 1 supplier to the Olympic Delivery Authority (ODA) and received an award from the ODA for the contractor who had contributed the most to diversity and inclusion on the Olympic Park in 2009.

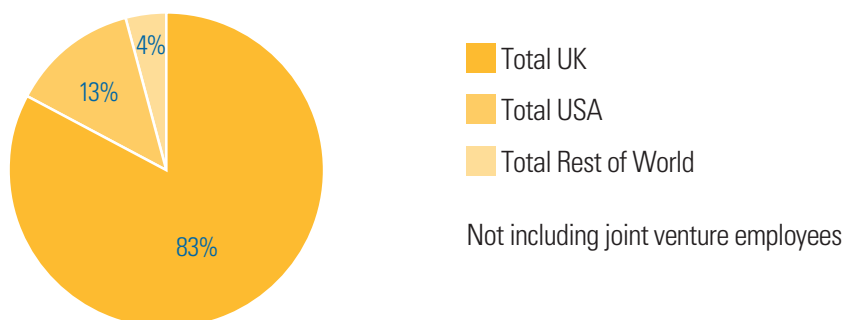
Our values programme is being rolled-out across all of our businesses across the world helping to support a unified culture.

Statistics

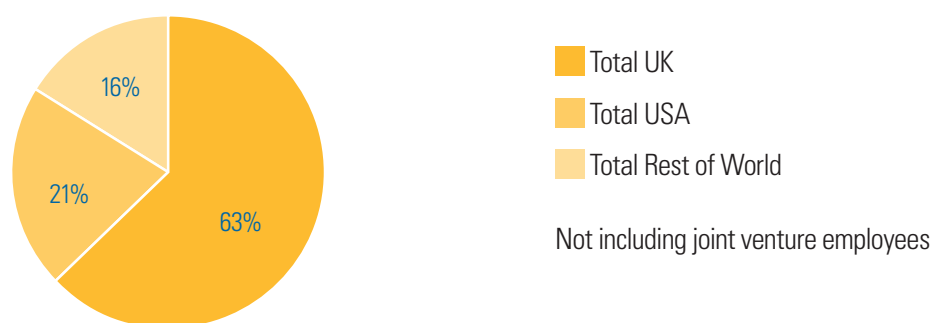
Engineering, one of our core businesses, is largely a male-dominated profession. Across the Group, 29% of our staff are female (28% in 2008). Including operatives, 23% of our workforce are female.

7% employees are from an ethnic minority in the UK (6.4% in 2008) and 17% are non-white across the Group.

Percentage of employees by geography (2008)



Percentage of employees by geography (2009)



Management of migrant workers and local employment

The Group now operates in over 100 countries. We recognise that some of these countries do not have the same laws or standards of living as in the UK. Our joint venture company, Gammon Construction, in Hong Kong has over 3,000 employees and, in Dubai, Dutco Balfour Beatty employs approximately 11,000 hourly-paid people in the UAE.

Parsons Brinckerhoff works in a large number of countries. To help manage this diversity they have a number of diversity training programmes and a diversity oversight committee comprised of senior professionals who oversee and develop its diversity strategy. We expect that during 2010 both businesses will learn from each other about continuing to manage and promote a diverse workforce.

Case studies

Training and accommodation in Dubai

Dutco Balfour Beatty and BK Gulf, our two Dubai-based joint venture businesses, employ approximately 11,000 hourly-paid people in the UAE, principally from the Indian subcontinent and further afield in South-East Asia.

Dutco Balfour Beatty and BK Gulf, our two Dubai-based joint venture businesses, employ approximately 11,000 hourly-paid people in the UAE, principally from the Indian subcontinent and further afield in South-East Asia. We take great care in their training and welfare when they arrive in Dubai.

During their stay in Dubai, our employees live in a purpose-built, company-serviced accommodation. It contains a dedicated clinic manned by fully-qualified doctors and nursing staff, a central laundry service and facilities to follow their religious beliefs. There are both subsidised restaurants and full kitchen facilities. There is access to satellite TV and an abundance of recreational green space for sporting activities such as cricket, football and volleyball. We were also the first major contractor in Dubai to provide our migrant workers with debit card and ATM facilities.

We recognise the benefits of training and development and opened a dedicated training facility where we provide both basic and advanced instruction in carpentry, blockwork, rebar fixing and scaffolding. The safety of our employees is paramount and we need to instil a high safety culture. The centre forms the nucleus of our HSE training and the courses offered are certified by both CITB and IOSH.

Our Zero Harm safety programme applies equally to Dubai as it does to the UK. In conjunction with BuildSafeUAE, a not-for-profit HSE improvement initiative started in Dubai and chaired by Grahame McCaig, General Manager of Dutco Balfour Beatty, we developed an animated cartoon as a unique method of conveying the Zero Harm message to our workers. This cartoon was translated into several different languages and dialects used by our employees.

To improve the frequency and exposure to on-site training we have developed a mobile safety training unit by converting a trailer into a classroom that can accommodate 30 people at a time. This unit travels from site-to-site to supplement the instruction given at the development centre. All workers are provided with the same high standard of personal protective equipment you would expect to see anywhere else across the Group.

Investing in local people in Romania

Having won the tender to electrify the line between Bucharest, Fetesti and Constanta in Romania in 2007, Balfour Beatty Rail Germany and Austria had originally intended to sublet all of the installation works to a competent sub-supplier.

It soon became apparent to the local management team that installation works could be carried out more effectively by training and employing local people.

The business developed a training programme for overhead line installers.

Applying the same approach to the design team, they integrated a skilled Romanian team of design engineers onto the project. Since then Balfour Beatty has set up an office which can handle a comprehensive range of rail infrastructure tasks. Balfour Beatty Rail now has trained people capable of working elsewhere within the business, and who are expertly trained for Romania's future infrastructure projects.

What's next?

Through our 2012 sustainability expectations we are committed to:

Continuing to measure, benchmark and review our diversity performance across our businesses

Involve at least 90% of staff employees in annual appraisals of their performance

Conduct exit interviews for at least 90% of leavers so we can better understand the reasons why people leave Balfour Beatty and implement measures to improve retention further still

Benefits and incentives

To retain our market leadership and deliver superior financial results and customer service we need to recruit and retain the best talent available in both leadership and technical expertise.

Attracting and retaining talented individuals is possible by the creation of a climate in which people engage in the success of the Company and also by the Company being seen to reward and recognise employees in a competitive labour market.

Our businesses have freedom to develop their own remuneration strategies that enables them to compete in their own markets. This is important as we operate in a variety of market sectors and geographies. We also recognise that attracting talent from outside our traditional markets is important to bringing diverse talents and experiences into the Group. Our businesses conduct annual performance reviews and use the outcomes directly or indirectly to reward employees in the annual salary review. We maintain vigilance in all aspects of our remuneration strategy through external benchmarking.

Flexible benefits are available in most of our UK businesses and all UK employees are eligible to join the company share save scheme shortly after commencement of employment or joining Balfour Beatty as a result of an acquisition. In 2009, 18% of eligible employees took up an option comprising nearly 6,000 employees. They were granted over 2.5 million share options. This further improves employee ownership in our Company. The Company believes that offering a SAYE scheme forms an important part of aligning our employees' interests with those of our shareholders and we plan to offer SAYE again in 2010.

Each of our businesses is able to develop its own strategies to recognise achievements and performance. Each year we recognise the achievements of our graduates by the Chairman's prize for innovation which all the graduate population are eligible to enter. Graduates on the shortlist then present to senior executives with the winner being presented with a prize of £1,500 and being asked to present at the annual graduate conference.

Pensions

We run several pension schemes. The main Balfour Beatty pension fund in the UK has around 18,670 pensioners, 15,640 deferred members and around 11,600 active members. The Mansell and Hall and Tawse funds were integrated with the main fund in 2009.

Our defined benefit scheme was mostly closed to new members in 2003. Like most schemes our defined benefits scheme has been adversely affected by the economic climate and the impact of pensioners taking their pension longer as a result of improved longevity.

Recently we embarked on a series of liability mitigation measures such as limiting increases in pensionable pay for active members and offering enhanced transfer values to deferred members. The Company also increased its contributions to the scheme.

Other pension funds include membership of the Railways Pension Scheme, Exeter Airport and Cowlin. With the acquisition of Parsons Brinckerhoff we inherited a closed defined benefit scheme with 4,300 members and an open defined contribution scheme with 1,800 members.

The board of trustees of the main fund is chaired by Alistair Wivell, a retired main board director of Balfour Beatty plc with over 40 years' service in the Company. The Board includes a balance of nominated employee and employer members and a pensioner elected trustee. The trustees meet at least quarterly. They are advised by Towers Watson for actuarial purposes and legally by Pinsent Mason.

The pensioners are helped by over 60 pensioner representatives called shepherds who act as focal points for pensioner questions and concerns. Each year the shepherds meet to get updates from the Company and pensions centre and trustees. They also look out for personal assistance or welfare needs among the pensioner population.

In 2009, we introduced salary sacrifice for pensions under the brand "Smart Pensions". This enables employees to sacrifice an aspect of their salary equivalent to the members' pensions contribution leading to NI savings for both the employee and the Company.

In 2009 we launched a new brand for pensions under the strap line "Simply Pensions". This brand covers communications including members newsletters, funding updates, members booklets and benefits statements.

The remuneration for Executive Directors and other senior managers is overseen by the Remuneration Committee which comprises five non-executive Directors under the chairmanship of Robert Walvis. The Remuneration Committee reports to shareholders at the Annual General Meeting and is responsible for setting levels of remuneration that facilitates the recruitment and retention of senior managers.

Typically at this level the remuneration package would include a base salary, annual bonus, share-based incentives and the usual company benefits. The remuneration committee aim to set salaries at around mid-market levels and they are reviewed annually.

Share-based incentivisation is aimed at creating alignment with the interests of shareholders by having performance compared to the share performance in a set of similar companies. In addition there is a requirement for Executive Directors and other senior managers to build up and retain a determined level of share ownership. The Remuneration Committee specifically considers the issue of not encouraging excessive risk and does this by capping any bonus, and setting targets and reward at appropriate levels. A proportion of the annual bonus is deferred as shares for three years.

Community and supplier engagement

We regard corporate citizenship as an integral part of our business and wish to contribute positively to communities wherever we work – not simply through the lasting infrastructure we leave for the public, but in our wider contribution to those communities.

We recognise the legitimate interests that local communities have in the way we do business. By engaging with them early and consistently we benefit from their positive reaction to our work.

Our customers wish to see our demonstrable involvement with local communities within bid documentation. By harnessing the power of our different businesses, we can share best practice across the Group. This allows us to play a positive role in all the societies and communities in which we operate and, through the delivery of better projects and services, helps us to secure future work.

Our approach

To help us to manage our community engagement programmes, our Code of Conduct explicitly outlines to employees our commitments to respecting the community around us. The second phase of online training accompanying the Code, due for launch across the Group before the end of 2010, works to embed these commitments.

Consultation with local people often involves leaflet drops, project websites and community discussions or exhibitions. To ensure we listen to our stakeholders as well as inform them, our larger sites have permanent community relations staff, ensuring that we liaise with key stakeholders on a regular basis. They aim to create a sense of community ownership throughout our projects in our relationships with local authorities, schools, community organisations, residents and local charity partners.

Increasingly, communities and customers care about the impact of our work on the diversity and habitats of local flora and fauna. By engaging local people in our projects early through the methods described above we are able to learn from their knowledge.

Case studies

London 2012 Aquatics Centre

Our work in 2009 at the Aquatics Centre on the London 2012 Olympic Park has included managing relationships with many different stakeholders and engaging with the wider community. [View case study](#)

Our work in 2009 at the Aquatics Centre on the London 2012 Olympic Park has included managing relationships with many different stakeholders and engaging with the wider community. We managed over 784 visitors to the site in Stratford, East London in 2009, including a range of VIPs, television crews, higher education and school students. The project's dedicated community relations team, which liaises closely with the Olympic Delivery Authority, worked with each team of visitors directly to ensure that they receive appropriate levels of discussion with project managers on the site, all site trips are smoothly co-ordinated and that we comply with the levels of security necessary.

Outreach programme in Hawaii

Parsons Brinckerhoff has worked with the Hawaii Department of Transportation (HDOT) Highways Division to bring the state's storm water management programme into full compliance with Federal requirements. [View case study](#)

Parsons Brinckerhoff has worked with the Hawaii Department of Transportation (HDOT) Highways Division to bring the state's storm water management programme into full compliance with Federal requirements. One of the programme's many components was to develop and implement a state-wide public education and outreach programme. Employees continue to volunteer at more than 18 events each year, disseminating the storm water message to more than 150,000 people, helping them to understand the importance of water management.

Engaging with local villages on road widening project

Community engagement is not only viewed as the "right thing to do" by Gammon Construction in Hong Kong, but as contributing factor to the smooth execution of the road widening project of the Tuen Mun Road.

Community engagement is not only viewed as the "right thing to do" by Gammon Construction in Hong Kong, but as contributing factor to the smooth execution of the road widening project of the Tuen Mun Road. Early engagement is important for this five-year scheme, including regular meetings with community representatives to identify needs and foster mutual understanding. Relationships have been strengthened further by the project team who, with the support of a part-time community liaison officer, have frequent contact with local villages and district councillors. A project newsletter has been created to complement the regular team meetings with stakeholders. Employees have set up a toy donation scheme and also participate in local festivals. At all stages, local customs of the surrounding villages have been respected by the project team.

Supplier engagement

Engaging with our suppliers effectively helps us to strengthen our presence on a local level, while also enhancing those relationships that can help us to win repeat business.

Our suppliers are entitled to expect the same standards of conduct that we expect of our employees and others, and we work to ensure that our suppliers' values and behaviour matches our own.

We work in partnership with those suppliers who adopt our values and endeavour to align their objectives with those of Balfour Beatty. Many of our businesses hold regular "Meet the buyer" days and supply chain conferences.

UK Supply Chain Management Programme

In the UK, we have over 27,000 suppliers. Supply chain management has traditionally been focused on at an operating company level. We recognise that as a Group we need to deliver industry-leading procurement and supply chain management solutions that contribute to superior performance and profitability for Balfour Beatty, our shareholders and our customers. With this in mind, we have acknowledged that we can make the biggest savings by bringing our businesses together to make better use of their purchasing power. We want bigger, stronger relationships with a more select group of suppliers who can work with us on continuous improvement.

Waste management has been identified as one of the priority categories for our supply chain management programme in the UK. Work commences in 2010 on this category which will involve engagement our supply chain. Such an approach will not only yield cost savings but will help us develop more robust data for our 2010 baseline and encourage our supply chain partners to work with us to implement innovative waste solutions as we work to avoiding waste disposal to landfill.

Engaging our supply chain to align their thinking with ours on the responsible sourcing of materials will be a key element in delivering a more sustainable Balfour Beatty. Our suppliers can help us to improve our understanding of our indirect (Scope 3) emissions through the materials and services we procure in delivering our projects. This knowledge will help us to identify areas on which to focus our reduction efforts and to identify targets for the future.

We will continue to engage our suppliers in our mission to create a Zero Harm culture and create sustainability within our supply chain. Incorporating Zero Harm, sustainability, ethics and values up-front in our UK supply chain management project will help us to deliver against these programmes in a co-ordinated way.

Our 2012 sustainability expectations demand that our businesses will:

Carry out sustainability reviews of their supply chain as part of their supplier assessment process, to identify and respond to risk and opportunities

Ensure that key suppliers are aware of with our 2020 sustainability vision

Community investment

Investing in the communities in which we work helps us to make a long-lasting contribution to society and to local people. We want to create investment programmes which are sustainable so we can support communities in the long-term.

Actively engaging with local communities to deliver social benefits “beyond the contract” can help us to win repeat business and strengthens our position as a good corporate citizen. It also helps to engage our employees.

Our approach

Due to the size and diverse nature of the Balfour Beatty Group, whatever we do at corporate level needs to be clearly focused and make a substantial and measurable contribution to a defined cause.

Our choice to focus on helping young people make the most of their futures fits with our desire to create a sustainable future for the business. We now support a wide range of programmes to enhance young peoples’ aspirations, motivation, quality of life and achievement levels.

Building Better Futures

Key facts:

£500,000 target

£200,000 company contribution

Over 100 projects helped

£599,392 raised

£1 for £1 matched funding

To mark our centenary in 2009, we set up a charitable trust to help focus our energies in support of disadvantaged young people. The programme branded Building Better Futures, aims to provide appropriate financial assistance to a wide range of projects, designed by expert organisations to help young people.

In the UK, we are working with The Prince’s Trust and Action for Children.

Within The Prince’s Trust we are supporting the “Community Cash Award” programme, whereby young people living in deprived communities are granted funds to put their own good ideas to improve their community into action, and in so doing increase their own motivation and sense of self-worth.

With Action for Children, our funding is being used to buy disability learning equipment at centres throughout the UK. Mentally and physically disabled children, who are often denied the important developmental opportunities provided by interactive play, will have special play areas and facilities built and installed to help them develop and learn.

A huge variety of fundraising activities, involving employees across the UK, contributed to both these programmes, allowing the Group to exceed the £500,000 target.

Outside the UK, through our international subsidiaries and joint ventures, the trust has funded programmes appropriate to local need while supporting our corporate goals.

The Heery International Foundation was launched in Spring 2009, funded primarily by our business Heery International in the US and donations from their employees, but supplemented by a grant from the Balfour Beatty trust. This provides the business with an additional community outreach opportunity, supplementing its very successful community service month, Heery from the Heart.

The Balfour Beatty charitable trust has also provided finance to help Balfour Beatty Communities to support Project H.O.M.E. in Philadelphia. The grant will specifically focus on funding the newly created Balfour Beatty Math Program for K-6 students in Northern Philadelphia.

The success of Building Better Futures will continue into 2010, with support for the same UK-based charities in addition to contributing to another children’s charity – the Thomas Coram Foundation. Coram works with vulnerable children, young people and their families and provides adoption, parenting advice, supported housing and family support and education.

In addition to corporate work, our employees and businesses are encouraged to involve themselves in the charitable causes of their choice. During our centenary year, a total of £2.5m has been donated to charitable causes by the Group, either directly, or via Building Better Futures and £210,000 through the generous contributions of our employees. In the US, our construction business contributed more than £875,000 to support charities such as United Way, March of Dimes and national cancer research facilities.

Get into Construction

In 2009, we continued our support for **Get into Construction**, a scheme that we co-founded with The Prince's Trust Construction and Building Services Leadership Group in 2006. This seeks to encourage disadvantaged young people to consider construction as a career. To date 1,000 people have been supported through 82 courses, leading to employment and further training opportunities in the industry. Courses are a two to four-week skills development programme designed to introduce young people to the construction industry by training them in various skills, including carpentry, joinery, plastering, brickwork, painting and decorating.

Case studies

Balfour Beatty London Youth Games

Our £1.8 million commitment to the Balfour Beatty London Youth Games until 2013 is enabling the Game to go from strength-to-strength. The event offers young people the opportunity to compete in 30 sports throughout the capital on an annual basis. The Games' goal is to inspire all young Londoners' to discover and achieve their sporting potential by providing high-quality sports events. The Games promote social inclusion, help young people achieve their development needs and provide an outlet for all young Londoners' to become and remain involved in all areas of sports.

The 2009 Games involved 47,740 participants with representation from all 33 London Boroughs.

49.7% of the participants were female and 3,458 disabled athletes took part.

During 2009, Balfour Beatty provided support to launch a Hall of Fame event to recognise the international achievements of former competitors of the Games, such as Linford Christie, Christine Ohuruogu and Luol Deng. We also set up an employee volunteering scheme website to match our employees' desire to volunteer at various sporting activities across the London boroughs in connection with the Games. This scheme is being expanded in 2010.

Fundraising

In April 2009, a team from Balfour Beatty Plant & Fleet Services cycled from John O'Groats to Land's End and raised £34,600 for charity. The money was split 50/50 between Brake, the Road Safety charity, and Building Better Futures.

The team of five employees took part in the "Top to Bottom" challenge and cycled 100 miles a day to represent 100 years of Balfour Beatty.

Balfour Beatty Spirit!

In the US, Balfour Beatty Construction firmly believe that employees who are better connected to their communities are intrinsically more passionate about the work they do. Therefore, they have invested a great deal in not only giving employees a chance to give back, but also in helping employees celebrate that special culture they call Balfour Beatty Spirit! They contributed more than £875,000 in 2009 to support charities such as United Way, March of Dimes, and national cancer research facilities. Every Balfour Beatty office has a Balfour Beatty Spirit! team that leads in planning and implementing charitable and community support activities in their local area.

As a result:

They have built or refurbished more than 60 houses for elderly low-income residents of Dallas through the Hearts & Hammers programme – a 17 year commitment

Donated construction services to build the "Castle of Miracles" and other facilities at Give Kids the World Village in Orlando, a place where seriously ill children and their families find a well-deserved escape and enjoy a week of fun at Disney theme parks

Organised and sponsored the Children's Golf Classic for the past 12 consecutive years

Raised more than US\$1 million for Children's Medical Center of Dallas – just to name a few

Volunteering in Kenya

In September a team of 10 Balfour Beatty employees and two of their friends left the UK to travel to Africa as part of a charity project to help build a rural clinic in the Kenyan village of Kilo. Balfour Beatty contributed to their trip and allowed them additional holiday. This clinic provides general healthcare, maternity care and a comprehensive immunisation and vaccination programme to 5,000 people. Their efforts have helped to ensure that Kilo and the surrounding areas will have access to clean and safe levels of healthcare.

Some of our businesses have also developed volunteering policies, aiming to support the Group's corporate programmes while also encouraging employees to give up their time in support of charitable initiatives.

Environmental limits

50

We see clear business advantage in taking a leadership position on environmental issues, recognising the opportunities in helping customers reduce their own impacts and respond to environmental pressures.

Improving our own performance in areas such as carbon and waste reduction will reduce our costs. As customers increasingly consider environmental performance – from carbon footprints to ecology – in their purchasing decisions, a leadership position will give us competitive advantage. Environmental factors are also creating new markets for us, from alternative energy generation and transmission to protecting assets from climate change.

Case study – Environmental limits in action

Road to the future: A421, UK

By thinking differently, we are constructing a road near Bedford in England more sustainably than ever before. We are using alternative materials – some previously unheard of in highway construction and aiming for major CO₂ savings. And this road is just the beginning of a long journey: we are sharing the ideas pioneered here across the Group.

“Great teamwork by great people with great ideas have combined to deliver a sustainable A421. Our legacy will be a safer road for sustainable communities.”

Phil Clifton

Project Director, Balfour Beatty

“The A421 sets a benchmark for the use of alternative materials on future projects. The use of tyres and power station ash are a win-win, environmentally and economically.”

Suzanne Bryon

Environmental Adviser, Balfour Beatty

Energy and carbon

The growing low-carbon economy presents us with a multi-billion pound market opportunity across our business. We are using our expertise to help our customers achieve their carbon reduction goals in addition to playing our part by reducing our own emissions.

Why this matters to us

Climate change is high on the agenda of governments, and a growing number of our customers, as the world looks for ways to address climate change and diminishing fossil fuel supplies. The built environment is responsible for nearly half of global emissions of greenhouse gases. With Balfour Beatty's scale and technical expertise in the design, delivery, construction and operation of critical infrastructure, we want to play a leading role in the transition to a low-carbon economy.

Infrastructure and buildings are seen as key areas by governments and policy makers to reduce global carbon emissions:

Ambitious targets	UK CO ₂ emissions reductions of 80% by 2050 and 34% by 2020 Energy generation needs met by renewable sources: 24% for New York, 33% in California and 40% in Maine by 2020 40% of UK electricity needs to be generated from low-carbon sources, around 30% from renewables (currently 7%)
Legislation	New carbon cap and trade scheme, Carbon Reduction Commitment for large UK organisations Similar scheme already in place in Australia
Low-carbon infrastructure commitments	New nuclear programme in UK
Zero-carbon new builds	UK schools by 2016, public sector buildings by 2018 and commercial buildings by 2019
UK Sector initiatives	15% carbon reduction from construction processes and associated transport by 2012 (2008 baseline)

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

The low-carbon business opportunity

The Government's own research indicates that the UK's low-carbon economy will grow to £65bn by 2015 presenting us with further opportunities in wind, waste management, low energy buildings etc. The value of the low-carbon economy in the US is more difficult to quantify precisely but will be larger still.

The Obama administration has allocated US\$61bn to stimulate the energy sector in the America Recovery and Reinvestment Act. By 2017, nearly US\$20bn in tax incentives will be poured into the wind and solar industries, along with US\$54bn into direct support for energy efficiency schemes. A large chunk of the latter will be spent on improving the country's ageing electricity grid to support renewable energy transmission and electric cars.

The US Green Building Council predicts that the market for new green buildings in the US will soar from US\$12bn in 2008 to US\$60bn in 2010. Green renovation of existing buildings will be even greater, rising to US\$240bn by 2010.

Our investments, construction, professional services and utilities businesses can all benefit from these growing markets.

Our approach

Reducing our emissions of carbon and other greenhouse gases features strongly in our 2020 sustainability vision and roadmap. Our focus has been on understanding, measuring and reducing our carbon related impacts.

Measurement

We measure and report our emissions of greenhouse gases in line with the 2009 guidance produced by DEFRA/DECC and the internationally recognised GHG Protocol covering our:

Direct emissions (termed Scope 1) from our buildings and vehicles (including fluorinated gases)

Indirect emissions from electricity use (Scope 2)

Limited (Scope 3) indirect emissions from employee business travel using non-company owned vehicles as well as flight

The DEFRA/DECC guidance provides emissions factors for electricity based on the UK grid average mix of primary energy sources. The new 2009 conversion factor for electricity has been re-applied to our 2007 and 2008 data.

Practical energy saving

Our businesses continue to seek ways of reducing their CO₂ emissions from their own buildings, project site and transport fleets through:

Expansion and use of videoconferencing facilities (eg across our US construction business)

Developing and implementing green travel plans (such as car sharing, greater use of public transport and cycling to work) as in Balfour Beatty Management in the UK (now Parsons Brinckerhoff)

Raising staff awareness of energy saving at home and in the workplace

Training in fuel efficient driving such as the Safe and Fuel Efficient Driving (SaFED) courses run by our Plant and Fleet business available to all our UK businesses

Better monitoring of energy consumption through use of sub-metering (eg for our rail depots in the UK)

Introducing lower carbon vehicles (such as electric powered cars for use on military bases by our investments business in the US)

Upgrading to more energy efficient plant, equipment and improved building controls such as improved insulation being applied to site accommodation cabins in our regional civil engineering business

Our UK investments business, Balfour Beatty Capital, has been particularly successful in reducing the carbon footprint associated with business travel. Promoting video-conferencing and switching from air to rail travel saved over 800 tonnes of carbon, a reduction of more than 50% in travel related emissions in 2009 compared to 2008.

Scope 3 carbon

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

We have a responsibility to look for carbon savings beyond our own direct emissions and into the projects we design, build and manage for our customers. These indirect emissions, termed Scope 3 emissions are more difficult to quantify in practice and cover areas such as:

The energy embodied in the processing, manufacturing and transportation of construction materials

Energy consumed in the operational phase of assets

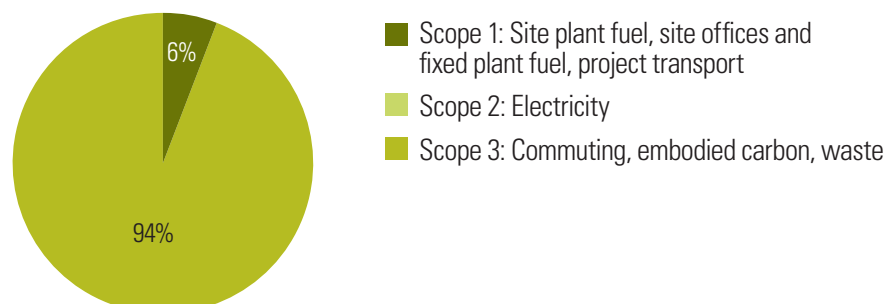
Disposal of biodegradable waste

Other supply chain impacts

Work has begun on quantifying these emissions and will continue into the future. Data from our A421 road scheme near Bedford in the UK is a case in point. Using the Highways Agency carbon calculator methodology, our project team has quantified the scheme's carbon footprint during the period October 2008 to December 2009. Scope 3 emissions from the embodied energy in materials, worker travel/commuting to and from the site, together with waste came to 94% of the total footprint. This far outweighs the Scope 1 emissions such as fuel by construction plant and energy consumption in site offices.

Turn to page 52 to see our A421 case study to see how the site team is reducing the scheme's overall carbon footprint, including the innovative use of alternative materials in the build.

A421 Carbon footprint: CO₂ emissions by scope (tonnes) – October 08 to December 09



Carbon disclosure project

We continue to report our global emissions to the Carbon Disclosure Project (CDP). Over 2,500 organisations responded to the CDP in 2009. The results are made available to 475 institutional investors.

Through the CDP we were among the 700 suppliers that also shared key project and operating company data with customers. In our case, this was the UK's Department of Transport and Royal Mail to inform their assessment of supply chain carbon impacts. Our score of 57%, placed us in the first quartile of respondents (average score 39%).

Carbon reduction commitment

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

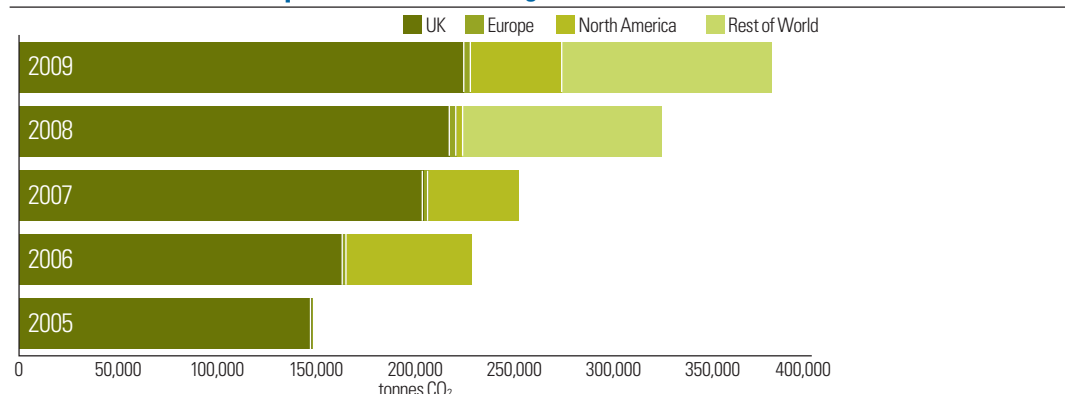
Large construction companies such as Balfour Beatty will be subject to the CRC. The scheme's rules are complex and signal a step change in carbon management for many organisations. We provided comprehensive feedback to the Government's consultation in 2009, highlighting where we believe improvements to the scheme's design are needed.

We are actively preparing for its introduction across the Group. The CRC also provides further opportunities for Balfour Beatty to offer and deliver low-carbon solutions for customers as well as reducing our own energy costs. These range from the design and build of highly energy-efficient buildings through to our energy management expertise and changing behaviour of building users.

Our carbon footprint

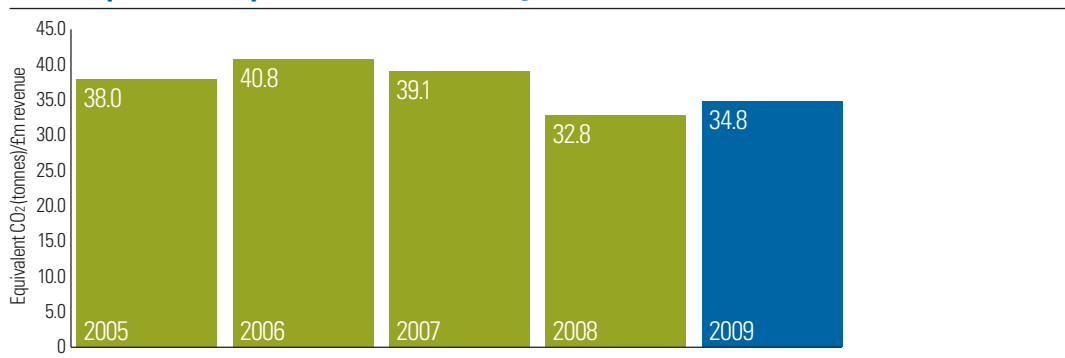
We continue to improve the coverage of our reporting of Scope 1 and 2 emissions. Our global emissions of CO₂ from our vehicles, plant and buildings were 383,400 tonnes in absolute terms in 2009 (324,000 tonnes in 2008, restated). Our own carbon footprint is dominated by emissions from mobile plant and company vehicle fleet. Our growth in emissions reflects first time reporting by BK Gulf and our US construction business as well as improvements in the accuracy of our data.

Global absolute tonnes equivalent CO₂ (excluding air travel)



In 2009, our CO₂ emissions relative to revenue from our vehicles, plant and buildings were 34.8 tonnes/£m, an 8% reduction from the 2005 figure (38 tonnes/£m). We will improve the scope and coverage of our data during 2010 to include more of our US businesses, including Parsons Brinckerhoff, which we acquired in October 2009.

Global equivalent CO₂ per £m revenue (excluding air travel data)



Drive safe, drive green

Using in-vehicle telemetry gives our drivers instant feedback on their driving style to reinforce more fuel efficient journeys. The in-dash LED display operates a red, amber, green system. The data collected is assessed and displayed both to the driver and management via an online web portal. Each driver receives an overall risk rating based on the number of 'infringements' per 10 hours of driving. The initial group of drivers enrolled in this system sustained an average 10% reduction in fuel consumption and an overall safety risk reduction of 60%. All drivers in our UK utilities business will be enrolled into the scheme during 2010.

What's next?

We believe that the growth of the global low-carbon economy will continue to increase through a mix of fiscal incentives, legislation, market and commercial opportunities.

Our sustainability roadmap sets out our path towards a 50% reduction in greenhouse gas emissions by 2020 relative to revenue against a 2010 baseline. Our interim goal is a 10% reduction by 2012.

Our first step in meeting this goal is developing a robust baseline covering all our Scope 1 and 2 emissions by the end of 2010. Reducing emissions will then require a mix of efficiency improvements, behaviour change, innovation and wide scale deployment of low carbon technologies in our own buildings, plant and vehicle fleet.

We will also improve our understanding of our indirect (Scope 3) emissions – especially in our supply chain through the materials and services we procure in delivering our projects. This knowledge will help us to identify areas on which to focus our reduction efforts and to identify targets for the future.

2012–2020 targets

Reduce our direct and indirect greenhouse gas emissions by 10% by 2012 and 50% by 2020 per £m revenue against a 2010 baseline.

Waste

85% of the waste we generated in 2009 was diverted from landfill through recycling, recovery and re-use. We continue to work hard to accurately measure and ultimately divert all our project waste from landfill. The waste infrastructure market represents a multi-billion pound opportunity for us.

Why this matters to us

Waste is a significant issue for us. Constructing, refurbishing and demolishing buildings, roads, railways, bridges, tunnels and other structures generates huge quantities of waste. The US Environmental Protection Agency estimates 330 million tonnes of waste was produced by the sector in 2005. In the UK, the construction industry produces over 100 million tonnes of waste a year, of which around 40% goes to landfill. The UK's strategy for sustainable construction aims to half the amount of construction and demolition waste going to landfill by 2012.

The cost of disposing waste to landfill continues to rise in the UK through the landfill tax at £8 per tonne per year until 2013. As landfill rates have risen, waste companies and technology providers are building systems to deliver renewable energy and supply alternative disposal routes to landfill. There is a growing market for us in financing, constructing and operating this infrastructure.

Avoiding waste going to landfill brings us operational cost savings as well as environmental benefits. It can differentiate us in the marketplace, help us deliver lower cost projects, meet customers' desire for lower environmental impacts, and enable us to achieve our 2020 goal of zero waste to landfill.

The UK's £8bn infrastructure market

We believe that opportunities to finance, build and operate new infrastructure to sort, recover, reprocess and extract energy from waste will increase significantly over the coming decade.

The UK Government's Waste Strategy for 2007 identified recycling and energy recovery as the key to reducing municipal waste to landfill. 35-40 municipal waste/energy from waste plants at £200m+ each are required in the UK by 2015. This represents an £8bn+ market by 2015 in the UK alone and one being actively pursued by our investments, construction and civil engineering businesses.

Our approach

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

Construction

Demolition

Excavation

Office

Manufacturing and depots

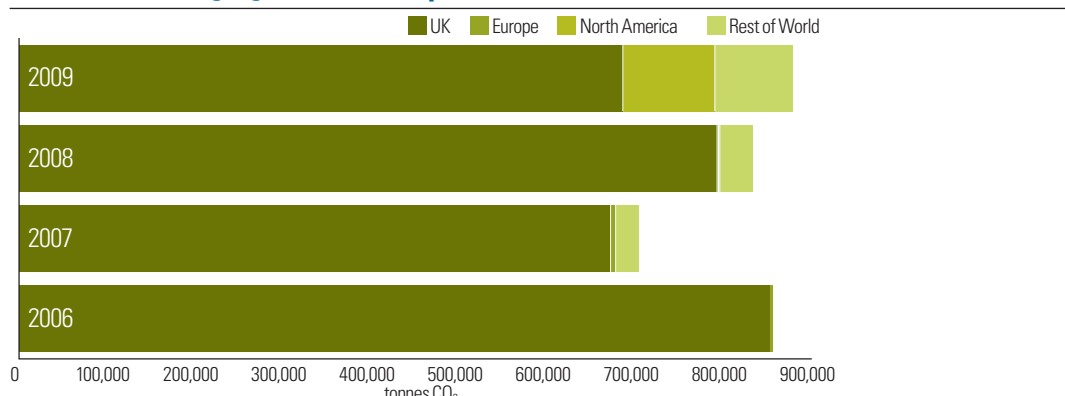
Our businesses seek opportunities to reduce, re-use, recycle and recover waste and to use recycled materials where possible. Increasingly, we are replicating best practice developed in one operating company or site to others in the Group. We are developing new ways of managing our wastes and finding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

Waste management has been identified as one of the priority categories for our supply chain management programme in the UK. Work will commence in 2010 on this category. Such an approach will not only yield cost savings but will help us develop more robust data for our 2010 baseline and encourage our supply chain partners to work with us to implement innovative waste solutions.

Our progress and performance

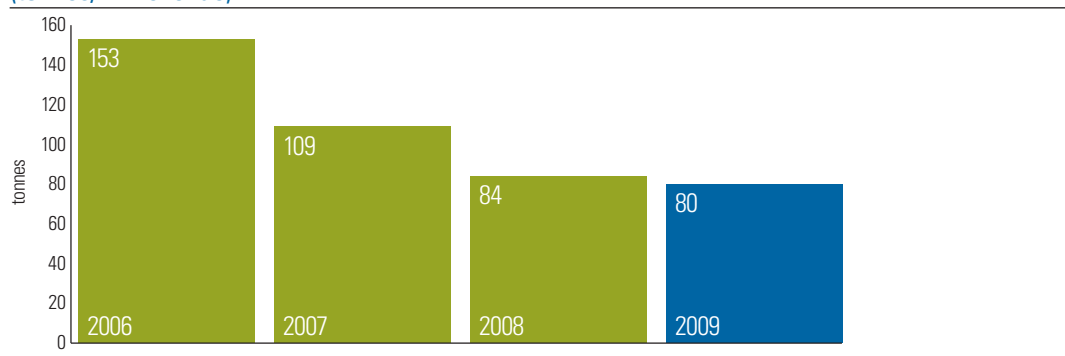
The global coverage of our data continues to improve, with waste being reported by our construction businesses in the US and Middle East for the first time in 2009. Our global operations disposed of 878,300 tonnes of waste to landfill in 2009 (833,400 tonnes in 2008).

Total absolute weight global waste disposed to landfill (tonnes)



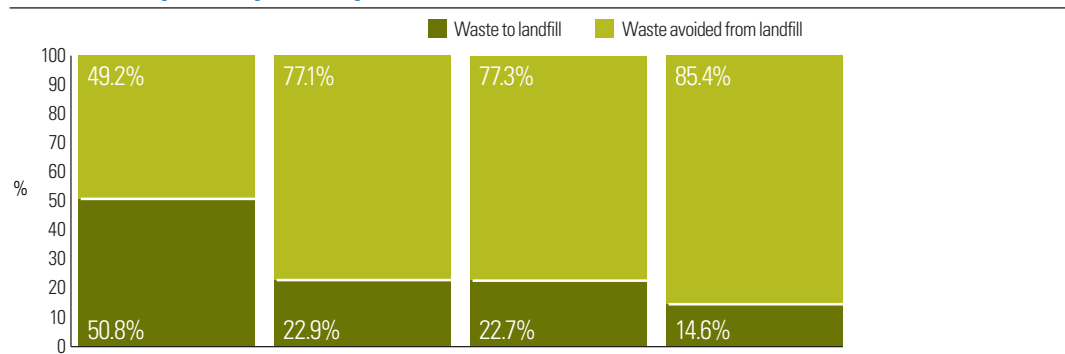
When normalised against revenue, our global operations disposed of 80 tonnes of waste to landfill/£m revenue in 2009 (84 in 2008), a reduction of 5% over the year and a 48% reduction since 2006.

Total relative weight global waste disposed to landfill (tonnes/£m revenue)



Our global operations recycled and recovered 5,139,000 tonnes of waste in 2009 (2,821,000 tonnes in 2008). 85% of the waste we generated in 2009 was diverted from landfill through recycling, recovery or re-use (77% in 2008). The improved recovery/recycling rate in 2009 reflects the impact of the large-scale excavation works that took place on the "Business Bay" project in Dubai. These excavation works were necessary to facilitate the extension of an existing canal route and generated 2,056,000 Tonnes of spoil for re-use; this represents 46% of the Group's total amount of waste for recycling/recovery. This material is sent to a "public fill" where it is re-used for other projects, rather than being discarded as waste. This figure is based on conversion factors applied to waste volumes rather than weight, reflecting the less well developed waste infrastructure market in the UAE.

Global waste year-on-year analysis



Benchmarking

External benchmarks of our performance are difficult to come by. Limited benchmarking is available through the data we submit as part of the UK construction sector's halving waste to landfill reporting protocol (www.wrap.org.uk/reportingportal). Our performance for 2009 is comparable to the sector average of 175 companies, with 76% of our waste diverted from landfill (75% sector average) and 11 tonnes of waste to landfill per £100,000 project spend (10 tonnes/£100k project spend sector average).

Case studies

Gold standard construction waste management

Siemens Medical set a 75% waste recycling target for its new campus facility in Cary, North Carolina in pursuit of LEED Gold. We responded to the challenge by sourcing recycling solutions for 2,400 tons of construction, demolition and landscaping waste, diverting 94% of the projects waste from landfill.

"We went that extra mile to deliver exceptional levels of recycling on this project."

Jeff Beam, Construction Manager, Balfour Beatty Construction US.

Waste exchange in Hong Kong

Major civil engineering schemes generate significant quantities of excavation waste. In Hong Kong, like many areas of the world, space and costs for the disposal of inert waste is rising. Gammon Construction developed a web-based waste spoil exchange database in 2009. Project sites upload their predicted monthly excavation spoil arisings and fill material forecasts onto the database. Other sites can then exchange spoil to meet their fill requirements, saving significant sums in disposal fees. Within its first two months of operation, the database already facilitated its first waste exchange.

Award-winning sustainable waste management

Diverting waste from landfill by using recycled materials is illustrated by our emergency embankment stabilisation works undertaken on behalf of Network Rail at Stoke Gifford in the UK. The typical remedial action for works of this nature is re-grading the embankment with imported virgin stone on stone foundations (toe loading). However, for this particular project the team used an unprecedented 84,000 tonnes of recycled track ballast.

In addition to the use of recycled materials, other measures adopted by the team at Stoke Gifford to minimise the environmental impact of the project included:

Transportation of recycled materials to site by rail using side tipper trains. At the peak of the project two trains of 15 side tippers were delivering approximately 1,800 tonnes of recycled material to site each day – the equivalent of 90 eight wheel lorries. Throughout the duration of the project this eliminated the need for 5,250 tipper lorries, which equated to a 57% reduction in CO₂ emissions.

To overcome the dust problems associated with deliveries of large quantities of materials to site, the site team designed and installed a simple but very effective rinse bar to spray water directly on top of the rail wagons as they entered the work site. This resulted in minimising the impact of dust on the adjacent residential properties.

Air Curtain Burning systems were used to reduce green waste during de-vegetation of the existing embankment. Utilising this method to process 250 tonnes of green waste resulted in just 10 tonnes of ash which was subsequently recycled by mixing it with top soil from the site strip and reusing it as part of the landscaping works.

A further 15,000 tonnes of excavation spoil was also re-used at a nearby construction site.

The team's innovative waste management approach and sustainable design solution won Network Rail's environmental sustainability project of the year award for 2009.

Closed Loop Recycling in North Yorkshire

In partnership with North Yorkshire County Council in the UK, our Highways North Yorkshire Recycling Initiative has proved a success.

A significant quantity of the recycled waste is re-used within the existing highway network. This has led to year-on-year reductions in the quantities of excavated material that are being sent for landfill, generating significant financial savings for our client North Yorkshire County Council through a reduction in its Landfill Tax liability.

What's next?

Supporting industry commitments

Accurate data is essential if we, and the sector as a whole, are to measure our progress to halving waste to landfill over this timescale. We are committed to establishing our global baseline on waste to landfill by the end of 2010.

Our ultimate goal is zero waste to landfill by 2020 and embedding zero waste thinking into all that we do. We have established an interim global target to reduce our waste to landfill by 50% per £m revenue by 2012 to support the UK construction industry goal.

In order to drive re-use of waste we have also set a target of at least 25% of our major materials coming from recycled sources by 2012, where we specify the material. Major materials include concrete, aggregates, steel, aluminium and copper used in our construction, civil engineering and rail projects.

2012 targets

Reduce our disposal of waste to landfill by 50% per £m revenue against a 2010 baseline. Achieve a minimum of 25% recycled content of major materials (by value).

Materials

Nearly 90% of the timber we directly procure by value comes from recognised responsible sources. We are extending our responsible sourcing practices to include at least 25% of our other major construction materials by 2012.

Why this matters to us

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

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

Our customers increasingly expect their infrastructure to be built and maintained using materials with the minimum environmental impact over the lifecycle and to have been responsibly sourced. At a policy level, the UK has set a target of 25% of construction materials to come from responsible sourcing schemes by 2012.

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

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

Our approach

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

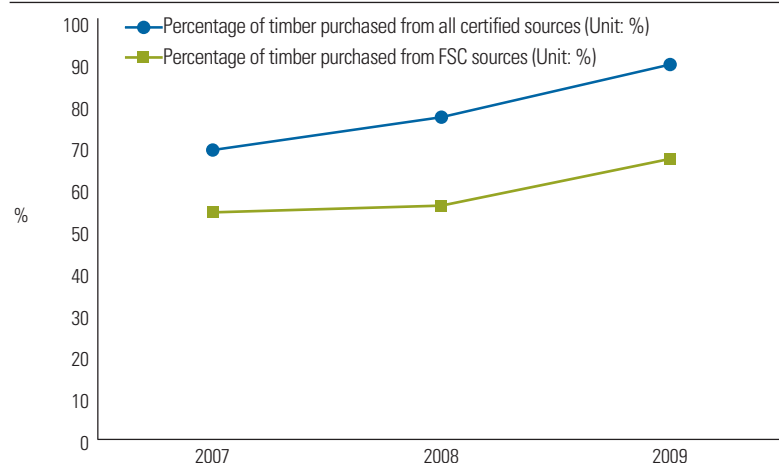
We have started to extend data collection systems to track the sourcing of other major construction materials such as aggregates and concrete, in addition to timber. Furthermore, we will develop our understanding of the environmental impacts of the materials we procure on our projects so that we can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

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

Our progress and performance

In 2009, 89% of timber spend by value from our operating companies came from a certified managed source (69% in 2007). Of that total, 67% was purchased from a purely FSC certified source (54% in 2007).

Global percentage of timber spend



Our construction and civil engineering businesses seek to use recycled materials where possible to reduce demand for primary materials and save costs. We have been particularly successful in this regard with major infrastructure projects.

Case studies

Crushing asphalt and concrete doesn't cost the earth

Constructing highways requires significant quantities of materials. We used our mobile crushing plant to re-process over 350,000 tonnes of asphalt and concrete from demolished structures and nearby construction projects for re-use on our 1-15 project in California.

Excellence through materials management

Our Orient Way sidings project in London achieved an 87% "excellent" score under the Civil Engineering Environmental Quality and Assessment and Awards (CEEQUAL) scheme. Sustainable sourcing and materials management played a significant role in delivering such a high score. 99% of demolition waste generated on-site was recycled back into the new structure, some 20,000 tonnes of ballast was re-used and timber was 100% FSC.

What's next?

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

The 2012 expectations in our sustainability roadmap set out our plans for selecting materials with lower environmental impacts and extending our approach to responsible sourcing by:

Assessing and understanding the high environmental impact materials used in our projects;

Establishing plans to minimise these environmental impacts over the project and product lifecycle;

Monitoring our use of major materials such as timber, concrete, aggregates, steel, aluminium and copper;

Procuring at least 25% (by value) of these major materials from recognised responsible sourcing schemes, where these exist; and

Procuring all our timber and timber products from recognised responsible sourcing schemes.

2012 targets

Procure at least 25% (by value) of major materials from recognised responsible sourcing schemes

Procure 100% of timber/timber products from recognised responsible sourcing schemes

Climate change adaptation

We are at the forefront of developing and deploying adaptation responses to protect critical infrastructure against the physical impacts of climate change. Demand for these services will increase over time.

Why this matters to us

It is now widely acknowledged that even when significant reductions in carbon emissions are made, some climate change impacts are unavoidable due to the level of greenhouse gases already in the atmosphere.

As buildings and infrastructure generally have an expected lifetime of between 20 and 100 years, thinking about climate change today when designing and constructing for tomorrow, will allow us to deliver long-lasting value to our customers, helping to:

Protect our customers' future asset values

Ensure critical infrastructure will continue to meet the needs of society

Differentiate our service offering; and

Reduce our own risks and liabilities from climate change

Key infrastructure likely to be impacted includes:

Water supply

Storm and wastewater systems

River flooding and coastal defences

Energy generation

Transportation networks; and

Other critical infrastructure such as hospitals and telecommunications.

The physical impacts of climate change will not only affect our customers assets but also the assets we own or have a substantial interest in such as our UK regional airport businesses and school, hospital and roads PFI/PPP/DBFO schemes.

Increasing temperatures will affect material durability, increasing the corrosion of steel, increasing the carbonisation of concrete and accelerating the deterioration of timber.

Higher rainfall and more intense storm events will lead to increased flooding of buildings, roads and other infrastructure assets.

We will need to understand how the climate is going to change, so we can take it into account in our decision-making. We have started to look at techniques and approaches to maintain existing infrastructure in a changing climate, ranging from future-proofing new projects to retrofitting solutions to existing assets.

Our customers will increase their investments in adaptation measures, providing us with opportunities to provide technical advice and infrastructure upgrades such as coastal and flood defences, transportation and buildings.

Understanding the risks

We are advising and responding to customer requirements on climate change adaptation, most notably in the transport and utilities sectors.

Parsons Brinckerhoff for example, has developed a series of climate change adaptation documents for Highways Agency engineering teams to help them evaluate and mitigate climate change adaptation risks.

We have started to use climate prediction tools developed by the UK Climate Impacts Programme to help us understand how the climate will change in the future and generate adaptation options. Our UK local authority highways customers are now required to take action in accordance with National Indicator 188. Our climate change adaptation support to them includes:

Reinforcing critical structures for increased resilience to higher intensity rainfall events;

Increasing drainage capacities in road runoff retention systems;

Assessing material resistance to high temperature variations;

Considering higher wind speeds on street lighting and signage; and

Providing additional roadside verge maintenance regimes to cater for longer growing seasons.

In the US, Parsons Brinckerhoff has commenced a study for the National Cooperative Highways Research Programme (HCHRP) on approaches to adapt transport infrastructure to the impacts of climate change.

Developing adaptation responses

Climate change adaptation remains a developing area of focus but one we know will increase in importance as customer expectations for advice and solutions continue to grow. As our capabilities and track record develop, we will be able to influence more of our customers to adopt best-practice adaptation responses.

Group-wide climate change adaptation objectives have been developed as part of our sustainability roadmap. By 2012, our operating companies will have:

Considered climate change risks and opportunities and adaptation measures for all new projects; and

Ensured that our own new assets are designed, built and operated to mitigate the risks from climate change.

We will also need to develop adaptation responses for existing infrastructure assets post 2012. By 2020, we will aim to design, build and operate all infrastructure we are responsible for, with adaptation solutions in place to ensure their resilience to the future predicted impacts of climate change over their design lifetimes.

Ecology

We understand that our people, customers and local communities care about the natural world. We will go beyond protecting ecological resources to enhancing the biodiversity of our projects.

Why this matters to us

Infrastructure can have a significant impact on the ecology of our environment and some of our operations work alongside sensitive ecological areas such as regional and national nature reserves, conservation sites or sites of special scientific interest. Wildlife and geological features are becoming increasingly stressed and threatened due to human activities. Maintaining a rich diversity of species and habitats (healthy populations and diversity of species) is increasingly important to our customers and the communities affected by our work.

Through our operations we have the opportunity not only to reduce our impacts on ecological resources but to enhance these resources through better design, development and management of our projects as well as improving the way we manage our own estate and existing buildings. We believe that delivering projects consistently with a net ecological gain will help differentiate Balfour Beatty in the marketplace.

Our approach

Many of our businesses produce biodiversity action plans for individual projects and a number produce annual plans that set out objectives for managing sensitive ecological areas such as periods of the year to avoid disturbance, provision of protection measures, creation of temporary or new habitats, briefings for staff and sub-contractors on site rules, ongoing monitoring and advice from our own in-house and external ecologists. Increasingly, we use our experience in protecting and enhancing ecological resources to differentiate our bid-winning activities.

Ecological enhancement

As ecological issues vary from project to project, we have found that each operating company must plan local measures for ecological protection and enhancement on a project-by-project basis.

Ecological enhancement in practice

The Cross Valley Link Road near Northampton in the UK bisects an important county wildlife site and site of acknowledged conservation value. Strategies were developed for the management of ecological resources and enhancing existing features. An ecological clerk of works was employed on-site throughout the project, which:

Planted 25,000 native trees and shrubs

Deployed protection and mitigation measures for reptiles, water voles, fish, river mussels, birds, bats and badgers

Created 20 hectares of new wetland habitat

Grew 1000 willow cuttings in an on-site nursery

Sowed 900 kg of wildflower seed, some of which was harvested from local nature reserves

Re-located 400m of species-rich hedgerow and grassland habitat

http://www.ceequal.co.uk/awards_036.htm

What's next?

Our operating companies will be developing ecological action plans that seek to protect the ecological resources and habitats identified within all their projects and own sites/premises by 2012. In doing so, they will consider:

Ecological resources most at risk from operational activities and those subject to legal protection and local or national nature conservation plans or targets

Liaising and influencing landlords to improve the ecology of outdoor spaces of our offices

Implementing protection measures prior to works commencing, including the timing of the works to avoid sensitive times of the year (eg breeding and nesting) and habitat protection measures, replacement and or translocation of species

Our vision for 2020 is designing, constructing and maintaining our projects and own premises to enhance the ecology of the local environment, delivering a net ecological gain. In future reports, we expect to be able to report the percentage of applicable sites that have delivered a net ecological gain.

Water

We believe the importance of conserving water will grow over the coming decade. Balfour Beatty will determine its own direct water use across its global operations and understand its indirect water footprint to determine where best to reduce consumption.

Why this matters to us

Water is becoming a scarcer resource in many parts of the world. The United Nations estimates that 2.8 billion people in 48 countries will face water stress or scarcity conditions by 2025. Pressure on water resources will continue as the world's population grows. Our water use represents an operating cost as well as an environmental impact. These costs could rise and restrictions on usage affect our operations in times of drought. Water could well become the next "carbon", with greater focus placed on it by regulators, policy makers and customers.

Our approach

We measure direct use of water from our own estate (offices, industrial sites such as factories and depots), and project sites (both mains and abstracted).

Our focus has been to reduce water usage in our premises (eg through the use of self-closing taps, waterless urinals and staff awareness campaigns) and on construction sites (eg capturing rainwater for plant cleaning, concrete batching and dust suppression). Our construction site cabins can also be supplied with rainwater harvesting systems.

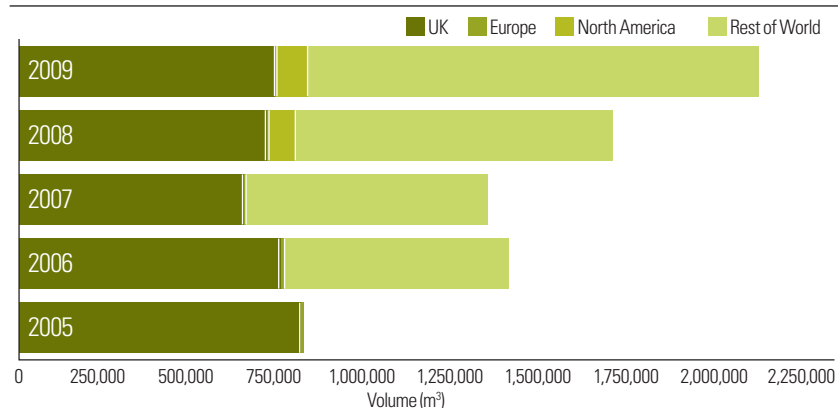
We also seek to provide new buildings with water saving technologies such as water recycling and use of rainwater harvesting techniques.

Water use, whilst closely linked to climate change, needs to be addressed in a very different manner. Water needs to be managed at a local or river basin level rather than globally.

Our progress and performance

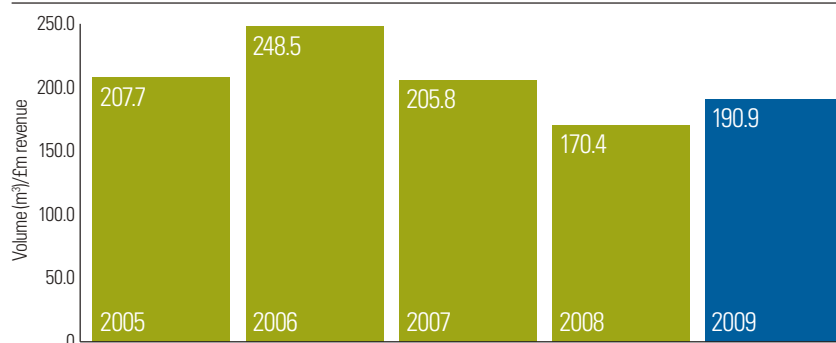
In 2009, our global consumption of water was 2,101,000 m³ compared to 1,686,000 m³ in 2008. Our water consumption grew due to increased activity in our Far East and Middle East construction operations, together with our US construction business reporting for the first time.

Global absolute water consumption 2005–2009



In 2009, relative to revenue, our global use of water at 191 m³ per £m sales, reduced by 8% compared to 2005 at 208 m³/£m revenue.

Global relative water consumption 2005–2009 (m³/£m revenue)



What's next?

We believe the issue of water management will increase in importance in the coming decade. Security of supply and accounting for water use by large organisations will grow in importance. Future water shortages could lead to conflict and population migrations but also provide opportunities for new and upgraded water treatment infrastructure and innovative solutions for supplying our water needs.

We will measure our own water use across our global operations by the end of 2010 in order to develop a robust baseline from which to track our performance. We have set ourselves a 10% reduction target per £m revenue by the end of 2012 against this baseline.

Researching and understanding our wider water footprint, encompassing the water embodied in the materials we use, or consumed in their manufacture, will also help us to determine where best reductions can be made.

We are encouraging a sector wide approach for water footprinting, through our membership of the UK Contractors' Group (UKCG) and working with the Strategic Forum for Construction in the UK. In addition to developing future strategies for the sector, we are leading the development of common metrics and best practice in water use during the construction phase. This is very much a gap in the market with little attention being paid to how construction companies can minimise their water use in their day-to-day operations on-site.

2012 target

Reduce our direct use of water by 10% by 2012 per £m revenue against a 2010 baseline.

Incidents and enforcement action

We care about the natural world and, through the diligence of our site teams, avoided any significant polluting incidents occurring during the year.

Why this matters to us

If not properly controlled, stormwater runoff from construction sites can contain sediment and other contaminants. Spillage and leakage of oil, fuel and other hazardous substances can affect the natural environment and drinking water supplies. Runoff from highway depots, with salt stockpiles for road de-icing, can also impact local watercourses. Noise and dust can disturb communities.

Such incidents not only harm the natural environment and impact the communities we serve, they can also damage our reputation and can adversely affect our ability to win new contracts.

Our approach

Controls are in place through our environmental management systems to minimise these impacts and meet regulatory requirements. These include careful project planning, mitigation measures and training. Stormwater management practices at construction sites in the US, particularly California, are considered to be the best in the world. During 2009, we shared this US best practice with our European businesses.

Case studies

Orchard Hills Elementary School, California, US.

We pride ourselves on our best practice in pollution prevention. In order to protect exposed soils from rainfall, we used heavy plastic sheeting to cover the area, together with gravel bag berms and laid straw wattles along the contour.

We encourage our businesses worldwide to systematically record, investigate and learn from environmental incidents. Incidents are categorised as either:

Significant (resulting in irreversible or major environmental impact such as a large fish kill following a spill)

Moderate (requiring management response and/or reportable to environmental regulators such as a discharge of silty water into a watercourse); or

Minor (minimal or short-term local impact with natural recovery such as small oil spill onto hardstanding)

We will continue to look for best practice in pollution prevention and encourage knowledge sharing across our businesses.

Incident reporting

During 2009, 370 environmental incidents were recorded across our global operations (451 in 2008, restated). Of these, none were classified as causing irreversible or major environmental impact. Nine moderate incidents were reported in 2009. One of these was considered to have impacted the environment when approximately 200 litres of insulating electrical oil from a leaking transformer was discharged onto open ground during utilities work near Peterborough in the UK. The contaminated soil was removed and the Environment Agency notified.

Spills, primarily minor quantities of hydraulic oil, and fuel, remain the single largest contributor to environmental incidents recorded by our operating companies with over 75% of the total.

Enforcement action

Seven minor environmental incidents resulted in enforcement action and fines in 2009 (five in 2008) totalling £15,600 equivalent:

One incident involved incorrect labelling of hazardous waste in Jacksonville, Florida (US\$5,000 fine)

Another, in the UK, related to noise nuisance for "out of hours" working at Basil Street Hotel, London (£8,000 fine)

Five minor offences resulted in cumulative penalties of 10,000 Singapore dollars for noise, standing water (potential mosquito breeding sites) and a discharge to public drain

Global environmental fines

	2009	2008	2007	2006	2005
UK	£8,000	£40,000	0	0	£23,000
Continental Europe	0	0	0	0	0
North America	US\$5,000	US\$20,625	US\$480	0	0
Rest of World	(Sg)\$10,000	(Sg)\$1,000	0	0	0

Corrective actions have been completed for each violation.

Performance data

GRI Index

This section of our report includes our GRI Index and brings together the data that appears in other sections. Progress at a glance and targets for 2020 are available elsewhere in our report.

Balfour Beatty's 2009 Sustainability report has been self assessed at Level c+ against the GRI3 Reporting Framework. Contained in 2009 Annual Report and Accounts (ARA) are a number of the GRI criteria relating to strategy, economic reporting and governance.

	GRI reference	Inclusion	Link 2009
Vision and strategy	1.1 CEO's statement	●	CEO Statement
	1.2 Key impacts	●	Future Global Trend Focusing on what matters
Organisation profile	2.1 Name of organisation	●	About Balfour Beatty
	2.2 Brands, products/services	●	ARA
	2.3 Operational structure	●	ARA
	2.4 Location of head office	●	About Balfour Beatty
	2.5 Countries of operation	●	About Balfour Beatty
	2.6 Nature of ownership	●	About Balfour Beatty
	2.7 Markets served	●	About Balfour Beatty
	2.8 Scale of organisation	●	About Balfour Beatty
	2.9 Significant changes in operation	●	Focusing on what matters
	2.10 Awards received	●	Meeting Customer Needs Safety Talent and Training Waste Materials
Report parameters	3.1 Reporting period	●	Focusing on what matters
	3.2 Date of previous report	●	Focusing on what matters
	3.3 Reporting cycle	●	Focusing on what matters
	3.4 Contact point and feedback	●	Comments and feedback
Scope and Boundary	3.5 Defining content	●	Leadership, Management, Governance Future Global Trend
	3.6 Boundary of report	●	Focusing on what matters
	3.7 Exclusions from scope	●	Focusing on what matters
	3.8 Joint ventures and subsidiaries	●	Focusing on what matters Managing a diverse workforce ARA
	3.9 Data measurement techniques	●	Energy and Carbon Waste Focusing on what matters Managing a diverse workforce
	3.10 Restatements	●	Energy and Carbon Safety Incidents and Enforcement action
	3.11 Significant changes	●	Focusing on what matters
GRI Content Index	3.12 GRI table	●	
Assurance	3.13 Assurance statement	●	Independent assessments
Governance	4.1 Governance of SEE matters	●	Leadership, Management, Governance ARA
	4.2 Chair of highest governance body	●	Leadership, Management, Governance ARA
	4.3 Board structure	●	ARA
	4.4 Stakeholder engagement with highest governance body	●	Stakeholder Engagement ARA

	GRI reference	Inclusion	Link 2009
	4.5 Remuneration linkages	●	ARA
	4.6 Conflict of interest	●	ARA
	4.7 Qualifications and expertise of highest governance body	◐	Leadership, Management, Governance ARA
	4.8 Code of Ethics	●	Ethics and Values
	4.9 Risk assessment and management	●	Leadership, Management, Governance
	4.10 Process for evaluating the highest governance body's performance, including SEE performance	●	Leadership, Management, Governance ARA
External Initiatives	4.11 Precautionary principle	●	Leadership, Management, Governance
	4.12 External economic, environmental, social charters or other initiatives subscribed to	●	Future Global Trends
	4.13 Membership of Associations: Strategic	●	Stakeholder Engagement
Stakeholders	4.14 List of Stakeholders engaged	●	Stakeholder Engagement Stakeholder Panel Our Sustainability Vision
	4.15 Defining stakeholders	●	Stakeholder Engagement
	4.16 Approaches to Stakeholder Engagement	●	Stakeholder Engagement Stakeholder Panel
	4.17 Stakeholder key topics	●	Stakeholder Engagement Stakeholder Panel Our Sustainability Vision
Economic performance	EC1 Economic profile	●	ARA
	EC2 Climate change risks and opportunities	●	Our Sustainability Vision Energy and Carbon Climate Change Adaptation Influencing for Sustainability
	EC3 Organisation's defined benefit plan obligations	●	ARA Benefits and Incentives
	EC4 Significant Financial Assistance Received from Government	●	ARA
	EC6, EC7	○	
Indirect economic performance	EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	●	Community and Supplier Engagement
Materials	EN1 Materials used	◐	Materials
	EN3 Direct energy consumption	◐	Energy and Carbon
	EN4 Indirect energy consumption	◐	Energy and Carbon
	EN6 Energy-efficient services/renewable energy	◐	Energy and Carbon
	EN7 Initiatives to reduce indirect energy consumption	●	Energy and Carbon
Water	EN8 Water usage	●	Water
	EN9 Water sources significantly affected by withdrawal	●	Water
Biodiversity	EN11 Protected areas and areas of high biodiversity value outside protected areas	◐	Ecology
	EN12 Description of significant impacts of activities, products, and services on biodiversity	◐	Ecology
	EN13 Habitats protected or restored	◐	Ecology
	EN14 Strategies, current actions, and future plans for managing impacts on biodiversity	●	Ecology
Emissions, Effluents and Waste	EN16 Greenhouse gas emissions	●	Energy and Carbon
	EN17 Other relevant indirect greenhouse gas emissions	◐	Energy and Carbon

	GRI reference	Inclusion	Link 2009
	EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved	●	Energy and Carbon
	EN19 Emissions of ozone depleting substances	○	Not Material
	EN22 Total weight of waste	●	Waste
	EN23 Significant spills	●	Incidents and enforcement action
Compliance	EN28 Environmental fines	●	Incidents and enforcement action
	EN2 Use of recycled input materials	●	Materials
	EN20 NOx, SOx, and other significant air emissions	○	
	EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	●	Environmental Limits
	EN5, EN10, EN15, EN21 , EN24, EN25, EN27, EN29, EN30	○	
	LA1 Workforce employment numbers	●	About Balfour Beatty
	LA2 Total number and rate of employee turnover by age, group, gender and region	●	Employee Engagement
Occupational health and safety	LA6 Worker representation on health and safety committees	●	Safety
	LA7 Occupational health and safety data	●	Safety
	LA8 Occupational health and safety training	●	Safety
Training and Education	LA10 Overall training data	●	Talent and Training
	LA11 Programmes for skills management and lifelong learning	●	Talent and Training
	LA12 Employee Performance and Career Development Reviews	●	Talent and Training
Diversity	LA13 Diversity data	●	Managing a diverse workforce
	LA3, LA4, LA5, LA9, LA14	○	
	HR4 Incidents of discrimination and actions taken	●	Ethics and Values
	HR1, HR2, HR3, HR5, HR6, HR7, HR8, HR9	○	
	S01 Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities	●	Healthy Communities
	S02 Risks related to corruption and training programmes	●	Ethics and Values
	S03 Percentage of employees trained in organisation's anti-corruption policies and procedures	○	
	S04 Actions taken in response to incidents of corruption	●	GIACC Information Ethics and Values
	S05 Public positions on key legislation	○	
	S06 Political donations	●	ARA Stakeholder Engagement
	S07 Ant-competitive, ant-trust, monopoly	●	Ethics and Values
	S08 Monetary value of significant fines and non-monetary sanctions for non-compliance with laws and regulations	●	Ethics and Values Safety Incidents and enforcement action
Customer health and safety	PR1 Lifecycle stages in which health and safety impacts of products and services	●	Safety
	PR2 Total number of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their lifecycle	●	Safety Performance data

	GRI reference	Inclusion	Link 2009
Marketing communications	PR6 Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	●	Ethics and Values
	PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications.	●	Ethics and Values
Compliance	PR9 Monetary value of significant fines for non-compliance with laws and regulations	●	Ethics and Values
	PR3 , PR4, PR5, PR8	○	Ethics and Values Safety Incidents and enforcement action

BOLD = core indicator ● Reported ◐ Partially Reported ○ Not Reported ARA = Annual Report and Accounts

Stakeholder panel

We introduced an external stakeholder panel last year to review our reporting practices and provide an independent opinion of our performance and recommendations for where we could improve. Our progress against those recommendations is provided in this section, together with this year's stakeholder panel exercise.

Stakeholder opinion statement 2009

The stakeholder panel welcomes the opportunity to provide feedback on Balfour Beatty's sustainability strategy and reporting practices. We commend the Company's serious commitment to sustainability and its level of transparency.

The panel feels that the Balfour Beatty sustainability vision and roadmap (which includes 2020 aspirations and plans for implementation), are first-class. Real effort has been made to roll out the vision and roadmap in the short period following its launch in 2009. We look forward to an update next year on how far this roll out has progressed throughout the organisation as a whole.

The sustainability roadmap sets minimum expectations and measures of excellence for 2012. We recommend that the Company reports on progress towards these targets, and against non-financial key performance indicators, in its annual sustainability report. In 2011, the panel would hope to see the results of the current and previous year, as well as new targets for the next reporting year.

The panel believes that Balfour Beatty is well placed to create a sustainable and responsible chain of custody that goes beyond its own procurement and upstream supply chain activities. The Company also has a significant downstream impact on the sustainability performance of its customers and clients. Continuing to influence the market in this area can only enhance the Company's competitive advantage.

Delivering sustainability is clearly important to Balfour Beatty and the leadership and commitment behind this is apparent. However the panel would like to see further evidence of how the vision is being embedded within the Company's culture from top to bottom. We would like to see more evidence of engagement and capacity building, in particular across the Company's senior business leaders. We also believe that further opportunities exist to integrate sustainability into job descriptions, personal accountabilities, objectives and remuneration. Finally, we would encourage the development of a feedback mechanism to help monitor progress on employee understanding of sustainability and implementation of the roadmap and vision.

We encourage Balfour Beatty to continue to seek stakeholder opinion in the future. We would welcome wider representation on the panel to reflect the company's global operations and we believe there is scope to open feedback to appropriate international NGOs and relevant interest groups.

Balfour Beatty response to 2009 stakeholder panel statement

We were delighted with the level of engagement and interest shown in our sustainability report by the stakeholder panel this year. Their insight and challenge helped us to improve the content of this year's report.

The recognition from the panel that that we have developed a first-class strategy for sustainability reflects the hard work of many people and our ambition to be an industry leader. We are now moving into the next phase with our operating companies translating this strategy into their action plans. Key to the successful delivery of our 2020 vision and roadmap will be embedding sustainability into everything we do. We are pleased that the panel has also identified this as a critical area for success.

Going forward, Balfour Beatty will continue to report on a range of non-financial performance measures, including progress against the 2012 commitments in our roadmap and how we will engage our people at all levels on sustainability. We are already taking steps to encourage employee feedback with the design of our e-learning and offline sustainability training course, which we expect to launch later this year across our global operations. Integrating sustainability into work winning and supply chain management will also be priorities for our programme in 2010/11.

Building on the success of this year's panel, we will explore opportunities to extend its membership to include appropriate stakeholder organisations outside of the UK. This development would help bring further alignment with the growing international dimension of our business.

We look forward to further engagement with the panel next year as an important part of our sustainability journey.

Balfour Beatty, May 2010

Independent assessments

Our progress against the panel's 2008 recommendations

We gained real value from engaging our stakeholder panel last year. Progress against their recommendations in last year's opinion statement is summarised here with links to relevant sections of our online report for further information.

2008 stakeholder panel recommendation	2009 response
Publish the sustainability roadmap	Completed. 2020 sustainability vision and roadmap published in full
Provide more information on how Executive Directors and other senior management are motivated to focus on sustainability, including evidence that sustainability objectives are part of their formal performance objectives and remuneration arrangements.	Our position remains unchanged .
Communicate how material sustainability issues affect the business (eg operating costs, employee turnover, licence to operate etc).	Completed. Introduction to each section of our report explains why the issue is important to us.
Clarify whether stakeholder engagement at Group-level had informed the identification of the sustainability issues faced by the Company or whether a wider group of stakeholders had been directly involved in developing the 2020 vision.	Completed. A number of external stakeholders provided feedback and influenced the development of the vision and roadmap (eg diversity, leadership and talent were added)
Provide more detail on how the company manages its migrant workers and how it will work with its supply chain to address its indirect (Scope 3) greenhouse gas emissions.	Ongoing. More detail is provided on how we manage migrant workers in Dubai. We continue to develop our understanding of our Scope 3 emissions and will work with our suppliers to identify opportunities to reduce emissions
Provide targets for the Company's key performance indicators.	Completed. Developed through the roadmap and summarised in this report
Take greater care in the terminology used in the report (eg "people" vs. workforce).	Completed. Clearer definitions provided.

2009 stakeholder panel membership

Following the success of our first stakeholder panel last year, we asked an expanded panel of key stakeholders to give us an independent opinion of our 2009 sustainability report and our approach to sustainability. Seven experienced sustainability and corporate responsibility practitioners met in March and again in April 2010 to review our report.

The panel members were:

*Dean Kerwick-Chrisp, Sustainable Development and Climate Change, Highways Agency and panel chair

[Ian Gearing, Head of Corporate Responsibility, National Grid](#)

[Kate Broome, Corporate Responsibility Executive, Network Rail](#)

[Dave Farebrother, Environment Director, Land Securities](#)

[Tim Goodman, Manager, Hermes](#)

[Chad Harrell, Director Operations and Sustainable Business Development, UK Green Building Council](#)

[Andy Spencer, Sustainability Director, Cemex.](#)

The terms of reference for the panel can be downloaded [here](#)

The views of the 2009 panel are reproduced, without amendment from Balfour Beatty together with our response.

The assurance process

Our approach to assurance follows the key elements of the revised AA1000 Assurance Standard (inclusive, reflects material issues and is responsive to stakeholder concerns).

To help inform the Stakeholder Panel, we commissioned URS Corporation Limited to conduct a review of our sustainability programme and performance data, including how sustainability is embedded and managed across the Company.

Key elements of this review comprised:

interviews with eleven senior managers at Group-level and a selection of employees at operating company and project sites to assess how sustainability is embedded and managed

one day data reviews at two project sites (Blackfriars station in London and Salford Hospital in Manchester), Balfour Beatty Construction Northern, Balfour Beatty Workplace and Balfour Beatty Major Civil Engineering operating companies and at Group Head Office to review the collection, collation and management of data at each level of the Company; and,

a thorough review of the draft Sustainability Report, assessing qualitative and quantitative claims included for accuracy and reviewing further evidence provided by Balfour Beatty in support of these statements where required

The members of the URS project team have not been involved in the development of the report or associated sustainability programmes, data and information collection systems. This ensures that the URS project team is well-placed to provide an independent review of our sustainability programme and performance data to the panel.

Independent audit

In 2004 Balfour Beatty engaged Det Norske Veritas (DNV) to work with them in the development and implementation of the Balfour Beatty Group Audit Protocol (BBGAP) to achieve the following objectives:

To provide assurance to the Balfour Beatty Board and to OpCo (Operating Company) management teams that SHEQ is being managed and delivered effectively to a consistently high level across all of its businesses;

Using a scored and quantified audit system that will support accurate benchmarking, both internally and between businesses, and drive continuous improvement;

To maintain certification to OHSAS 18001, ISO 14001 and ISO 9001, as a by-product of the BBGAP audit.

Process

DNV has assessed the SHEQ performance of Balfour Beatty's UK Organisations by conducting scored BBGAP audits of varying duration on a twice yearly frequency. For the first time this year, non-UK countries which have used the services of DNV have been included in detail in the Annual report.

Findings

A series of management systems are in place across the Balfour Beatty Organisations audited, with all such companies having ISO 9001, ISO 14001 and OHSAS 18001 certification, the majority of which is provided by DNV. For the most part the management systems are judged to be effective since all companies achieved a minimum of Level 2 for Process and Level 2 for Implementation (this is the minimum required for certification against ISO 9001, ISO 14001 and OHSAS 18001).

Furthermore, 25 Balfour Beatty Organisations audited achieved a maximum of BBGAP Level 5 for Process and 21 Organisations also achieving a maximum of BBGAP Level 5 for Implementation.

Conclusion

The continued commitment to BBGAP, and the focus once again on the split between Process and Implementation questions, has resulted in increased identified key areas for improvement. There has also been a significant increase in evidence perceived to be best practice in many areas. Accordingly, the BBGAP process has been seen to be driving continuous improvement within the business.

DNV commends Balfour Beatty for the continual progress it continues to make with respect to the improvement of SHEQ.

Overall from the audits carried out, and the resulting actions, DNV have a high level of confidence that Balfour Beatty are committed to meeting their obligations and are striving for excellence in their SHEQ Management Systems.

Bjorn K Haugland Chief Operating Officer, DNV Business Assurance November 2009