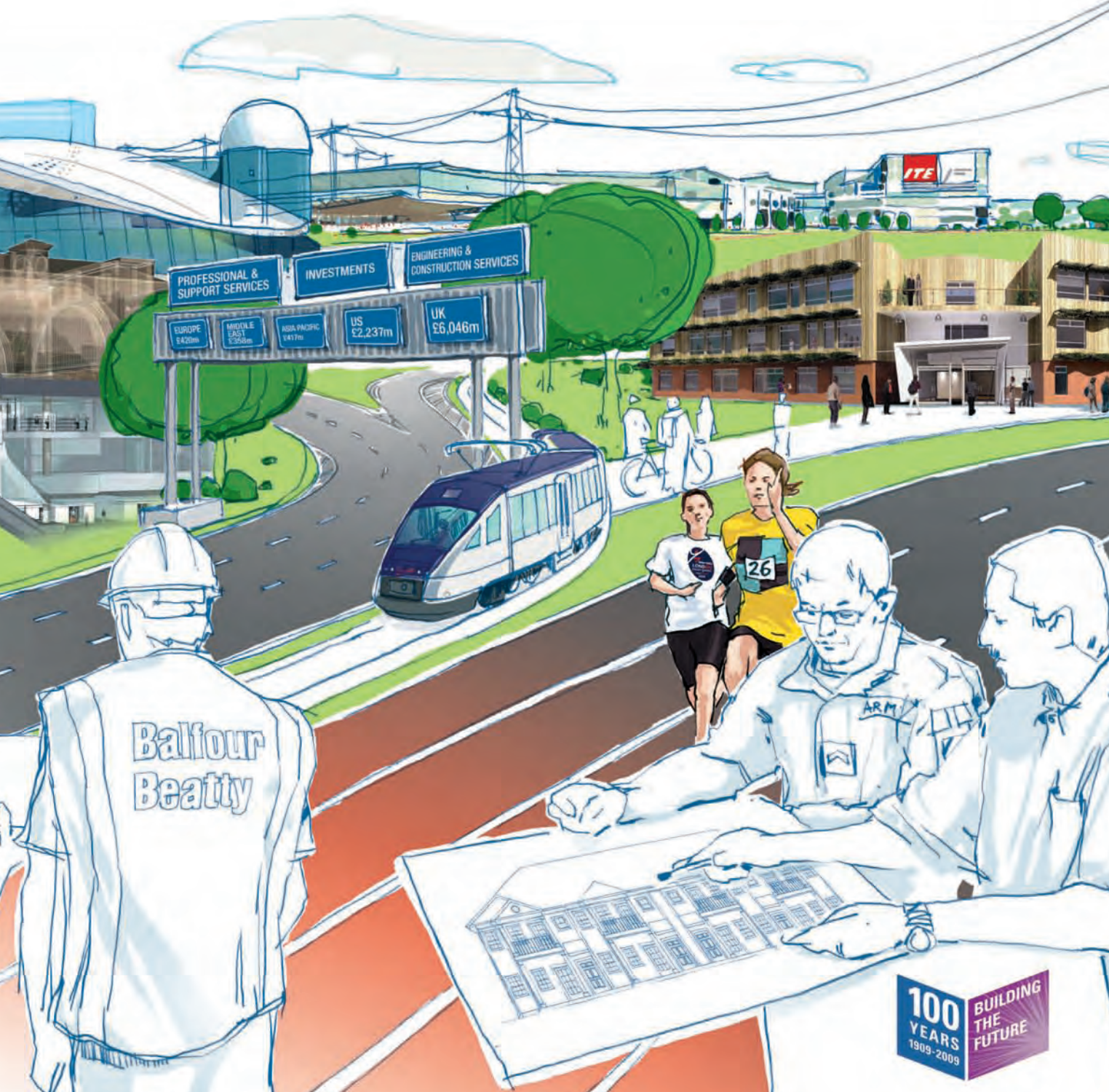


Balfour Beatty

INTEGRATED INFRASTRUCTURE





Our business

100 years of building the future

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Balfour Beatty

The creation and care of essential assets



Why not view our online Directors' report and accounts 2008 at:

www.balfourbeatty.com/bby/investors/reports/

CELEBRATING 100 YEARS OF BALFOUR BEATTY



George Balfour MP A Scot, who studied mechanical and electrical engineering. He was commercial engineer and partner of a Dundee engineering firm before joining the London branch of New York engineers, JG White. MP for Hampstead from 1918 to 1941.

Andrew Beatty OBE An English accountant, he met George Balfour when company secretary of JG White in London, having previously worked in Newfoundland and South Russia. He became a member of the Court of Common Council of the City of London, and was awarded an OBE.



1914–18

WORLD WAR ONE

Balfour Beatty played a key role in the war effort, which prompted a shift of focus as our resources were switched to military purposes. Our first major civil engineering project was the construction of a major hydro-electric scheme at Kinlochleven, which included building a five-mile aqueduct in Scotland to supply water to an aluminium manufacturing operation.



1909

1919

1929

1939

1949

From the very beginning to World War II... through the blitz, austerity, the age of

1909

BALFOUR BEATTY FOUNDED FIRSTS

Our first commission: Taking over the operation of tramways in Kent and Bedfordshire brought in our first £5,000.

Our first construction contract: Further successes on other tramways around the country led to our first construction contract for the Fife tramway system, extending the line to Dunfermline in a contract worth £141,450.



1926

LOCHABER WATER POWER SCHEME

Worth £2.5m, our largest project to date employed 3,000 men and was designed to exploit the vast potential of hydro-electric power held in Scotland's highland lochs. The 15-mile tunnel was driven through mountains bringing hydro power to the British Aluminium Company.

1926 BIRTH OF THE NATIONAL GRID

In the same year the Central Electricity Board was set up to construct the National Grid, at a cost of £26.7m. Balfour Beatty played a prominent role in delivery.

1940

WORLD WAR TWO THE CHURCHILL BARRIERS

Our support for the war effort included the construction of the Churchill Barriers in the Orkney Islands to protect the British naval base at Scapa Flow from the threat of German U-boats. The scale of the defences was vast, involving half a million cubic yards of quarried rock and 300,000 tonnes of concrete blocks. It was completed in 1943.

1945 POST-WAR NATIONALISATION

Once the war was over, reconstruction began and Balfour Beatty was responsible for installing 100kW of power plant, erecting 230 miles of transmission lines, railway tunnel repairs and opencast coal mining. However, the new Labour government's policy of nationalisation altered our operating environment significantly. While we continued to be a major force in the electricity sector, we also expanded internationally and became a major supplier to the London Underground.



1957

THE NUCLEAR AGE BEGINS

The emerging nuclear power sector provided an exciting new challenge, and in 1957 we began work on a power station in Berkeley, USA.

1959 BALFOUR BEATTY HITS 50

The company celebrated "50 years of power development and services as a complete organisation with design, construction, operation and management of engineering projects in any part of the world."

1960

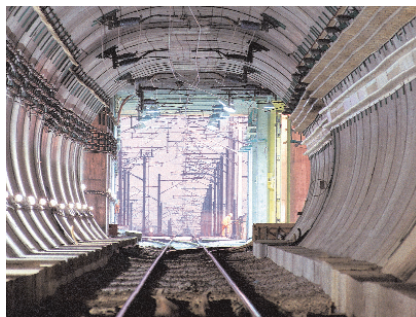
POWER GENERATION

Balfour Beatty brought vital new power generation and transmission capacity to Malaysia, Kenya, Tanganyika and Nigeria, where the Kainji dam opened in 1969. Vital new water systems were also provided in the Jordan Valley.

1987

TUNNEL VISION

Work began on a tunnel connecting England and France, bringing an idea that had existed since Napoleonic times to life. Construction was undertaken by a 10-company consortium in which Balfour Beatty was a leading member. It remains one of the greatest construction achievements of all time, creating the world's longest (37.5km) undersea tunnel in difficult geology. The efficiency of the construction project is worthy of note; from the British side an average progress of 150m per week.



2005

UK'S LEADING UTILITIES CONTRACTOR

Balfour Beatty became the UK's leading utilities contractor with a series of high-profile wins in water, gas and electricity.

1959

1969

1979

1989

1999

2009

the car and nuclear power... ..to a world we could never have imagined in a hundred years.



1975

DEVELOPING INFRASTRUCTURE ON LAND AND SEA

Balfour Beatty began construction of the £350m Mina Jebel Ali port in Dubai. The project included nine miles of quays, 1¼ miles of wharves, a tanker berth and a block yard producing 65,000 44-ton concrete blocks. 5,500 workers were employed and completed the port 12 months ahead of schedule, perhaps because the project was personally supervised by the ruler of Dubai himself!

1995 BARKING POWER STATION COMPLETED

Balfour Beatty completed the 1,000MW combined cycle gas-fired plant in east London, at a cost of £370m. The low emissions station generates at better than 50% thermal efficiency and helped to prepare Balfour Beatty for its profitable entry into the new PPP market.

2002

BALFOUR BEATTY WINS HEATHROW TERMINAL 5 CONTRACT

The Group was responsible for the integration and execution of all rail links to the terminal, which included extensions to the Heathrow Express and Piccadilly line, a link road to the M25 and the construction of a rail station equivalent in size to six football pitches. The contract was worth £450m.

2004 BUILDING SCHOOLS

The announcement that Balfour Beatty was the preferred bidder for Birmingham Schools brought the number of schools projects to five. The others being located in Stoke, Rotherham, North Lanarkshire and Nottinghamshire.

Overseas, the Group expanded its presence in Hong Kong with the purchase of 50% of Gammon Construction from Skanska.

2006

FIRST GENERAL HOSPITAL IN BIRMINGHAM FOR OVER 70 YEARS

The Group reached financial close on the £559m hospital project, which is the largest healthcare community development outside London. Set to open in 2010, the hospital was Balfour Beatty's 20th PPP concession and will accommodate over 1,300 beds – 21% more than the facilities it will replace.

The acquisition of Exeter International Airport marked a new strategy of taking our investment business beyond the UK PPP market.

2008 BUILDING MILITARY ACCOMMODATION IN THE US

The acquisition of Centex Construction, a leading US construction management company, and GMH, a major player in the US PPP military accommodation market, enhanced our major domestic presence in the US.



Our business – Introduction

We operate in a world where quality, exceptional service, a strong safety record, technical expertise and a trusted brand are real differentiators.

Balfour Beatty is focused on **Engineering and Construction, Professional and Support Services** and **Investments**.

A key strength is the breadth of capability we bring to major infrastructure projects that often require an integrated approach.

We continually assess what our customers want, and deliver it...

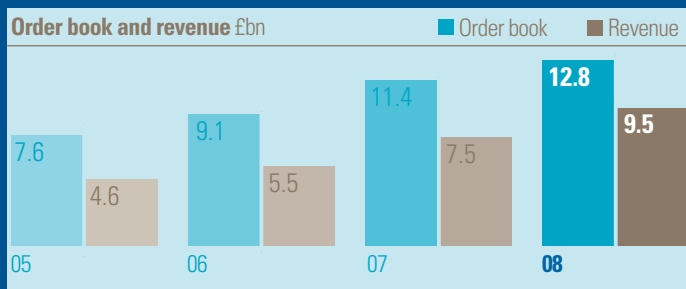
<< proud of our past

passionate about our future >>



Our business – Performance

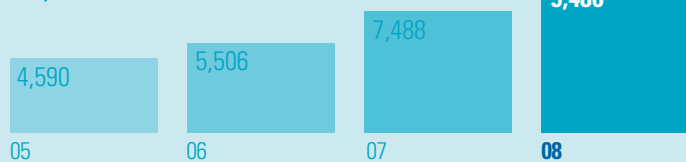
...in order to meet their business objectives while providing responsible, long-term growth for our shareholders. 2008 was another strong year, with pre-tax profits up 24% on revenue that rose 27%. Our business model is resilient, despite the challenging global economic environment,...



Group performance

Revenue including joint ventures and associates

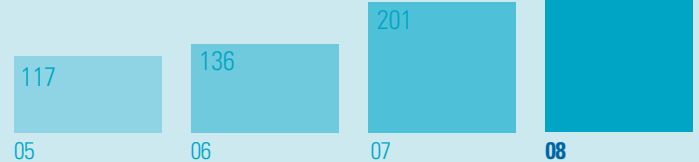
£9,486m +27%



Pre-tax profit from continuing operations

before exceptional items and amortisation

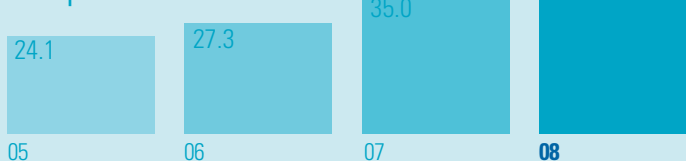
£249m +24%



Adjusted earnings per share

before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations in 2007

39.9p +14%



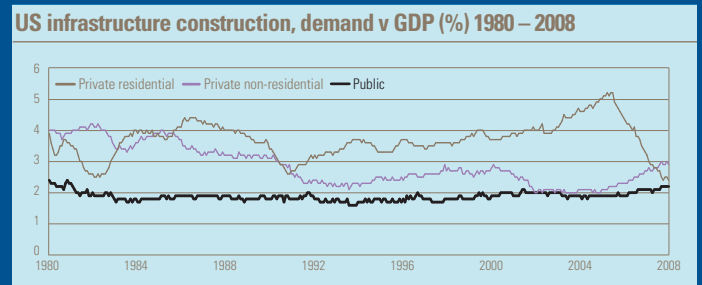
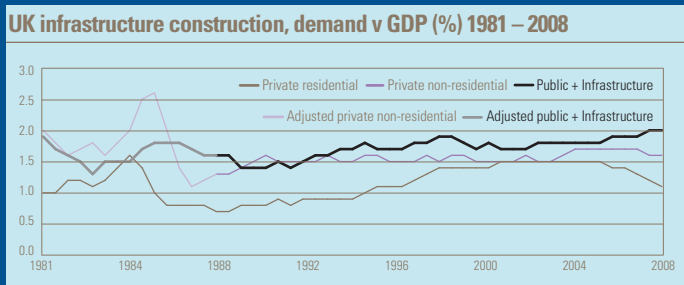
Dividend growth

12.8p +11%



Our business – Markets

...our order book is substantial and our future is underpinned by a continued focus on key infrastructure markets in transportation, utilities and social infrastructure such as education and healthcare. With the majority of our business delivered through contracts with public sector and regulated customers, these markets have shown consistent growth and continue to offer...



Key markets

Education



12% of 2008 revenue

Health



10% of 2008 revenue

Roads



12% of 2008 revenue

Facilities management



5% of 2008 revenue

Utilities and other infrastructure



15% of 2008 revenue

Commercial building



12% of 2008 revenue

Rail



14% of 2008 revenue

Defence

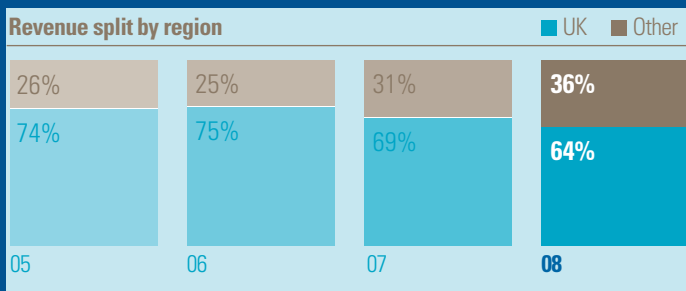


6% of 2008 revenue

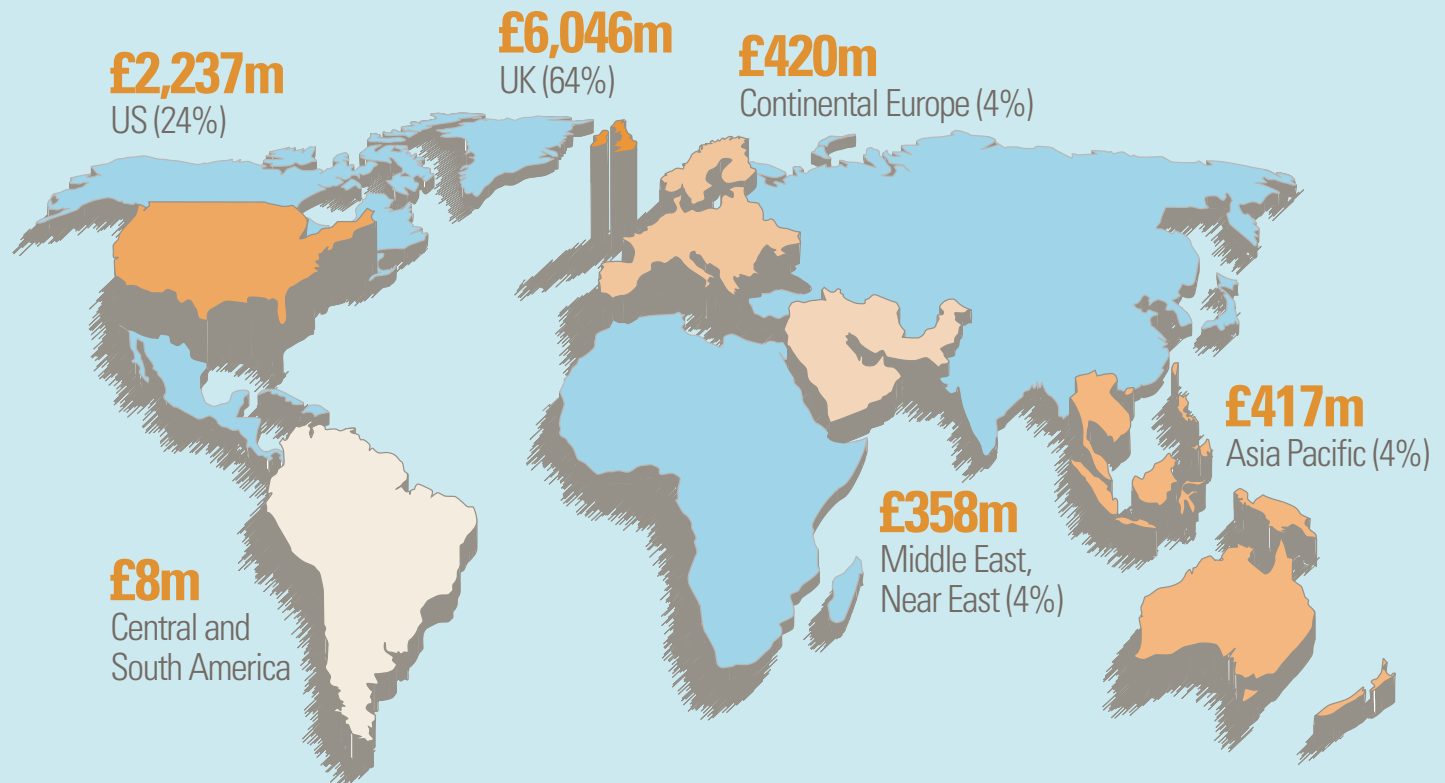
14% of other revenues, not covered above.

Our business – Geographical spread

...excellent opportunities for the Group worldwide. The year saw further progress in our strategy to grow organically and through the acquisition of high-quality businesses in our core geographic markets. Our US business now accounts for approximately one quarter of Group revenues. Across the world, we work...



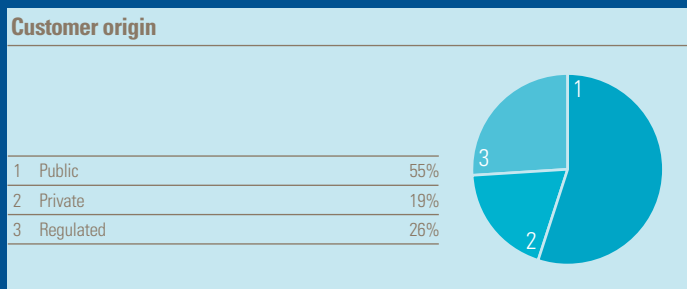
Revenue by region



Revenues by destination, including joint ventures and associates.

Our business – Customers

...in partnership with blue-chip customers on complex projects, integrating the skills and capabilities of Group businesses, where appropriate. The result is a complete offering, extending from investment, engineering and construction to professional and support services, which is delivered through a cohesive, customer-focused service.



Some of the customers for whom we work

BAA 

BBC

British Energy 
Powering the low carbon generation

BT 

GT
Caltrans

DB

HIGHWAYS
AGENCY

MTR

nationalgrid
The power of action!

Network Rail

NHS

OAK RIDGE
Nuclear Laboratory

Royal Mail

UNDERGROUND

United Utilities

US Army Corps of Engineers

Message from the Chairman



Steve Marshall Chairman

A handwritten signature in black ink, which appears to read "Steve Marshall", written over a horizontal line.

The majority of our work is in partnership with public sector and regulated customers, who are long-term investors in infrastructure.

Well-positioned in infrastructure markets

I am pleased to report that Balfour Beatty produced another excellent financial performance in 2008. Of equal importance, the Group's strategic development also continued apace.

Balfour Beatty now has over £9bn in revenues, and a leading presence in selected key markets. We are strong both operationally and financially. Our scale and the resilience of our business model will serve us well in this difficult economic environment.

The majority of our work is in partnership with public sector and regulated customers, who are long-term investors in infrastructure. This stable customer base helped us to achieve a pre-tax profit of £249m before exceptional items and amortisation in 2008, a 24% increase on the prior year.

We made a number of important acquisitions in 2008 in line with our strategy, notably Balfour Beatty Communities and Barnhart in the US, Dean & Dyball in the UK and Schreck-Mieves in Germany.

Despite acquisition expenditure, average net cash for the year was £239m, providing us with the continuing flexibility to grow the business in the future.

As Ian Tyler describes in his Chief Executive's review, we have a clear strategy for the development of the business and a proven track record of delivery.

Dividend

The Board is proposing a final dividend of 7.7p per ordinary share, making a total dividend of 12.8p for the year, an increase of 11%.

Over time, we aim to grow the dividend broadly in line with our earnings, taking into account the investment needs of the business.

People

Our achievements reflect the high quality of the 40,000 people who work for Balfour Beatty worldwide. Recruiting the best people, developing their potential and rewarding performance is key to our future success.

We have made a number of significant executive appointments to provide the platform for continuing successful growth:

Anthony Rabin became Deputy Chief Executive in March 2008, having held the position of Finance Director since 2002. He is responsible for the management and development of our infrastructure investment businesses.

Duncan Magrath succeeded Anthony as Finance Director, having been Deputy Finance Director since 2006.

Andrew McNaughton was appointed Chief Operating Officer, with effect from 1 January 2009, reporting to Ian Tyler and taking over responsibility for all our construction, engineering and rail activities outside the US.

Within our US construction and engineering business, Jim Moynihan, who has responsibility for Heery, Balfour Beatty Infrastructure and Balfour Beatty Rail, and Robert Van Cleave, chairman and CEO of Balfour Beatty Construction US, report to Ian Tyler. Bruce Robinson, president and CEO of Balfour Beatty Communities, reports to Anthony Rabin.

We also made two non-executive appointments:

I am pleased to welcome Hubertus Krossa to the Board following his appointment as a non-executive Director in September 2008. His extensive international operating experience, combined with his knowledge of the UK business environment, will be of great value to us.

I am also pleased to welcome Graham Roberts to the Board as a non-executive Director from 1 January 2009. He will become chairman of the Audit Committee from 5 March 2009. Graham is finance director of The British Land Company PLC and brings valuable financial and commercial experience to the Board.

Responsibility at the heart of our business

The Group's Accident Frequency Rate (AFR) reduced a further 5% in 2008 to 0.20, continuing the positive trend of recent years.

In 2008, we launched a new safety commitment across all our businesses called Zero Harm. The goal is to have no seriously disabling injuries and no long-term harm to health, while aiming for zero AFR across the Group by 2012.

We are committed to the principles of good governance, aim to carry out our business with integrity and aspire to the highest standards. Our key values of integrity, teamwork, excellence and respect are being embedded throughout the Group, an essential pre-requisite in creating long-term value in today's environment.

Centenary

In January 1909, Balfour Beatty was founded by George Balfour, a Scots mechanical engineer, and Andrew Beatty, an English chartered accountant. We still share their commitment to engineering skills and delivering solutions to our customers' requirements today.

A hundred years later, almost to the day, in January 2009, Balfour Beatty entered the FTSE 100 for the first time.

Community

To commemorate our centenary, we announced a new charity programme called Building Better Futures. Working in partnership with The Prince's Trust and Action for Children, with the support of our people, the aim is to fund at least 100 community improvement projects through the year.

A key theme of our corporate responsibility programme is enhancing the lives of young people. We were delighted that 2008 was our first year as title sponsor of the Balfour Beatty London Youth Games. The Games, which we are sponsoring up to 2013, encourage children in the 32 London boroughs and the City of London to participate in sport.



London Youth Games

More than 25,000 children competed in 34 different sports at 2008's Balfour Beatty London Youth Games – making it the biggest Games in the 31-year history of the event. The London Youth Games will be working tirelessly to encourage further participation and to encourage young people to represent their local community in a positive way.

The future

Balfour Beatty is a world-class business, well-positioned in major markets which offer the prospect of long-term growth.

The breadth of our capabilities, the successful delivery of our growth strategy – including through integrated acquisitions – and the strength of our balance sheet mean that the Group is well-placed for the future.

We have benefited from continued growth in infrastructure expenditure in 2008 and had an order book of £12.8bn at the end of the year.

Crossrail, the new rail route planned through London; the nuclear new-build programme in the UK; and the medium-term outlook for rail, present us with significant opportunities.

Despite significant economic uncertainty, the Board remains committed to the ongoing delivery of the reliable, responsible growth that shareholders have enjoyed in recent years.

Chief Executive's review



Ian Tyler Chief Executive

A handwritten signature in black ink, appearing to read 'I. Tyler', positioned to the right of the portrait.

Our professional services, facilities management and utilities businesses all grew strongly in the year.

Balfour Beatty Communities, a market leader in military housing PPP in the US, was acquired in April 2008.



Overview

2008 was another year of very good progress, driven by the strength of our business with public sector and regulated customers and the performance of acquisitions. The majority of revenues derived from public and regulated customers in the year.

Our order book was £12.8bn at the end of 2008, benefiting from acquisitions and exchange, with £4.9bn of further work at preferred bidder stage.

Our cash position remains strong, with average net cash in the year of £239m. Year-end net cash stood at £440m (2007: £374m), before taking account of the consolidation of £143m of non-recourse net debt held in PPP subsidiaries (2007: £61m).

We continued to enhance our earnings potential through the acquisition of:

- Balfour Beatty Communities, the market leader in the military accommodation PPP concession market in the US;
- Barnhart, a leading Californian construction management company;
- Dean & Dyball, a leading UK regional contractor;
- Blackpool International Airport; and
- Schreck-Mieves, the German rail engineering company.

Our professional services, facilities management and utilities businesses all grew strongly in the year.

We have a clear strategy for the development of the business and a proven track record of delivery.

Financial results

Pre-tax profit* was up 24% at £249m (2007: £201m). Adjusted earnings per ordinary share* were up 14% at 39.9p (2007: 35.0p). Basic earnings per ordinary share were 42.9p (2007: 35.1p).

Operating profits from continuing operations* in the building sector increased by 26%, in the engineering sector by 27%, in the rail sector by 3% and in the investments sector by 94%, which includes the impact of the acquisition of Balfour Beatty Communities.

Operating cash flow was, once again, strong and ahead of operating profits. Year-end net cash stood at £440m (2007: £374m), before taking account of the consolidation of £143m of non-recourse net debt held in PPP subsidiaries (2007: £61m). Strong cash flow and the proceeds of an equity placing offset the impact of net acquisition expenditure of £302m.

In May 2008, we raised £182m by successfully completing a placing of new ordinary shares, maintaining our policy of carrying no net debt on the balance sheet and enabling us to continue to take advantage of acquisition opportunities. During the previous eight years, Balfour Beatty's substantial acquisition programme had been funded from operating cash flow and the proceeds of disposals.

The year-end order book stood at £12.8bn (2007: £11.4bn), with £4.9bn of further work at preferred bidder stage.

	2008	2007	Percentage increase
Revenue including joint ventures and associates**	£9,486m	£7,488m	+27%
Group revenue**	£8,261m	£6,466m	+28%
Pre-tax profit from continuing operations			
– before exceptional items and amortisation	£249m	£201m	+24%
– after exceptional items and amortisation	£270m	£157m	+72%
Earnings per share			
– adjusted*	39.9p	35.0p	+14%
– basic	42.9p	35.1p	+22%
Dividends per share	12.8p	11.5p	+11%
Order book	£12.8bn	£11.4bn	+12%
Financing			
– net cash before PPP subsidiaries (non-recourse)	£440m	£374m	
– net borrowings of PPP subsidiaries (non-recourse)	(£143)m	(£61)m	

* Before exceptional items and amortisation of intangible assets, and, in the case of earnings per share in 2007, including the pre-exceptional results of discontinued operations.

** Continuing operations.

Chief Executive's review

Balfour Beatty is working on the Islington Building Schools for the Future PPP concession.



Our strategy

Our goal is to deliver consistent, long-term growth to our shareholders.

We do this by striving to remain, or to become, the leading provider of high-quality infrastructure in each of our markets.

In 2006, we set out four principal areas of strategic focus that we believed would help drive medium and long-term growth and help us deliver our goals, and these still remain priorities. We have made substantial progress in each area:

UK infrastructure – Following our acquisitions of Birse in 2006 and Cowlin in 2007, we acquired Dean & Dyball, a well-established contractor in southern England and Wales, in March 2008. Together with Mansell, which we acquired in 2003, this has substantially enhanced our regional coverage across the UK and we have successfully integrated these businesses into the Group.

Professional services – Balfour Beatty Management, our UK-based professional services business, and Heery International in the US, continue to grow. In the UK, Balfour Beatty Management plays an important role, supporting cross-Group activities for a number of our sophisticated, major customers. As customers' demand for a higher-level, integrated presence at the top of their supply chain increases, professional services will become a much more significant part of the Group.

Infrastructure investment – We are a leader in the UK private finance and PPP market, currently with 25 concessions and a further four at preferred bidder stage.

Following the acquisition of Balfour Beatty Communities (formerly GMH Military Housing) in 2008, we are a market leader in the most developed PPP market in the US – military housing – and are well-positioned to exploit the Group's expertise by undertaking privatisation projects in other sectors.

We reached financial close on our first PPP project in Singapore.

We will continue to apply the skills we have acquired in PPP to the wider non-PPP infrastructure market, in particular where there are attractive opportunities to take management control and improve the quality of assets in markets and sectors that are familiar to us. The acquisition of Blackpool International Airport in May 2008 is the latest example of this.

International markets – The acquisitions of Balfour Beatty Construction US in 2007 and of Balfour Beatty Communities and Barnhart in 2008 were major steps in implementing our strategy of building a high-quality, domestic business in the US, with the capacity to integrate financing, professional and technical services, project delivery and long-term facilities management.

Our goal is to deliver consistent, long-term growth to our shareholders.



Work was successfully completed on the M1 widening project junctions 6a – 10.

A resilient business

We constantly evaluate our strategy and analyse what makes us successful in order to select the business areas in which to concentrate our financial and management capital.

Our core skills are becoming increasingly focused on three areas: **engineering and construction, professional and support services** and **investments**. These cover the key aspects of the construction life cycle including intellectual capital, financial capital, labour, execution and maintenance.

By applying these skills to become the partner of choice for sophisticated infrastructure owners in our chosen disciplines and geographies, we believe we will:

- achieve industry-best margins in our contracting and engineering activities;
- provide much of the upfront thinking and management skills required to deliver complex, integrated projects; and
- secure substantial, sustainable equity returns from our long-term investment portfolio.

Construction is a local business and knowledge of local labour and material supply is critical. We believe one of our main differentiators is the depth and breadth of our expertise, gained from operating in mature economies in the UK, mainland Europe, the US, Middle East and Far East, combined with our local knowledge in each market.

Over time, our aim is to move towards a business model where our business activities in the US have the same scale and depth as the UK, while continuing to develop businesses in other parts of the world. Following our recent acquisitions, the US now accounts for approximately one quarter of the Group's revenues and profits.

Chief Executive's review

Integrated infrastructure delivery

Our customers' requirements are evolving. Increasingly they seek to partner with a trusted supplier and to eliminate unnecessary engagement with multiple suppliers which accentuates both risk and cost.

A supply chain partner who can integrate knowledge and expertise across a range of disciplines and manage risk on behalf of its customer offers the greatest added value.

Our proven capability to integrate professional and support services, engineering and construction and investment skills is generating a growing range of large-scale opportunities.

As demonstrated in the case studies on pages 13 to 23, this is becoming more common in our major customer relationships. Sophisticated infrastructure owners increasingly value the opportunity to outsource both the management and delivery of complexity.

Our customers are also driven by the need to manage and control costs and recognise the benefits that early engagement, partnership and long-term relationships can bring.

Our integrated capability, together with the strength of our balance sheet and our proven track record, will continue to be key differentiators in the markets in which we operate.

Zero Harm

Safety has always been an important part of how we do business and remains at the top of our agenda, encompassing both the safety of our own people and the communities in which we operate. Our new safety commitment – Zero Harm by 2012 – is being communicated to all our employees, partners, sub-contractors and customers around the world. Our aim is no risk of death or serious injury to our workforce and no risk of injuries of any kind to the public.

We have made good progress in safety. We can do better and aim to eliminate completely the risk of doing serious harm. Zero Harm is, ultimately, about managing and designing risk out of everything we do.

We will keep you updated on our progress in this crucial area.

Zero Harm is a major new safety initiative launched in 2008.



A strong performance in 2008

As outlined at the start of my review, we have delivered another strong performance in 2008.

We benefited from continued growth in infrastructure expenditure, particularly in education and healthcare. Further information on the markets we operate in is set out on pages 24 and 25. The majority of our revenues are derived from public and regulated customers, who tend to invest in upgrading and building new facilities and infrastructure assets throughout the economic cycle. Our performance is covered in greater detail in the Operating review on pages 26 to 43, and, as in previous years, we report our results by our business divisions of: Building, Engineering, Rail and Investments.

Outlook

Our high-quality order book, the full-year impact of acquisitions, and continued infrastructure expenditure by public and regulated customers should drive progress in 2009. We anticipate reaching financial close on three preferred bidder PPP projects in the UK in the first half of 2009. We operate in a number of markets which are likely to benefit from additional infrastructure projects arising from economic stimulus packages.

The majority of our work will continue to be with public sector and regulated customers. We are seeing a general slowdown in private sector work; and more of a slowdown in the Middle East, which represents a modest part of our business. While the difficult economic environment will have some impact on our businesses and creates greater uncertainty, we anticipate making progress in 2009.



Our capabilities across the Group

OUR INTEGRATED CAPABILITY

The following section of the review illustrates how our skills, applied in combination, add value for key customers.



Our capabilities across the Group

BUSINESS AS USUAL

Balfour Beatty companies are working together to deliver the **King's Cross St Pancras** Northern Ticket Hall in London – one of the largest underground projects in the UK.



Considerate contractor

On all projects, we are committed to doing our utmost to avoid disruption to local communities. During 2008, Balfour Beatty Civil Engineering was presented with a Silver Award in the Considerate Constructors Scheme for its work at King's Cross St Pancras. The scheme is a national initiative, set up by the construction industry, to improve its image and encourage best practice beyond statutory requirements.

In March 2008, we recorded one million man hours on-site without a single reportable accident.



Transport for London chose Balfour Beatty's integrated approach for the project management and delivery of the Northern Ticket Hall to the required quality standards.

Already one of the busiest interchanges on the London Underground network, King's Cross St Pancras is set to become busier still. The relocation of Eurostar services to St Pancras, which adjoins the Underground, together with the forthcoming introduction of fast commuter services from Kent and anticipated local regeneration, is expected to drive up passenger numbers by some 33%. This figure will be further increased during the 2012 Olympic Games.

The new underground Northern Ticket Hall, being built by Balfour Beatty to a demanding schedule, will help to ensure that the station can handle this huge surge in passenger volumes.

Long-term project

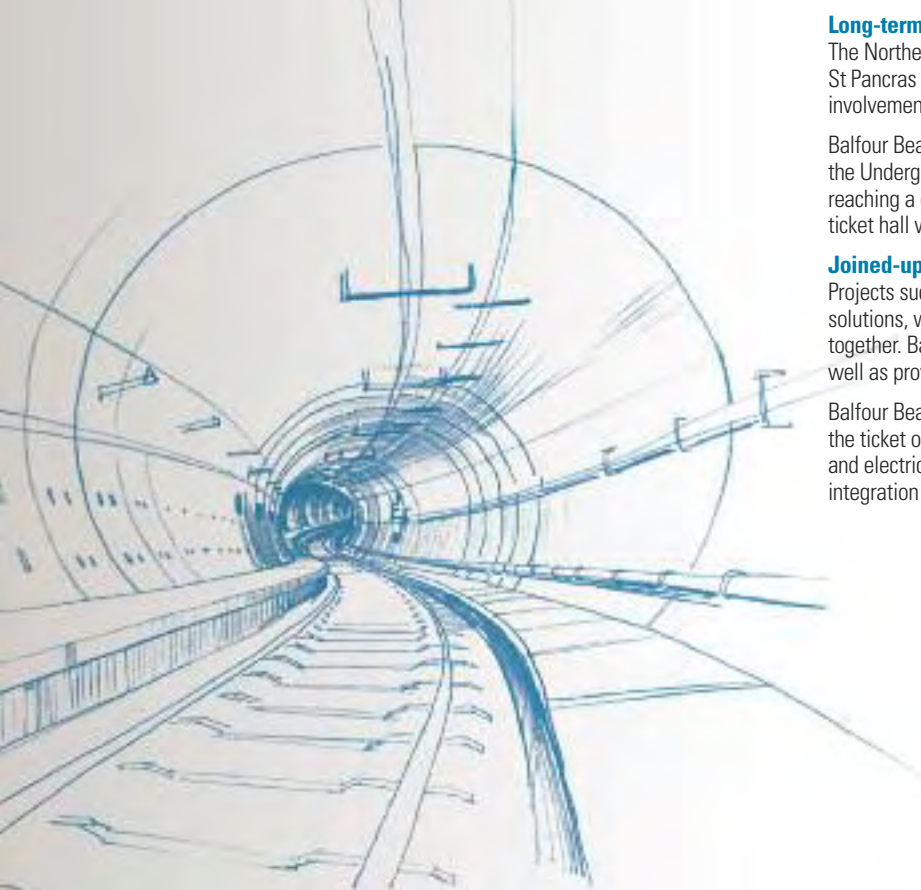
The Northern Ticket Hall is the second phase of the £774m King's Cross St Pancras CTRL works programme and follows Balfour Beatty's successful involvement in the first phase.

Balfour Beatty's current role is to create a capacious new main access into the Underground station. Significant earthworks are involved, with excavations reaching a depth of four storeys below ground. A roof slab installed above the ticket hall will seal what is in effect a giant concrete box.

Joined-up thinking

Projects such as the Northern Ticket Hall increasingly draw on integrated solutions, with management, construction and technical teams working closely together. Balfour Beatty is responsible for overall programme management, as well as providing civil engineering, piling and mechanical and electrical services.

Balfour Beatty is responsible for the "box" construction, as well as the fit-out of the ticket office and access tunnels including architectural finishes, mechanical and electrical systems and communications systems, together with the integration and installation of escalators and lifts.



Professional and support services

Balfour Beatty Management, the Group's professional services company, is providing project management and consultancy.

Engineering and construction services

Balfour Beatty is responsible for all civil engineering, mechanical and electrical services and piling through its various operating companies.



Our capabilities across the Group

POWERING TOMORROW

Balfour Beatty is delivering an innovative seven-year facilities management service for the nuclear power plants operated by **British Energy**.



Engineering and construction

Balfour Kilpatrick is providing mechanical and electrical services, as part of the integrated team.

Safety focus

In the nuclear environment, safety is absolutely critical. Balfour Beatty has an established reputation in the sector, winning the resident engineer's safety award for two consecutive years at British Nuclear Fuels' Sellafield plant.

For this project, we developed a new cultural awareness approach to safety, which aligns with the client's own Nuclear Professionalism initiative. The scheme focuses on addressing hazards before they create incidents. During 2008, this approach identified and removed some 800 hazards from British Energy sites.

Maintaining the efficient operation of a key component of the UK's generating capacity, at a time of increased demand, is a top priority for the customer. Balfour Beatty's nuclear experience and its ability to offer the appropriate mix of planning, project management, maintenance and project work, secured a seven-year contract.

British Energy Group plc, now part of EDF Energy, is the UK's largest producer of electricity. It provides around one-sixth of the nation's electricity, the majority of which is generated by the company's network of nuclear power stations.

In 2008, Balfour Beatty companies combined to provide facilities management (FM) services to all eight nuclear operations, plus the company's offices in East Kilbride and Gloucester.

The contract is for an initial seven years with an optional five-year extension.

Building a partnership

Balfour Beatty has worked on British Energy sites for over 30 years, with a history of delivering a range of cost-effective services, together with an excellent safety record.

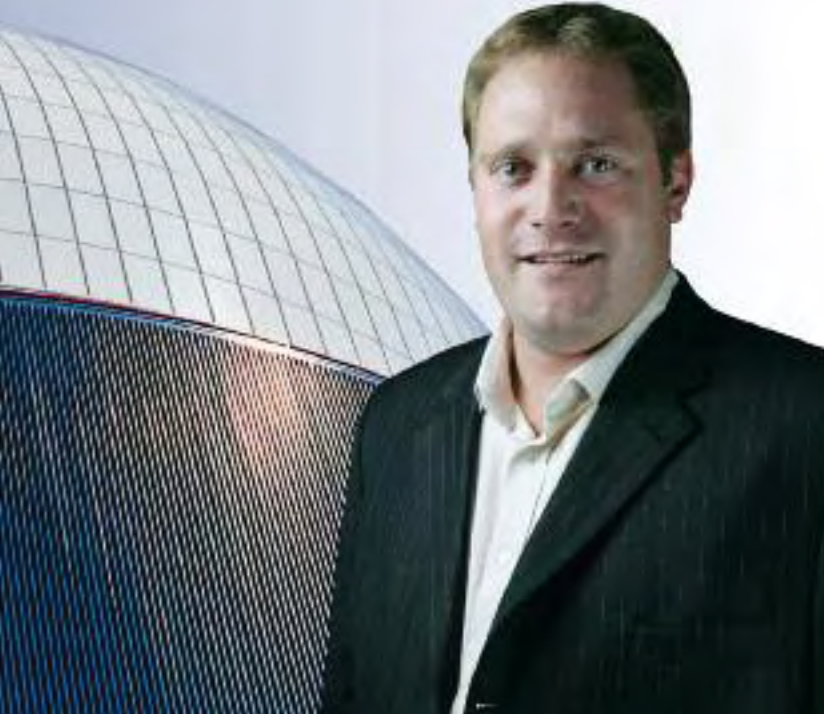
It was the additional ability to integrate FM services fully, while also demonstrating the capability and willingness to undertake additional project work, that was instrumental in winning the contract.

Wider opportunities

Both parties were keen to explore the opportunities to enhance the client's power station assets, as well as delivering FM services. Following a comprehensive review, Balfour Beatty committed to upgrading those assets over the first four years of the contract, using staff already employed on-site.

Professional and support services

Balfour Beatty WorkPlace, a market leader in facilities management and support services, and Balfour Beatty Management, which provides project management and consultancy, are working together to deliver the innovative contract.



Our capabilities across the Group

TEXTBOOK INTEGRATION

In North London, Balfour Beatty businesses have come together to refurbish or rebuild eight **Islington schools** and maintain them for 25 years, through an innovative partnership with the Government and the local council.



Engineering and construction services

Balfour Beatty Construction is working with Balfour Kilpatrick, the Group's mechanical and electrical services company.

Investments

Balfour Beatty Capital, which is leading the project, is one of the largest UK private sector investors in healthcare, education, roads and infrastructure. Transform Schools is Balfour Beatty Capital's specialist education organisation.



Local education authorities, across the UK, face the challenge of creating appropriate learning environments for the 21st century, making use of a range of financing and delivery options. Balfour Beatty's established capability in financing, planning, construction and maintenance led to its selection as the London Borough of Islington's long-term partner.

The UK Government's Building Schools for the Future (BSF) initiative is the largest schools capital investment programme for over 50 years.

Keen to ensure maximum value for its investment, the Government has established a new form of Public Private Partnership (PPP), known as a Local Educational Partnership (LEP), which will deliver the BSF programme. An LEP is a partnership between the local authority, Partnership for Schools and a private concession company.

In phase one of the Islington project, Balfour Beatty has won its first BSF contract under the new LEP model. The contract builds on the Group's well-established credentials and extensive experience in PPP within the UK education sector. The project aims to deliver first-class learning facilities to give every child the best possible opportunity to succeed.

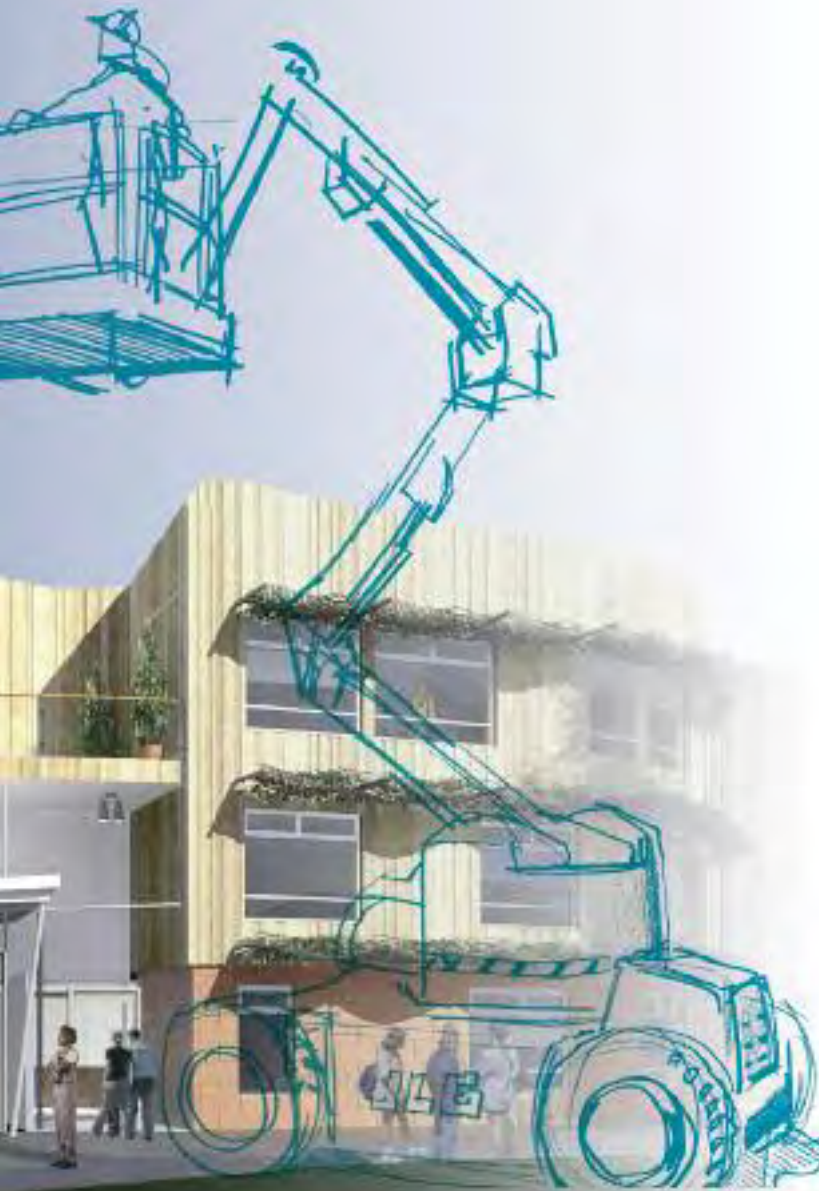
Transforming education in Islington

The Group's input in Islington is headed by specialist education concession company, Transform Schools – part of Balfour Beatty Capital. The £150m project is to refurbish or rebuild eight secondary schools, along with the secondary department of a special educational needs school and a pupil referral unit, over the next five years and then maintain them for a period of 25 years.

Balfour Beatty is responsible for construction, mechanical and electrical services and facilities management. Information and communications technology (ICT) will be provided by RM Education, the Group's ICT partner.

The project requires a high degree of integration and a seamless service. The Balfour Beatty companies involved have long-established working relationships and a set of protocols which support the process from design to handover. For the client, this means faster decision-making, a smoother process and, ultimately, a more cohesive and cost-effective total service.

For example, the Balfour Beatty Construction design team and Balfour Kilpatrick consulted with RM Education to make sure that ICT is fully integrated into every stage of the design and build process.



Improving the environment

Situated close to the schools embraced by the Transform Islington project, Whittington Park is a valuable and popular green oasis. The park has seen a number of recent improvements, with one of these being funded by Balfour Beatty.

Following consultation with the local community, Balfour Beatty contributed £30,000 for a range of fitness equipment to create an outdoor gym. The equipment includes a cross trainer, chest press, leg press, and chin-up bars – all of which are now being enjoyed by local residents.

The project was devised by Transform Islington as part of its commitment to helping Islington Council's programme of regeneration.

Professional and support services

Balfour Beatty WorkPlace will be responsible for facilities management across all the schools for the next 25 years. RM Education is providing specialist ICT services.

Our capabilities across the Group

JOINING FORCES

In the United States, two Balfour Beatty companies have joined forces to build and renovate 3,700 homes and energise a community at the largest **US Army base** east of the Mississippi River.

Building communities

Building the physical fabric of a base is only part of the task. Creating a real community is equally important in bringing comfort and stability to bases such as Fort Stewart and Hunter Army Airfield.

The LifeWorks @ Balfour Beatty Communities programme lies at the heart of the company's drive for wellness. This comprehensive programme focuses on developing and maintaining healthy bodies and minds and building community spirit. Activities range from cookery classes and after-school clubs to sporting competitions, fire safety presentations and Christmas parties.



The transformation of on-base military accommodation in the US to create environments suitable for attracting and retaining military personnel began in 1996. Balfour Beatty is established as the leading provider, capable of delivering a seamless financing, construction and FM service through Balfour Beatty Communities and Balfour Beatty Construction US.

The Military Housing Privatisation Initiative of 1996 transformed the way in which homes and communities are created and managed for the US armed forces. For the first time, this programme gave the private sector the opportunity to be responsible for the design, construction, operation and management of military housing.

Balfour Beatty Communities, the industry leader in privatised military housing, and Balfour Beatty Construction US have now built 1,449 new family homes at Fort Stewart and Hunter Army Airfield in Georgia, the largest US Army installation east of the Mississippi River, and are responsible for maintaining over 3,700 homes in addition to five community centres and over 60 play areas. This is facilities management on a huge scale; managing all the services for what is, in effect, a small town.

Towards the end of 2008, the installation officially opened the first units in its new single soldier accommodation project. Privatised single soldier housing is a relatively new initiative for the Army and Balfour Beatty has one of the five such pilot projects currently underway. At Fort Stewart, construction of the single soldier units began in January 2008 with completion scheduled for February 2010. Ultimately, the accommodation will comprise 334 apartments and extensive community facilities.

Experience and expertise

Balfour Beatty Communities and Balfour Beatty Construction US first began working together several years ago, long before they were acquired by the Group in 2008 and 2007 respectively. Balfour Beatty Communities develops, finances, operates and manages the projects which are in the majority of cases, built by Balfour Beatty Construction US.

Balfour Beatty Communities is currently responsible for maintaining over 33,000 homes for all three branches of the US military, with a presence on 44 bases in 20 states and Washington, DC.

Life on a military base presents unique challenges, including frequent relocation, family separation due to deployment, plus the ever-present dangers associated with military roles. These and other challenges are compounded by the fact that a high number of residents are young adults and families.

Balfour Beatty Communities has unparalleled knowledge of the specific needs of military families, together with unique expertise and capabilities to satisfy those needs and create a rewarding environment that its residents can truly call home.



Engineering and construction services

Balfour Beatty Construction US provides construction services to the public and private sector. The company has a long-established relationship with Balfour Beatty Communities and the two businesses collaborate frequently on projects for the US military.

Investments/Professional and support services

Balfour Beatty Communities is responsible for the development, operation and management of housing at the installation.

Our capabilities across the Group

APPLYING PPP LESSONS

Group companies are working together to finance, design and build a new campus in **Singapore**, the first contract of its kind in South-East Asia.



Community engagement

Community engagement and use of College West is central to the ITE vision of being recognised as a global leader in technical education. The college's core focus is on the hospitality and retail industries – sectors that lie at the heart of this fast-growing and successful economy.

The campus will feature an integrated business town concept, with facilities such as retail outlets open to the public. Many of these will be partly staffed by students, providing real hands-on training while also encouraging the wider community to be part of the ITE experience.





The rapid growth in demand for technical education in Singapore creates a pressing need to develop high-quality, sustainable educational facilities. Using the PPP model developed in the UK, the Institute of Technical Education (ITE) in Singapore chose Balfour Beatty's Group-wide experience in designing and delivering privately-financed educational facilities to ensure the best outcome.

Innovation is the hallmark of the new College West campus currently being constructed for the Institute of Technical Education, the principal provider of technical education in Singapore.

The building, which features a stunning walkway and a transparent design, is being built and managed through the first Public Private Partnership (PPP) of its kind in South-East Asia.

This S\$270m (Singapore dollars) contract, which has a duration of 27 years, is one of the first on the continent to resemble PPP projects familiar in the UK. Through our joint venture businesses Gammon Capital and Gammon Construction, all of the Group's PPP experience has been utilised to create a project-winning proposition. The ground-breaking nature of the project has been recognised by its award as Project Finance International's Asia Pacific PPP Deal of the Year 2008.

Flexible learning space

The new college will include a campus housing 7,200 full-time and 8,100 part-time students and around 630 staff, with completion scheduled for 2010. It incorporates flexible and adaptable learning spaces which support ITE's dynamic and changing curriculum requirements.

The college focuses on service excellence in the hospitality and retail industries and offers a range of technical qualifications.

Harnessing experience

This is the first major project for Gammon Capital, which pre-qualified for the project in 2006 and was appointed preferred bidder towards the end of 2007.

The project has seen widespread integration of expertise within Gammon and its joint owners Balfour Beatty and Jardine Matheson. In particular, Gammon Capital worked with Balfour Beatty Capital in the development of a competitive bid, including collaboration on project finance, commercial, design and life cycle support.

The PPP expertise of Balfour Beatty Capital also enabled Gammon to put together an innovative financing structure to deliver value for money to ITE.

Advice from Balfour Beatty Capital was at the heart of the decision to introduce experienced educationalists to the Gammon team during the bid process. Their knowledge was an important aspect in the development of the highly functional and flexible design that ITE was seeking.



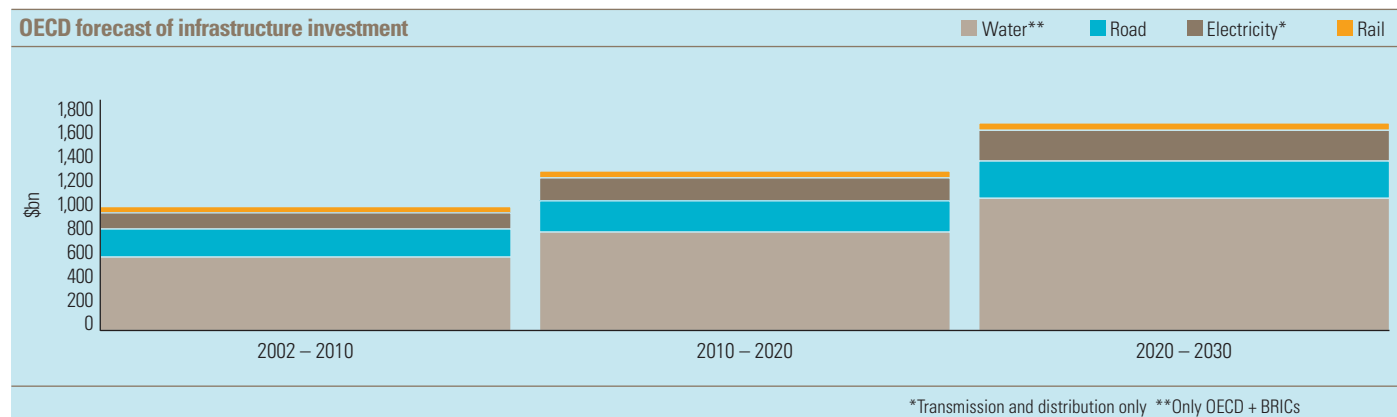
Investments

The project is led by Gammon Capital, the joint venture Singapore-based investment business. Gammon worked closely with Balfour Beatty Capital, drawing on the Group's extensive PPP experience.

Engineering and construction services

The contractor is Gammon Construction, in which Balfour Beatty acquired a joint venture interest in 2004.

Markets



Global overview

Balfour Beatty operates in three distinct infrastructure markets: transportation; utilities; and social infrastructure such as education, healthcare and social housing.

The Group's capabilities extend from development, engineering and construction to the maintenance and management of infrastructure assets.

Balfour Beatty also finances infrastructure projects, through Public Private Partnerships (PPP), as well as direct investment.

The majority of Balfour Beatty's work is with public sector or regulated customers. This market for the Group's services is resilient and driven by a number of key global factors.

Infrastructure trends

Public sector and regulated customers typically invest through, rather than in line with, the economic cycle – in contrast to private sector investment. In challenging economic conditions such as those currently being experienced worldwide, there is often the potential for markets to benefit from government stimulus packages to increase employment and demand.

A range of additional factors is also driving global investment in infrastructure, including:

- population growth and demographic changes;
- urbanisation, which requires major infrastructure investment;
- international trade, which drives the need for quality transport networks;
- sustainability issues, which are raising the standard for both air and water quality, and requiring the upgrading of power and water treatment facilities;
- ageing infrastructure, which requires extensive renewal and upgrading – particularly in developed economies, including Balfour Beatty's core UK and US markets.

Infrastructure demand

Infrastructure owners look to organisations like Balfour Beatty for an increasingly sophisticated approach to infrastructure procurement, including the requirement to:

- provide a broad range of services;
- engage earlier in the construction process;
- provide expertise in life cycle management of assets;
- finance the provision of those assets and services; and
- integrate a range of capabilities to suit the requirements of individual projects.

Markets and opportunities

Transportation

Road

As GDP increases, there is a corresponding growth in road usage. Governments worldwide are seeking to improve the management of road networks to enhance transportation links and reduce congestion.

Balfour Beatty's capabilities extend across the life cycle of roads infrastructure, from construction to asset management. The Group is well-placed to respond to the evolving requirements of the Highways Agency in the UK and Departments of Transportation in the US.

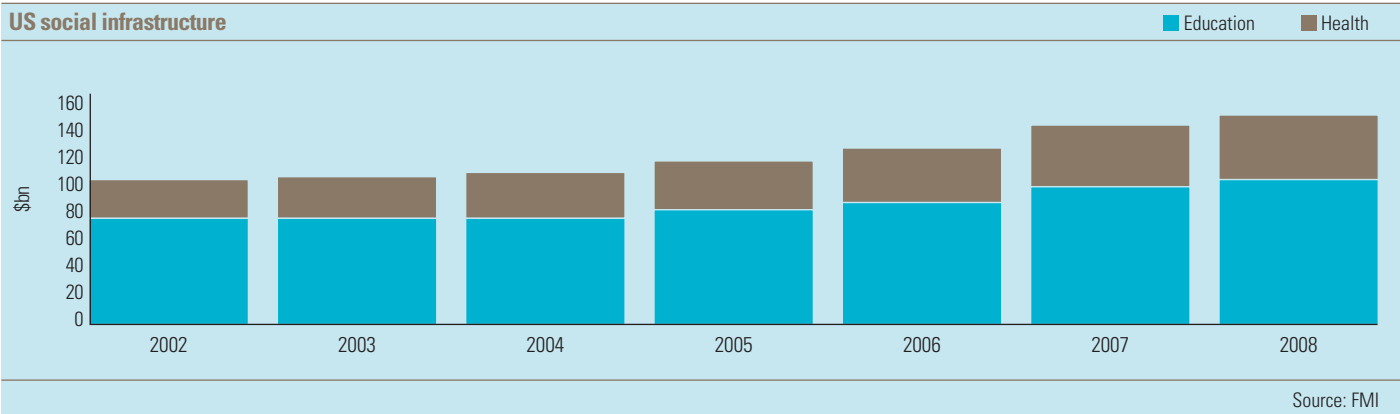
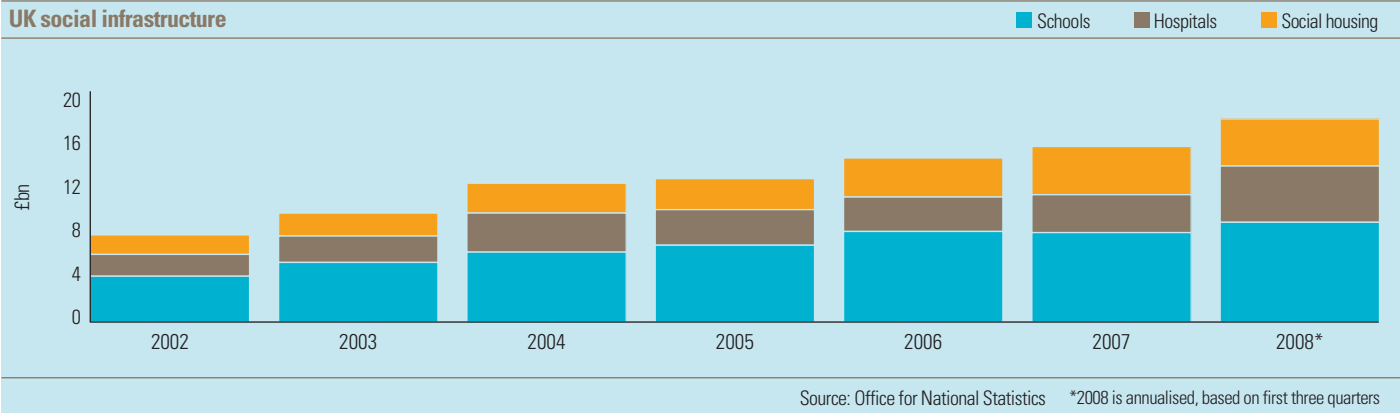
Rail

Increased road congestion is driving governments towards public transport, with rail being a prominent solution. The success of the European high-speed rail networks is likely to stimulate investment internationally. In the US alone, over 20 cities are considering new light rail networks or extensions to existing systems. Environmental pressures are likely to increase the electrification of rail networks, as network operators move away from diesel.

Balfour Beatty has an international rail capability and proven expertise in electrification.

Aviation

The aviation sector requires investment on land-side and air-side, as well as in terminals, to meet increasing passenger flows generated by both trade and tourism. Balfour Beatty has an extensive track record in aviation, including involvement at Gatwick and Heathrow airports in the UK; O'Hare (Chicago), Dulles (Washington) and Miami airports in the US; and many more of the world's busiest airports, as well as valuable experience as an airport owner and operator, through investments in Exeter and Blackpool airports.



Utilities

Electricity

Economic growth and increases in population are driving demand for electricity worldwide. Over half of investment in OECD countries is forecast to be in transmission and distribution networks, where Balfour Beatty has extensive experience.

Investment will be further stimulated by the need to upgrade the ageing assets of the 1960s and 1970s which cannot support modern demands, as demonstrated by the recent history of blackouts and brownouts in both the US and Europe.

The move towards renewable and distributed energy generation will also require the reinforcement of the national grids in the US and UK.

Water

Increased prosperity, irrigation for agriculture, industrialisation and urbanisation are all contributing to increased global water usage with consumption expected to rise from 2,100km³ in 1995 to 2,800km³ by 2025. With increased demand, the substantial leakage from ageing networks is becoming a critical issue.

With the Group's wide experience in the water sector, particularly in networks, Balfour Beatty is well-positioned to meet the challenges for infrastructure owners worldwide.

Social infrastructure

Healthcare

Ageing populations and medical advances have seen healthcare expenditure in OECD countries increase.

Balfour Beatty is a major participant in UK healthcare programmes such as acute hospital PPP and ProCure21, while in the US, the Group has long-standing relationships with several major health providers.

Education

Education is a key element in governments' drive to address skills shortages and this is driving infrastructure investment.

In the UK, for example, the Government is currently engaged in major investments through its Building Schools for the Future, National Academies and other programmes.

The US marketplace is further stimulated by demographic factors, including immigration and migration to the sun-belt states such as California, Texas, Florida and the Carolinas, where Balfour Beatty has a strong presence and is a market leader in education.

Social housing

In the UK, the Government has acknowledged the role of social housing, for which Mansell is a leading provider, in dealing with the shortage of key workers. A large programme, which includes opportunities for financing innovations, is currently underway to build 155,000 new homes each year. In addition, the Decent Homes programme, which aims to improve the quality of aged housing stock, represents another substantial source of opportunities to 2011 and beyond.

Operating review Building, Building Management and Services

BUILDING, BUILDING MANAGEMENT AND SERVICES

Strong overall growth

Highlights

Good flow of work in education and health sectors

Balfour Beatty WorkPlace grew strongly

Acquisition of Barnhart in California

Balfour Beatty Construction US continued to perform strongly

Financial summary

Revenue*

£4.6bn 2007: £3.6bn

Order book

£6.7bn 2007: £6.1bn

Profit**

£88m 2007: £70m

* Including £137m share of joint ventures and associates (2007: £113m).

** Profit from operations before £1m exceptional charges (2007: £26m) and £14m amortisation of intangible assets (2007: £6m).

Specialist areas

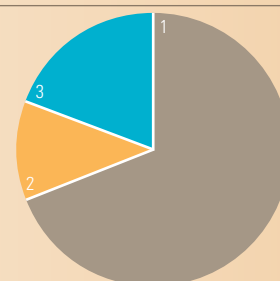
- Design
- Construction
- Construction and programme management
- Electrical engineering
- Mechanical engineering
- Building and facilities management
- Refurbishment and fit-out
- Affordable housing

Companies

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

Revenue breakdown

1 Building Construction	£3,201m	(25% growth)
2 Building Services	£542m	(5% growth)
3 Programme & Facilities Management	£892m	(60% growth)
Total	£4,635m	(27% growth)



Major developments in 2008

In the UK, the acquisition of Dean & Dyball, a well-established civil engineering and building contractor in the southern half of England and in Wales, marked a continuation of the strategy to expand the Group's regional coverage in the UK.

Dean & Dyball's UK building business was largely absorbed into Mansell, expanding its national coverage and regional delivery capability, with Dean & Dyball's Welsh building business absorbed into Cowlin.

The acquisition of Barnhart significantly enhances Heery's presence in California, one of the US's most important markets, offering substantial opportunities in education and other construction management markets.

Our markets

Public sector and regulated customers account for the majority of the work in the UK and US and underpinned a resilient performance, more than offsetting any impact from a general slowdown in private sector work.

The breadth and depth of the Group's portfolio of building businesses puts us in a strong position to benefit from continued spend on infrastructure, both through existing schemes and additional projects arising from economic stimulus packages in the UK and US.

Performance overview

Profit from operations, before exceptional items and amortisation of intangible assets, rose by 26% to £88m (2007: £70m).

This reflected full-year contributions from Balfour Beatty Construction US, which was acquired at the end of March 2007, and Cowlin and Covion, which were acquired in the second half of 2007, together with the impact of the acquisitions of Dean & Dyball and Barnhart in 2008.

There was very satisfactory organic growth in Balfour Beatty's established businesses. Performance was held back by a write-down on a large UK building services project pending resolution of income recovery negotiations, and the write-off of a receivable from a property developer.

Our facilities management business, now renamed Balfour Beatty WorkPlace, grew strongly.

Balfour Beatty Construction US performed strongly and Heery International had another good year.

Major projects were secured in the UK from BAA, the Olympic Delivery Authority, BT and in the health and education sectors; and in the US from the Navy, Army and Air Force.

The building sector order book was £6.7bn by the end of 2008 (2007: £6.1bn).

Review of operations

UK building construction

There was a strong performance by Balfour Beatty Construction and Mansell in 2008 with a good flow of work in the key education and health sectors.

In education, **Balfour Beatty Construction** won the construction contract for Islington Schools Building Schools for the Future ("BSF") phase one and good progress was made at Knowsley BSF. New orders were secured for the Walworth Academy in London, Sunderland Academies, Eastbourne Academy in Darlington and a Skills Academy in Bristol. Work under the BSF framework in Manchester and Liverpool continued.

There is potential for construction work at Greenwich BSF and at Southwark Schools where Transform Schools is preferred bidder. Following the original tranche of work on the North Lanarkshire PPP, there is the potential for further work through a new framework agreement.

Progress on public healthcare projects was also positive. The Mental Health facility was handed over five weeks early as part of Birmingham New Hospitals PPP, Birmingham's first new hospital for 70 years, and the Elizabeth Garrett Anderson Wing at UCLH was completed during the year.

Hope Hospital in Salford and Tameside General Hospital are progressing well, as is work on the Pinderfields and Pontefract Hospitals PPP and the Victoria & Stobhill Hospitals for the NHS Greater Glasgow & Clyde.

Financial close on the Fife Hospital PPP, with a construction value of £170m, is anticipated in the first half of 2009.

The long-standing relationship with BAA is continuing with the Heathrow East Satellite project.



There was a full-year's contribution from Cowlin, which has added a profitable presence in building construction markets in South and South West England to the Group. Cowlin, acquired in August 2007, has integrated well and is performing in line with plan.

The successful long-standing working relationship with BAA continued with work at Heathrow, Glasgow and Edinburgh airports. In January 2009, Balfour Beatty signed a 10-year framework agreement with BAA to assist in delivering its £6.6bn capital programme. This framework covers both complex projects, such as the Heathrow East Satellite project, and smaller commodity projects, including alterations, refurbishment and building work at a number of UK airports.

London was an area of strong activity. The contract to build the Aquatics Centre for the London 2012 Olympics was secured and a Balfour Beatty team is working on the first phase of the reconstruction of Blackfriars station. Good progress was made on a number of office building projects, which are scheduled for completion in 2009, and on the Decent Homes framework contract for the London Borough of Hammersmith & Fulham.

In Scotland, contracts were won for the National Museum project in Edinburgh, the Edinburgh Vet School and Ravensraig Sports Centre.

Mansell had a strong year with revenue exceeding £1bn for the first time.

The building business of Dean & Dyball was successfully absorbed into the business, expanding Mansell's national coverage and regional delivery capability. One early success was the completion of a new stadium for the Exeter Chiefs rugby team.

As a principal supply chain member for ProCure21 – the pre-approved procurement system designed to speed up construction delivery within the NHS – Mansell won work at Derriford Hospital and for the Cromer Hospital redevelopment. The £26m Brentwood Community Hospital was successfully handed over during the year.

Mansell's long-standing relationship with UNITE Group continued, with student accommodation at Old Street, London completed on time, and work is progressing well at Cambridge Heath Road in London's East End and at Woburn Place.

During the year, Mansell was appointed as a national framework partner for the Home Office and won orders on the Hackney BSF scheme and construction of phase three of Guru Nanak School in Hayes.

Building, Building Management and Services

Excellent progress was made on Liberty Village, the phased accommodation redevelopment programme to design and build family houses on a 74-acre site within RAF Lakenheath Air Force base for the United States Forces in Europe.

As a framework contractor to BAA, Mansell carries out highly-varied schemes to enhance the passenger experience and improve the efficiency of airport operations and during the year successfully completed work on alterations and re-configuration at Heathrow Terminal 1.

Private sector markets in UK building construction were generally difficult during the year but public sector customers account for the majority of revenues. We expect to make progress in 2009, with work in the education sector being a key contributor.

UK building services

Balfour Kilpatrick delivered a strong performance. Significant contract wins included £25m of mechanical and electrical services on the A3 Hindhead scheme, where Balfour Beatty Civil Engineering is the lead contractor, and, in the education market, with work on the Sunderland and Islington BSF phase one projects.

In the industrial sector, new business was secured with Dragon LNG and at the SABIC polyethylene plant in Teesside, while the long-standing involvement at Sellafield continued.

In London, power-related work at Earl's Court from EDF Energy Powerlink was won and good progress was made on the Victoria line upgrade and at King's Cross Northern Ticket Hall.

Balfour Kilpatrick, Balfour Beatty WorkPlace and Balfour Beatty Management are working together (see case study on pages 16 and 17) to provide integrated facilities management and maintenance services for British Energy's nuclear stations as part of a long-term contract.

The Whitelee Wind Farm project, south of Glasgow, where Balfour Kilpatrick is designing, supplying and installing electrical and control systems, continued to move ahead with over 100 turbines now in place, making it Europe's largest on-shore wind farm.

Balfour Kilpatrick has a strong order book for 2009 and is well-positioned in the power, renewable energy and nuclear sectors where future growth is anticipated.

Haden Young's strong focus on the healthcare sector continued in 2008. Hospital contracts at Churchill, Oxford; Castlehill, Hull; and UCLH, London were all completed during the year with new work secured at the Ysbyty Aneurin Bevan Hospital in Ebbw Vale from Welsh Health Estates.

Good progress was made on the Pinderfields and Pontefract Hospitals PPP, where the Pathology building was completed during the year, and at Birmingham New Hospitals.

The company won a significant order for the Aquatics Centre, being built for the London 2012 Olympics, and completed the Liverpool Arena and Conference Centre.

Overall performance in the business was held back by a substantial project write-down, principally arising from design issues, pending resolution of income recovery negotiations.

The balance of future orders in UK building services is likely to be weighted more towards the education sector than the healthcare sector.

UK facilities management

There was another year of strong revenue and profit growth for **Balfour Beatty WorkPlace** (formerly known as Haden Building Management) with its name change reflecting the range of integrated facilities management services the company now provides.

Revenues topped £400m in 2008 with good performances on the major contract for the Royal Mail, in which the company has a 49% interest, and for the Department for Work and Pensions. Extensions to contracts with the BBC and the Metropolitan Police were secured.

There was a successful mobilisation on the contract with British Energy, which involves the provision of facilities management and maintenance services for its fleet of nuclear power stations over a seven-year period.

Performance under the company's long-term PPP healthcare and education contracts was good with the pipeline of work boosted by financial close on the Islington BSF phase one project. Southwark Schools, where Balfour Beatty WorkPlace will also carry out long-term facilities management, is currently at preferred bidder stage.

The Monterey joint venture, in which Balfour Beatty WorkPlace is a 24.5% shareholder, secured a new six-year facilities management contract with BT worth in excess of £500m, providing services for 7,000 buildings and 100,000 staff located throughout Britain.

In December, Colledge Trundle & Hall, which specialises in the design and installation of automatic energy control systems for buildings, was acquired for £3m, expanding Balfour Beatty WorkPlace's services into energy management. Covion, the private sector facilities infrastructure services business acquired in 2007, performed satisfactorily.

Balfour Beatty WorkPlace is confident of further progress in 2009, based on its track record of delivering for customers and the continuing trend to outsourcing in the public and private sectors.

Balfour Beatty WorkPlace's contract with the BBC was extended during the year.



Balfour Beatty Construction US built the Pentagon Memorial.



US construction

Balfour Beatty Construction US, which was acquired in March 2007, performed strongly in 2008 with revenues of \$2.4bn. It continues to exceed expectations from the time of the acquisition.

Through its regional businesses based in Texas, Florida, North Carolina and Washington, DC, it provides Balfour Beatty with a strong position in the US building construction market.

Its services for public and private sector clients include construction management, design-build, pre-construction, general contracting and programme management. Almost all of its work is secured on the basis of technical capability and track record, with price being determined only after its selection as preferred contractor.

Major project wins in 2008 included a design-and-build contract to construct new training facilities for the US Army Corps of Engineers at Fort Lee, Virginia, incorporating new classrooms, workshops, laboratories and administration offices within five buildings, and a major expansion of the Peabody Orlando in Florida, where the construction of a 35-floor hotel tower, along with new and renovated convention centre space, is underway.

In joint venture, Balfour Beatty Construction US was awarded a \$640m contract to design and build additions and renovations to the National Naval Medical Center in Bethesda, Maryland, to create the new Walter Reed National Military Medical Center. At the Pentagon, just outside Washington, DC, Balfour Beatty built the high-profile Pentagon Memorial, where a dedication ceremony took place on 11 September 2008.

Balfour Beatty Construction US also undertakes the majority of military housing project construction work for Balfour Beatty Communities, which was acquired by the Group in April 2008 and is the market leader in the military accommodation PPP concession market. Long-term orders secured in 2008 included Fort Jackson in South Carolina; West Point, New York; and the Air Mobility Command (AMC) West, covering three Air Force bases.

Towards the end of the year, Balfour Beatty Construction US formed a new business unit to target national projects in the Federal sector and is well-positioned to capitalise on building projects included in the new economic stimulus packages.

In February 2009, Balfour Beatty acquired RT Dooley, a construction firm based in Charlotte, for \$40m. The business specialises in office and mission critical fit-out, and will expand the service offering in the South-East division.

For 2009, Balfour Beatty Construction US has a strong order book and is well-placed to weather instability in the private commercial market.

US professional services

Heery International had another good year, with revenue approaching \$1bn for the first time.

Revenue was boosted by organic growth and the acquisition in June 2008 of Barnhart, the largest programme management, construction management and building company in San Diego and among the largest such companies in California, for a cash consideration of \$121m.

Barnhart is the sixth largest education sector builder in the US as a whole, adding to Heery's strong position in the K-12 public education sector. California is one of the US's most important markets offering substantial opportunities in education and other construction management markets. It also enhances the potential of Heery's JCM project management operation, based in Los Angeles, which is addressing a fast-growing design and build market. Charter Builders in Texas, which was acquired in March 2006, continues to exceed expectations.

Good progress was made on the \$240m contract for the management and construction of Berlin Prison in New Hampshire, as well as a new complex for the Food and Drug Administration in Silver Spring, Maryland. Projects for renovations and additions were completed at a number of college football stadia, including the University of Texas, Western Kentucky University and the Cotton Bowl in Dallas. Work on the Gallaudet University's Sorensen Language and Communications Center in Washington was completed on time and on budget.

Heery continued to win high-quality work through its mix of services and strong emphasis on State and Federal work. Significant wins included a three-year contract to provide ongoing programme management and design services at Louis Armstrong New Orleans International Airport; construction management services for a new Social Security Administration building in Baltimore; and its appointment as architect of record for the multi-million dollar expansion of facilities for the University of Iowa Health Care.

Heery is pursuing a wide range of opportunities, particularly in the healthcare and K-12 education markets and is well-placed for further progress in 2009.

Outlook

The high-quality order book and continued infrastructure expenditure, along with the full-year impact of acquisitions, should drive growth in 2009. While declining volumes and increased competition in some private sector markets will have some impact, we anticipate making further progress in the year.

Operating review Civil and Specialist Engineering and Services

CIVIL AND SPECIALIST ENGINEERING AND SERVICES

Strong performance with good pipeline of forward orders

Highlights

Good performance in UK civil engineering, particularly in roads sector

Continued growth of Balfour Beatty Management

Good progress in utilities and overseas power transmission

Good performance in Dubai, despite considerable slowdown in fourth quarter

Financial summary

Revenue*

£3.2bn 2007: £2.7bn

Order book

£4.9bn 2007: £4.4bn

Profit**

£104m 2007: £82m

* Including £656m share of joint ventures and associates (2007: £556m).

** Profit from continuing operations before £5m exceptional charges (2007: £9m) and £3m amortisation of intangible assets (2007: £3m).

Specialist areas

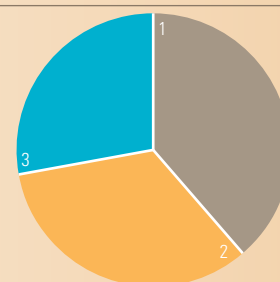
- Professional services
- Design
- Construction
- Project management
- Foundations, strengthening, testing
- Civil engineering
- Electrical engineering
- Transmission lines
- Road management and maintenance
- Utility upgrade and maintenance

Companies

- Balfour Beatty Major Civil Engineering
- Balfour Beatty Regional Civil Engineering
- Balfour Beatty Ground Engineering
- Balfour Beatty Infrastructure Services
- Balfour Beatty Management
- Balfour Beatty Utility Solutions
- Balfour Beatty Infrastructure Inc.
- Gammon (50%)
- Dutco Balfour Beatty (49%)
- BK Gulf (49%)
- Balfour Beatty Sakti (49%)

Revenue breakdown

1	UK Civil Engineering	£1,253m	(32% growth)
2	UK Utilities & Services	£1,086m	(10% growth)
3	International	£904m	(24% growth)
	Total	£3,243m	(22% growth)



Major developments in 2008

2008 was a significant year for the Group in the UK roads sector, both in delivery and in securing major new schemes. Our levels of activity are at an all-time high in this market.

Balfour Beatty Utility Solutions won new contracts in Canada and New Zealand and, early in 2009, was selected as a preferred provider to National Grid in the US, the first time the Group has won work with a major UK infrastructure owner in a different geography.

Our markets

In UK civil and ground engineering, markets grew in 2008 and we secured a significant forward order book. Major opportunities include the M25 widening, Crossrail and new-build in the UK nuclear sector.

The UK utilities market remained strong with the new asset management plan periods in water and electricity distribution beginning in 2010.

The market for professional and technical services is growing and, increasingly, sophisticated customers require these skills to help them deliver major, complex projects.

We operate in a number of markets which are likely to benefit from additional infrastructure projects arising from economic stimulus packages.

There has been a significant slowdown in Dubai, which, in the fourth quarter of 2008, saw a rapid reduction in property development and prices, exacerbated by a reduction in liquidity in the market. The Group's focus on infrastructure positions us well for future work in Dubai, with further opportunities in Abu Dhabi and Qatar.

Markets in Hong Kong and Singapore remain good, with some major infrastructure development programmes offering significant opportunities.

Performance overview

Profit from continuing operations, before exceptional items and amortisation of intangible assets, rose by 27% to £104m (2007: £82m).

We had an excellent year in the UK roads sector, both in delivery – for example, the M1 junctions 6a – 10 widening project – and in securing major new schemes including the M74, A421 and A46 projects. Connect Plus, in which we are a 40% shareholder, was appointed preferred bidder on the M25 widening scheme.

Balfour Beatty Management, our professional and technical services business, continued to grow strongly.

Our utility business also made good progress during the year and further developed its overseas power transmission business, winning new contracts in Canada and New Zealand. Early in 2009, we were selected as a preferred provider to support National Grid's US electricity transmission capital investment programme.

In December, we announced we were partnering with AREVA, a world leader in nuclear power, to ensure effective delivery of a fleet of EPR nuclear reactors in the UK.

Overseas, performance in Gammon, which operates in Hong Kong and Singapore, was steady. In the US, profitability has continued to improve.

There has been a considerable slowdown in Dubai. Our businesses performed well in 2008, with a particular emphasis on infrastructure projects. Our result in Dubai, however, was affected by a cautious view of project recoveries and cash flows.

Major projects were secured in the UK for the Highways Agency, the Scottish Office and Network Rail; in the US for the Texas Department of Transportation and the water industry in California; and in South-East Asia for the Hong Kong Government.

The sector order book increased by 11% to £4.9bn at the end of 2008.

Review of operations

UK infrastructure

Balfour Beatty Civil Engineering, which consists of **Balfour Beatty Major Civil Engineering** and **Balfour Beatty Regional Civil Engineering**, had a very strong year.

The business was extremely busy in the roads sector, both in delivering successful projects and in gaining new work.

Balfour Beatty won, as part of the Interlink M74 joint venture, a £445m contract from Glasgow City Council to design and construct an 8km extension to the M74. The company also began work on the A421, an Early Contractor Involvement scheme with the Highways Agency, between the M1 and Bedford.

As part of the UK Government's investment in major transport projects to stimulate the economy, the A46 Newark to Widmerpool project, an Early Contractor Involvement project, was given the go-ahead at the end of 2008.

Work was successfully completed on the M1 junctions 6a – 10 widening project and excellent progress was made on the A3 Hindhead improvement scheme and the A1(M) between Bramham and Wetherby in Yorkshire.

Work will begin on the contracts to provide additional capacity for the M25 and on the Carlisle Northern Development Route, once financial close is achieved.

Good progress was made on the Northern Ticket Hall project at King's Cross, and work started on the first phase of the total reconstruction of Blackfriars station. Satisfactory progress was made on the East London line, where the civil engineering contract will be completed in 2009.

In December, Balfour Beatty announced it was partnering with AREVA, a world leader in nuclear power, to ensure effective delivery of a fleet of EPR nuclear reactors (EPRs) in the UK. The Energy White Paper in 2007 first set out the UK Government's in-principle support for a programme of new nuclear power stations in the UK. Site construction of the first EPR could start as early as 2013.

Balfour Beatty also formed a joint venture with VINCI Construction to help deliver project management, construction and civil engineering infrastructure for the EPR programme in the UK, both within the AREVA partnership and to bid for EPR sites for utilities adopting alternative procurement models in the UK, including EDF.

The acquisition of Dean & Dyball added a strong, profitable presence in civil engineering markets in the southern half of England and in Wales to the Group. Together with the successful integration of Birse, which is showing good growth, this has broadened the customer base and helped to create the UK's leading coastal and marine engineering business. Dean & Dyball completed its contract from the Olympic Delivery Authority to produce state-of-the-art facilities for sailing at Weymouth and Portland in Dorset.

Work started on the Aquatics Centre, as well as a number of roads and bridges near the Olympic Park in Stratford.

The regional civils business made good progress on a number of projects including work for BAA in Scotland under a framework agreement, the infrastructure for East Midlands Parkway, a new park and ride train station to serve East Midlands Airport and the infrastructure for Phase 1 of the Ravenscraig Redevelopment in North Lanarkshire. A £36m contract to build a runway extension at Isle of Man airport was secured.

Following eight successful years working on the Forth Bridge, Balfour Beatty started work on the new contract for Network Rail to complete the remaining restoration and painting programme.

Overall, 2008 was a year of significant growth.

Work has started on the first phase of the total reconstruction of Blackfriars station, London.



Civil and Specialist Engineering and Services

Balfour Beatty Ground Engineering had a strong year in volume and profit growth. Mini-piling specialist Branlow was acquired in 2008, joining existing businesses Stent and Pennine. Balfour Beatty Ground Engineering worked on major infrastructure projects at the M74 in Scotland and at the Aquatics Centre for the Olympics and has a significant order book for 2009. A new business, Balfour Beatty GeoEnvironmental, was launched to provide a complete service for land remediation.

Balfour Beatty Infrastructure Services, the integrated provider of highway and street lighting contracting and consulting services, had a steady year.

In the roads business, performance within the existing portfolio of strategic roads for the Highways Agency was good. The company performed well in Area 2 – Somerset, Avon, Wiltshire, Gloucestershire and Devon – where Balfour Beatty Infrastructure Services works closely with the Highways Agency to provide safe roads, reliable journeys, informed travellers and a protected environment.

While the contracts with Hampshire County Council and the Highways Agency Area 3 ended in 2008, this will be offset by the M25 widening scheme, for which Connect Plus was appointed preferred bidder in 2008, and which should reach financial close in the first half of 2009.

The Local Authority business performed satisfactorily. It secured a two-year contract extension in Westminster and made progress in North-West Scotland.

The street lighting business performed well and is now one of the leading street lighting contractors in the UK. Concessions are operated on behalf of Connect Roads in Sunderland, South Tyneside and Derby.

Chris Britton Consultancy, which was acquired during 2007, has enabled the company to provide a range of specialist technical support to clients, particularly in asset and pavement systems, management and consultancy.

Professional services

Balfour Beatty Management continued to grow strongly in 2008, particularly in supporting cross-Group activities for sophisticated, major customers.

It plays an important role in the Group, managing a range of major projects and providing much of the upfront thinking and management skills required to deliver complex, integrated projects for customers such as National Grid, British Energy, BAA, the Olympic Delivery Authority and the Highways Agency.

During the year, Balfour Beatty Management successfully led the bids for the M25 widening scheme and on the Aquatics Centre being built for the London 2012 Olympics.

Work at the King's Cross Northern Ticket Hall (see case study on pages 14 and 15) is progressing well, as are the Group's alliances with National Grid.

Working with Balfour Beatty Utility Solutions, Balfour Beatty Management was part of the team that secured a power transmission contract in Canada, in an alliance to assist ATCO Electric in completing its capital works programme in Alberta.

Building on this success, early in 2009, Balfour Beatty was selected, in joint venture, as a preferred provider to support the delivery of National Grid's US electricity transmission capital investment programme in New England over the next five years. Balfour Beatty Management is working alongside Balfour Beatty Utility Solutions and Balfour Beatty Infrastructure Inc.

Since its inception in 2003, Balfour Beatty Management has grown to over 600 professional staff. It is currently bidding a number of major projects and it is anticipated that the business will become an increasingly integral part of a number of Balfour Beatty's major customer relationships in 2009.

The A3 Hindhead improvement scheme made good progress.



Utilities

Balfour Beatty Utility Solutions, whose services contribute to the maintenance and provision of essential utility assets, performed strongly.

In the water sector, good overall progress was made during the year on its portfolio of long-term contracts and bids are being prepared for contracts under AMP5 – the asset management plan period which will run between 2010 and 2015.

In the gas sector, good progress was made on the Greater Manchester Alliance gas mains network contract, where Balfour Beatty is working in a long-term partnership with National Grid on the design, management and construction work required to replace Victorian metallic gas mains with modern pipework systems, and on the gas mains replacement contract for northern England for Northern Gas Networks.

In the electricity sector, the company performed well on the work for National Grid to upgrade and develop the electricity transmission network in the eastern half of England.

Two programmes of work were awarded by ScottishPower Energy Networks, valued at nearly £20m, at Clyde and Crystal Rig as part of the programme to connect new wind farm capacity to the transmission network.

Balfour Beatty's track record with National Grid in the UK helped to secure selection in early 2009 as a preferred provider, in joint venture, to support the delivery of National Grid's US electricity transmission capital investment programme in New England. The five-year contract for the design and build of substations and transmission lines in Massachusetts, Rhode Island and New Hampshire will be carried out by the New Energy Alliance, a joint venture between Balfour Beatty and MJ Electric.

The total value of the capital projects awarded by National Grid US for both New England and for New York State, where another joint venture partner was also selected, is approximately \$1.7bn. There is an option to extend the Alliance for a further three years after the initial five-year period.

Work in Australia continued and new contracts were won in Canada and New Zealand.

In Canada, the Group signed an alliance agreement to assist ATCO Electric in completing its capital programme and to meet electrical transmission needs. Balfour Beatty is providing engineering, construction, procurement and project management services, as part of a joint venture, for the C\$700m capital works programme over the next five years.

In New Zealand, Balfour Beatty signed an alliance agreement with Transpower, which owns and operates the high-voltage electricity transmission grid, for the construction of the proposed transmission line from Whakamaru to Auckland. The contract, valued at NZ\$230m (£82m) is being carried out in joint venture.

International infrastructure

Profitability has continued to improve at **Balfour Beatty Infrastructure Inc.**, which provides civil engineering and construction services for transportation and water projects in the US.

New orders in 2008 included the \$207m Vineyard Water Treatment Plant in Sacramento. The Vineyard plant will receive its water from the Freeport Water Intake Facility that Balfour Beatty Infrastructure Inc. is also constructing in the Sacramento River, reflecting its strong presence in the provision of water treatment and water-handling facilities in California.

In Seattle, an \$89m contract was secured for the new Sunnyside Wastewater Treatment Plant, part of the strategy to expand along the West Coast and meet the increasing demand for more water and wastewater treatment plant infrastructure.

Good progress was made on the Dorchester Tunnel in Boston, a \$146m project for the Massachusetts Water Authority. At the end of 2008, the \$56m project for the New Crystal Springs Bypass Tunnel was secured in joint venture. Working for the San Francisco Public Utilities Commission, the project calls for the drilling of a tunnel 11 feet in diameter and 4,200-feet long and is scheduled for completion in 2011.

There was further success on highways work in Dallas, with two significant projects along State Highway 121 for the Texas Department of Transportation, and two new contracts, totalling more than \$35m, were agreed with the North Carolina Department of Transportation.

Work on the \$39m contract to replace the Trent River Bridge in New Bern, also in North Carolina, progressed well.

A \$67m highways infrastructure project for the Pennsylvania Department of Transportation was completed ahead of schedule, while good progress was made on the I-79 project near Pittsburgh.

At the end of the year, some prospective projects were deferred or delayed, as anticipation of the US Government's economic stimulus package held back project commitments.

Balfour Beatty Infrastructure Inc. expects to bid for a number of infrastructure projects from the second quarter of 2009 onwards, particularly for highways and bridges, and is well-positioned to take advantage of an upturn in the market.

Performance in **Gammon Construction**, the Group's joint venture company in South-East Asia, was steady.

Gammon is the leading contractor in Hong Kong. Its year-end order book of approximately £650m was at a record level.

Major wins included the contract for the design and construction of the new Central Government Complex for Hong Kong – known as the Tamar Development Project. The contract, which will be executed in joint venture, is worth HK\$4.9bn and is scheduled for completion in 2011.

The Hong Kong Director of Highways awarded Gammon a HK\$2.8bn contract for the reconstruction and improvement of a 6.8km section of the Tuen Mun road between Tsuen Wan and Tsuing Lung Tan.

In Singapore, Gammon grew strongly and secured a number of contracts including a S\$100m project to help build a renewable diesel plant at Tuas industrial zone for Neste Oil and transportation infrastructure work at the Chinatown Station underground development for the Land Transport Authority.

In August 2008, Gammon Capital reached financial close on the £100m Institute of Technical Education PPP project in Singapore, which will result in building work for Gammon Construction.

In Macau, work on a further phase of the Venetian Hotel and Casino complex was suspended as a result of economic uncertainty.

In Hong Kong, good progress was made on the Kowloon Southern Link and the contract to build One Island East, a 70-storey office building on the Eastern Shore of Hong Kong Island was completed in 2008. In December 2008, Gammon was awarded the contract to design and build the Hong Kong Pavilion at the World Exposition 2010 in Shanghai.

Gammon anticipates a number of major big infrastructure bids in Singapore and Hong Kong in 2009, particularly mass transit, road and rail projects.

Balfour Beatty's interests in Dubai comprise 49% stakes in **Dutco Balfour Beatty**, a building and civil and marine engineering contractor, and BK Gulf, a mechanical and electrical engineering contractor.

There has been a considerable slowdown in Dubai. The Group's businesses performed well in 2008, with a particular emphasis on infrastructure projects. The result in Dubai, however was affected by a cautious view of project recoveries and cash flows.

Dutco Balfour Beatty completed the Burj Mall, the world's biggest shopping centre which opened in November, and good progress was made on major improvement and extension projects to the Emirates and Sheikh Zayed roads.

BK Gulf, which has 30 years' experience in the United Arab Emirates and the Middle East, performed well in 2008.

During the year, it was awarded the contract, valued at Dhm640m, for the supply and installation of M&E and key operational systems at University Hospital.

BK Gulf completed its programme of work at the Atlantis Hotel in Dubai, which opened in November 2008.

In Abu Dhabi, work was won at the Marina Hotel project, which forms part of the new development to provide a Formula 1 standard racing complex, on Yas Island.

Outlook

Our markets continue to offer significant opportunity. In Dubai, the significant slowdown will depress revenues and cash performance in that market in 2009.

Despite this, we have a very strong order book and expect another year of good progress in the sector.

Good progress was made on the contract to replace the Trent River Bridge in North Carolina.



Operating review Rail Engineering and Services

RAIL ENGINEERING AND SERVICES

Steady progress in UK and international businesses



Highlights

Acquisition of Schreck-Mieves in Germany
€250m Gotthard Base Tunnel project secured in Switzerland
Successes in international high-speed electrification and power supply business
Good performance in UK track renewals

Financial summary

Revenue*

£1.1bn 2007: £0.8bn

Order book

£1.2bn 2007: £0.9bn

Profit**

£41m 2007: £40m

* Including £39m share of joint ventures and associates (2007: £10m).

** Profit from operations before £nil exceptional items (2007: £2m credits) and £1m amortisation of intangible assets (2007: £nil).

Specialist areas

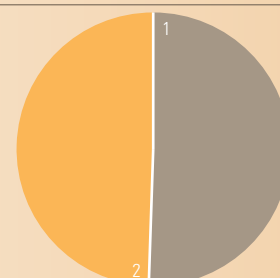
- Design
- Construction
- Project management
- Maintenance
- Track renewals
- Specialist plant, products and systems
- Electrification and power supplies
- Signalling
- Remote condition monitoring

Companies

- Balfour Beatty Rail Projects
- Balfour Beatty Rail Services
- Balfour Beatty Rail Systems and Solutions
- Balfour Beatty Rail Germany/Austria
- Balfour Beatty Rail International
- Balfour Beatty Rail Inc

Revenue breakdown

1 UK	£533m	(35% growth)
2 Other	£522m	(34% growth)
Total	£1,055m	(34% growth)



Major developments in 2008

The acquisition of Schreck-Mieves added a leading position in the trackwork market to existing operations in Germany.

Work continued on a range of high-speed electrification projects across Europe, notably in Italy and Germany, and Balfour Beatty is well-placed for further work as part of the drive to connect major urban centres by high-speed rail links.

Our markets

In the UK, Network Rail's Control Period 3 (CP3) concludes in 2009 with the new Control Period (CP4) running from April 2009 to March 2014. In February 2009, Network Rail announced that it had accepted the Office of Rail Regulation's rail spending budget and that it would spend £28.5bn on Britain's rail infrastructure over the next five years.

Progress continues to be made on the planning and financing of Crossrail, the new rail route planned through London. The associated rail work will bring significant future opportunity.

The UNIFE 2008 World Rail Market Report predicted future growth in the rail supply industry and identified the importance of rail as a sustainable means of transport.

Performance overview

There was steady progress in 2008, with profit from operations, before exceptional items and amortisation of intangible assets, rising by 3% to £41m (2007: £40m), and revenues exceeding £1bn for the first time.

There was another good result from our international high-speed rail electrification and power supply business and further improvement in our US business. In the UK, profit was slightly down compared to last year, principally due to some settlements received in 2007.

The acquisition of Schreck-Mieves in Germany enhances our ability to deliver major, multi-disciplinary projects.

Major projects secured in the year included rail systems work for the Gotthard Base Tunnel in Switzerland and the high-speed Madrid-Levante line in Spain, contributing to a 33% increase in the order book to £1.2bn at the end of 2008.

Schreck-Mieves, a German rail engineering group, was acquired in July 2008.



Review of operations

Balfour Beatty Rail focuses on the design, construction, equipping, maintenance, management and renewal of rail assets and systems.

It has a significant presence throughout the UK, Germany and Italy and major projects in Sweden, Norway, Denmark, Spain, Austria, Switzerland, China and Malaysia, as well as its US rail business.

UK rail

UK rail operations consist of three principal businesses:

- Balfour Beatty Rail Services, one of the UK's largest track renewals and rail plant organisations, providing renewals services for more than 25% of the UK's rail infrastructure;
- Balfour Beatty Rail Projects, a leader in rail engineering projects for track and electrification in the UK and throughout the world, with operations in Europe, Asia, South America and Australia; and
- Balfour Beatty Rail Systems and Solutions, which designs, manufactures and supplies switches and crossings, as well as other rail products and components.

Balfour Beatty Rail Services had a good year with work continuing for Network Rail as one of its four retained renewals contractors. A significant improvement in renewal efficiency and quality was achieved in the year. The commitment to invest in six new tamping machines to enhance the existing fleet will enable higher quality and quantity of outputs to be achieved in the future.

In **Balfour Beatty Rail Projects**, progress was made on growing the long-term order book in both UK and overseas markets with notable contract awards for the reconstruction of the Airdrie-Bathgate Rail Link in Scotland; two line extensions for Santiago Metro in Chile; and the rail systems installation for the 57km Gotthard Base Tunnel in Switzerland – which will be the longest railway tunnel in the world when it opens for commercial services in 2017 – working in tandem with Balfour Beatty Rail Germany as part of the Transtec Gotthard consortium.

Balfour Beatty Rail Projects is involved in many of the UK's major rail schemes: the joint venture for the delivery of the East London line, with progress on the first of two phases to extend the existing line at both the north and the south ends; a large portfolio of rail enhancements for London Underground; and electrification works on the West Coast Main Line, which were completed in December 2008.

Other projects successfully completed in the year included the double-tracking of the railway between Gretna Station and Annan in Scotland for Network Rail and 12 new sidings at Orient Way in East London, including overhead line equipment and signalling for the ODA (Olympic Delivery Authority).

In engineering services there is a full programme of track and electrification design work both in the UK and overseas. Work on the design of the electrification of suburban lines in Auckland, New Zealand commenced during the year.

Signalling Solutions, the joint venture with Alstom, performed satisfactorily and completed signalling upgrade works at Trent Valley and Milton Keynes.

Work in Australia continued on upgrading the railway between Brisbane and Sydney. In early 2009, further work in Singapore was secured.

Balfour Beatty Rail Systems and Solutions recorded a creditable performance and built on its position as one of the few companies with the in-house expertise and resources to develop new solutions for rail infrastructure, aimed at measuring, monitoring and improving network safety and reliability.

Development of products focused on the design and manufacture of trackwork and a number of technology-based products and services. Laser Rail, which specialises in the development of small-scale solutions for track and other rail infrastructure, has been successfully integrated into the business, following its acquisition in 2007.

The move from Bathgate to a new factory in South Queensferry was completed early in 2009. This enhances the company's ability to be a core supplier of cast manganese products, such as trackwork and crossings, for Network Rail and other customers around the world.

Rail Engineering and Services



Double-tracking of the railway between Gretna station and Annan in Scotland.

Rail operations outside the UK

Balfour Beatty Rail Germany/Austria performed strongly.

Three major electrification projects were secured from Deutsche Bahn, with a total value of approximately €80m. Towards the end of the year, the Hamburg-Lübeck high-speed line was inaugurated following the completion of the double-track electrification project begun in 2006.

Good progress was made on the rail link at Berlin Brandenburg international airport where Balfour Beatty Rail is working with Deutsche Bahn to supply the mass transit and mainline utilising traditional catenary, overhead conductor rail and medium-voltage equipment.

In Germany, a joint venture was established with Bombardier called Inosig, combining Balfour Beatty Rail's infrastructure expertise with Bombardier's signalling know-how, and work began on a project at Kreiensen.

Together with Balfour Beatty Rail Projects in the UK, and as part of the Transtec Gotthard consortium, a major contract was secured for the rail systems work for the Gotthard Base Tunnel in Switzerland. The contract is likely to be worth approximately €250m in total to Balfour Beatty. The project will involve the design, installation and commissioning of rail infrastructure equipment for the tunnel and includes the equipping of both single track tunnels which are each 57km long, as well as the adjoining open north and south sections totalling approximately 11km in length. Balfour Beatty's responsibilities for the installation programme include project management, complex logistics, trackwork, overhead catenary and part of the medium-voltage supply lines for the tunnel works.

Schreck-Mieves, a German rail engineering group, was acquired in 2008 for €32m. Schreck-Mieves is a track construction business, which manufactures switches and crossings and supplies specialist plant and equipment. It supplies Deutsche Bahn and numerous mass transit and industrial customers in Germany. Schreck-Mieves has performed in line with expectations at the time of the acquisition. Looking ahead, there are opportunities for the business to add volume through market share growth and geographical expansion in Germany.

Balfour Beatty Rail International, which comprises the Group's rail interests in Italy, Spain, Sweden, Norway, Denmark, Malaysia and China, made good progress.

In Italy, Balfour Beatty was awarded the €40m power supply and electrification works on the entire 20km section by the Metro "C" consortium, which has secured the contract to build a new line on Rome's existing underground metro. A €17m contract for renewal works on the North-West region's railway network was also secured.

Balfour Beatty is working on a number of electrification projects in Italy, including the high-speed rail link programme to connect all the main cities and incorporating links from Turin to Milan and Bologna, and Florence and Rome to Naples. The Milan to Bologna line, which now has a journey time of one hour, was inaugurated in December 2008 and the business is well-placed to win further contracts. Milan is hosting the 2015 Expo, and is aiming to transform its transport network, creating further project opportunities.

In Spain, Balfour Beatty won a €93m contract, with its partners, to deliver catenary and associated systems on the Madrid-Motilla del Panacar section of Spain's high-speed Madrid-Levante line.

In Sweden, work continues on the Bothnia line track, electrification and power supply project. A number of contracts, with a value of around €100m in total, were won in Sweden, Norway and Denmark for electrification and multi-disciplinary projects.

In Malaysia, a letter of intent was signed to design, supply and install electrification, power supply, signalling and communications on 330km of double track between Ipoh and Padang Besar. The project will be carried out in joint venture with Ansaldo STS and is the Group's largest rail project to date in Malaysia. Work is expected to be completed by January 2013.

This award follows the completion of the electrification and signalling systems from Rawang to Ipoh in Malaysia and is part of a large railway infrastructure investment by the State of Malaysia to create a modern and efficient railway connection between Kuala Lumpur and the Thai border, with the long-term objective of establishing a Pan-Asian Link connecting Singapore to China.

In China, delivery of the high-speed electrification project Tianjin-Shenyang was completed and preferred bidder status was secured for a catenary project.

Performance in **Balfour Beatty Rail Inc** in the US continues to improve.

A \$62m contract for the West Corridor Light Rail systems and signals and a \$58m on-call contract for upgrades to existing systems were secured in Denver.

The three-year West Corridor project comprises a 12-mile extension to the existing light rail system and includes the supply, installation, testing and commissioning of the systems elements of the project.

Other project wins included the Expo line/Los Angeles light rail systems with additional signal and communications work on the Metro link. The services division won a significant ballast cleaning contract with the Burlington Northern Santa Fe freight company.

Opportunities for light rail and transit systems are being pursued in Seattle, Los Angeles, San Francisco, Orlando and Denver.

The business is now headquartered in Atlanta, the location of both Heery and Balfour Beatty Infrastructure head offices, and is well-placed for growth, based on its now stable foundations and a strengthening market.

Outlook

In the medium term, the outlook for rail is very positive, as a result of both new requirements and the replacement of ageing infrastructure. In the short term, we anticipate further modest progress in 2009.

Balfour Beatty is working on a number of electrification projects in Italy.

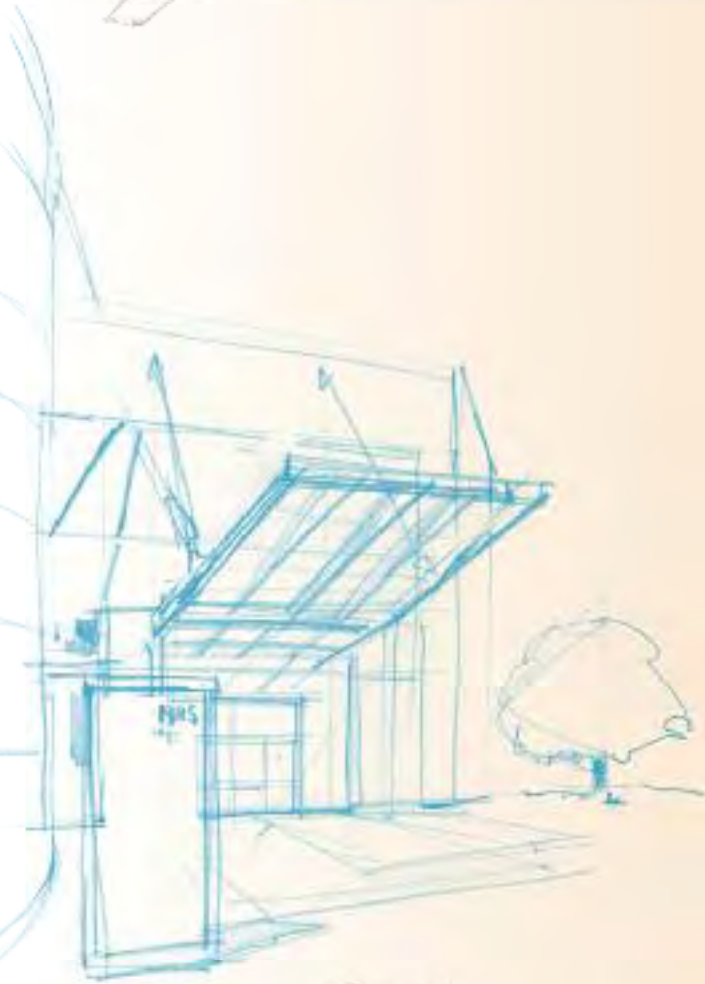


Balfour Beatty Rail undertakes track renewals for Network Rail.

Operating review Investments

INVESTMENTS

Strong progress in the UK and strategic expansion in the US



Highlights

Acquisition of Balfour Beatty Communities in the US

Financial close on Islington Schools and Singapore Institute of Technical Education

Preferred bidder on M25

Acquisition of Blackpool International Airport

Financial summary

Revenue*

£553m

2007: £394m

Concessions in hand

UK: 29 US: 17 Singapore: 1

(including four at preferred bidder in UK)

2007: 27 in UK

Profit**

£31m

2007: £16m

* Including £393m share of joint ventures and associates (2007: £343m).

** Profit from continuing operations before £5m exceptional charges (2007: £nil) and £9m amortisation of intangible assets. (2007: £nil).

Specialist areas – PPP

Education

Healthcare

Roads

Power systems

Water

Coastal defence

Military housing

Non-PPP investments

Barking Power

Blackpool International Airport

Exeter International Airport

Companies

– Balfour Beatty Capital

– Balfour Beatty Capital Germany

– Balfour Beatty Capital US

– Balfour Beatty Communities

– Gammon Capital

Major developments in 2008

US

The acquisition in the US of Balfour Beatty Communities (formerly GMH Military Housing) from GMH Communities for \$350m in April 2008 was a major step in implementing our strategy of building a high-quality, domestic business in the US.

Balfour Beatty Communities is a market leader in the development, financing, operation and management of military accommodation PPP projects for the US Departments of the Army, Navy and Air Force.

Following the acquisition, Balfour Beatty Communities reached financial close on three concessions and acquired a further two concessions, and by the end of 2008 was responsible for 17 US military housing privatisation projects covering family housing at 44 military bases and one unaccompanied personnel project.

UK

Following the acquisition of 60% of Exeter International Airport in 2007, we acquired 95% of Blackpool International Airport in May 2008, as part of the strategy to extend our business into non-PPP investments.

Blackpool International Airport is a well-located airport acquired in May 2008.



The Institute of Technical Education in Singapore reached financial close in 2008.



Our markets

UK

There remains a strong commitment to improve public services in the UK with PPP a key part of the procurement process and, despite financial issues in the market, we expect a steady flow of opportunities to continue, particularly in the education sector.

Inevitably, the market for the procurement of public services is changing and alternative PPP models and new public procurement models are emerging.

There will be opportunities to bid a number of schools projects in the UK in 2009 under the Building Schools for the Future (BSF) initiative. During 2008, Balfour Beatty achieved financial close on its first BSF project using a Local Educational Partnership (LEP) model, a new form of partnership with local education authorities, at Islington Schools.

In the UK healthcare market, there has been a reduction in the number of major hospital projects coming to market.

In the UK roads sector, Balfour Beatty has a strong record and the M25 widening scheme is expected to reach financial close in the first half of 2009.

Social housing, prisons, highways maintenance and fire and rescue are all potential new sectors for UK PPP.

US

The PPP (P3) market in the US is slowly evolving. Following the acquisition of Balfour Beatty Communities, the company is well-placed to win concessions for more of the remaining military family housing projects, along with the unaccompanied military personnel housing schemes currently being piloted.

Balfour Beatty is reviewing potential opportunities for new privatisation projects in the US for student accommodation and educational facilities, renewable energy, and social infrastructure projects such as hospitals and court houses.

Singapore

In Singapore, financial close was reached on the first accommodation-based PPP in the country, and we look forward to completing construction of the Institute of Technical Education in 2010.

Germany

We continue to evaluate opportunities in Germany and other parts of Europe.

Strategy

In the UK, we have a leading position in the PPP market and will continue to pursue bidding opportunities which align with the Group's competitive strengths. Balfour Beatty's integrated capability in combining its engineering, construction and services skills, together with the strength of the balance sheet and track record of delivering successful PPP schemes, will continue to be a key differentiator.

In the US, Balfour Beatty Communities is the market leader in the most developed PPP market – military housing – and is well-positioned to leverage the Group's expertise in winning further privatisation projects.

The skills acquired in PPP will continue to be applied to the wider infrastructure market, in particular where there are attractive opportunities to take management control and to improve the quality of assets in markets and sectors that are familiar to us.

Investments

Performance overview

Our PPP concession and non-PPP investment portfolio has grown both organically and through acquisition to become a very significant part of the Group's business and a major driver of shareholder value.

Profit from continuing operations, before exceptional items and amortisation of intangible assets, increased by 94% to £31m (2007: £16m).

There was good underlying concession performance and a first contribution from Balfour Beatty Communities in the US. Acquired in April 2008, Balfour Beatty Communities is a major addition to our Investments business and performed well, in line with our expectations at the time of acquisition. The acquisition secured a reliable, long-term profit and cash flow from a high-quality portfolio of PPP military housing concessions, as well as an experienced and successful management team to develop our presence in the growing US PPP market.

We reached financial close on phase 1 of the £150m Islington Schools for the Future PPP concession. In Singapore, Gammon Capital, our PPP joint venture in South-East Asia, reached financial close for the new Institute of Technical Education (ITE) College West.

Preferred bidder status was achieved by Connect Plus, a consortium in which we have a 40% shareholding, for the PPP contract to provide additional capacity and maintain the M25. We were also appointed preferred bidder for the £200m Southwark Schools for the Future programme.

The strong performance of Barking Power continued, driven by the beneficial impact of electricity prices on its revenue and also boosted by insurance recoveries following a generator outage in 2007.

Our strategy to extend our infrastructure investment business beyond the UK PPP market, which began with the acquisition of Exeter International Airport in 2007, continued in May 2008 with the acquisition of Blackpool International Airport. As is the case with Exeter, Blackpool is a well-located regional airport with long-term growth potential.

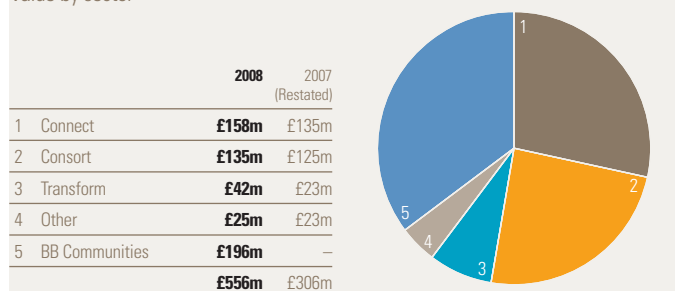
In total, at 31 December 2008, we had committed equity and subordinated debt of £516m across 47 PPP concessions, four of which were at preferred bidder stage.

Directors' valuation of PPP concessions

Using a single discount rate of 8.0% nominal post-shareholder tax, the 2008 directors' valuation of the Group's PPP portfolio stands at £556m (2007 restated: £306m). A full explanation of the PPP valuation is on pages 6 to 8 of the Directors' report and accounts 2008.

Portfolio valuation: December 2008

Value by sector



Balfour Beatty Communities is a market leader in military housing PPP projects in the US.



Outlook

Financial close is anticipated on three preferred bidder PPP projects in the UK – the M25 widening and two other schemes – in the first half of 2009.

There is a healthy pipeline of UK projects and we expect increased bidding activity in 2009, especially for schools projects.

In the US military housing market, the long-term nature of our contracts provides strong visibility of earnings and there are further business development opportunities both within and outside the military accommodation PPP market.

While the current economic environment presents challenges for project financing, we remain confident about the future and anticipate further growth.

Movement in value 2007/2008 (£m)

	2007	Equity invested	Distributions	Unwind of discount	Rebased	New project wins	Acquisitions	Operational performance gains	2008 (excl FX)	FX translation	2008	Growth (excl FX)
Balfour Beatty Capital	306	11	(27)	27	317	32	1	10	360	–	360	13.6%
Balfour Beatty Communities	123*	8	(18)	10	123	1	15	6	145	51	196	17.9%
Total	429	19	(45)	37	440	33	16	16	505	51	556	14.8%

* Value of closed and preferred bidder projects acquired on 30 April 2008.

Transform schools



Education (UK)

Balfour Beatty Capital's schools schemes are managed by Transform Schools, one of the largest providers of school education facilities in the UK.

Transform Schools works in partnership with local authorities to improve educational attainment through the design, building and management of inspirational learning environments.

Transform's portfolio comprises eight large-scale schools schemes with £54m of committed equity investment, including £5m at preferred bidder stage.

Of the eight schemes, five are fully operational with new facilities in North Lanarkshire in Scotland and Bassetlaw in Nottinghamshire having come on stream in 2008.

Transform Schools is now responsible for a total estate of 164 primary and secondary schools, and two leisure centres, spread over five major schemes in Stoke, Rotherham, North Lanarkshire, Bassetlaw and Birmingham.

In July, Transform reached financial close on Phase 1 of the Islington Schools (BSF) PPP programme. This is Transform Schools' first BSF project comprising the Local Educational Partnership delivery model, the model under which the majority of BSF projects are likely to be procured in the future.

The concession will project manage and deliver new and refurbished accommodation at two schools together with facilities management and ICT managed services. In addition, a new school will be delivered.

Over the next five years, a further two phases will be delivered comprising five schools and two pupil referral units.

In November, Transform was appointed as preferred bidder for the £200m Southwark Schools for the Future programme. Financial close is scheduled for the second quarter of 2009, with the first new schools opening in September 2010 and 2011.

Good progress is being made on the construction of seven new learning centres under the £163m Knowsley Metropolitan Borough Council PPP concession, which reached financial close in December 2007.

Bids are in preparation for Sandwell, Cambridgeshire, Hull, and Blackburn with Darwen and Bolton schools projects.

Stoke Schools
Rotherham Schools
North Lanarkshire Schools
Bassetlaw Schools
Birmingham Schools
Knowsley Schools
Islington Schools
Southwark Schools*

*Preferred bidder.

Consort healthcare



Hospitals (UK)

Consort Healthcare, Balfour Beatty's specialist organisation in the healthcare market, performed well in 2008.

Its portfolio consists of interests in nine major hospital projects with £123m of committed equity investment, including £7m at preferred bidder stage.

Four of the hospitals are fully operational – Edinburgh Royal Infirmary, University Hospital North Durham, the Royal Blackburn Hospital and University College London Hospital, the second stage of which was completed on time during 2008.

The new mental health facilities, part of the Birmingham New Hospitals scheme, were completed five weeks early and are now in operation. The remainder of the large-scale project at Birmingham is scheduled for completion in 2011 and will relocate most of the key clinical and mental health facilities to the south of the city in a single site. Total committed investment for this project is £23m.

Good progress has been made on the other hospital schemes currently under development. The Pinderfields and Pontefract Hospitals Development Project will deliver a new acute inpatient hospital in Wakefield on the existing Pinderfields Hospital site and a new diagnostic and treatment centre in Pontefract.

Tameside General Hospital and a new acute hospital at Hope Hospital, Salford are under construction.

Consort is preferred bidder for the Fife General Hospital and Maternity Services PPP and expects to reach financial close in the first half of 2009.

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

*Preferred bidder.

Investments

Connect roads



Roads and street lighting (UK)

Connect Roads, which manages highways schemes and street lighting projects, also performed strongly in 2008.

It has £149m of committed equity investment, including £86m at preferred bidder stage.

Connect Roads' expertise ranges from initial planning and design, feasibility and environmental studies, through to construction and ongoing maintenance.

The existing road concessions performed well in 2008.

During the year, Connect Plus, a consortium comprising Balfour Beatty (40%), Skanska (40%), Atkins (10%) and Egis Projects SA (10%), was appointed preferred bidder for the PPP contract to provide additional capacity and to maintain the M25. The substantial programme will focus on adding capacity to 63 miles of the M25 and will help deliver significant improvements to one of the UK's busiest and most important roads.

At the end of 2007, Connect was awarded preferred bidder status on the Carlisle Northern Development Route, a £150m project for the design, construction and operation and maintenance of a network of roads in the area.

In street lighting, the Sunderland street lighting core investment programme has been completed and progress was made on the street lighting concessions for South Tyneside and Derby. Bids are being or have been prepared for street lighting projects in Surrey, Coventry and East Shires (Cambridgeshire/Northants).

M1-A1

A50 Stoke/Derby link

A30/A35

M77 Glasgow Southern Orbital

Sunderland Street Lighting

South Tyneside Street Lighting

Derby Street Lighting

Carlisle Northern Development Route*

M25*

*Preferred bidder.

Infrastructure projects



Other PPP concessions

The Group owns and operates a number of other PPP concessions in the UK and overseas.

UK

In 2008, Powerlink, which operates and maintains London Underground's high-voltage power system, continued its upgrade works on the Victoria line, which are on programme.

Aberdeen Environmental Services, which is responsible for five wastewater treatment plants in Aberdeen, performed satisfactorily.

Following the Dean & Dyball acquisition, the Group has a 25% interest in a small, coastal flood defence project at Pevensey, on the south coast of England.

Overseas

Gammon Capital, the PPP vehicle in South-East Asia in which Balfour Beatty has a 50% interest, reached financial close for Singapore's new Institute of Technical Education (ITE) College West in August 2008.

The project, Gammon Capital's first in PPP and the first accommodation-based PPP in Singapore, has a contract period of 27 years and a capital value of approximately £100m. It is scheduled to be completed in 2010, with its first intake of students in July of that year.

In total, Balfour Beatty has £17m committed to these four concessions.

Powerlink/PADCO

Aberdeen Environmental Services

Pevensey Coastal Defence

Institute of Technical Education, Singapore

Balfour Beatty Communities



US military housing

The acquisition of Balfour Beatty Communities (formerly GMH Military Housing) from GMH Communities for \$350m in April 2008 was a major step in implementing the Group's strategy of building a high-quality, domestic business in the US.

Balfour Beatty Communities is the market leader in the development, financing, operation and management of military accommodation PPP projects for the US Departments of the Army, Navy and Air Force.

Congressionally authorised since 1996, the Military Housing Privatisation Initiative allows the Department of Defense and Services to work with the private sector to upgrade the quality of family housing and operate and maintain that housing.

Balfour Beatty Communities performed well in 2008 and in line with expectations at the time of acquisition.

Following the acquisition, three concessions reached financial close in 2008:

- the Air Mobility Command (AMC) West military housing privatisation project, covering three Air Force bases, including Fairchild Air Force Base, located near Spokane, Washington; Travis Air Force Base, located near Fairfield, California; and Tinker Air Force Base located near Oklahoma City, Oklahoma;
- the West Point military housing privatisation project at the Army's oldest continuously occupied military post in the United States, dating back to 1778; and
- the military family housing project at Fort Jackson, South Carolina.

In addition, interests were acquired in the Army's Fort Leonard Wood privatisation project in Pulaski County, Missouri and phases I and II of the 50-year military housing privatisation project at Lackland Air Force Base, located in San Antonio, Texas.

Each concession has a 50-year term, commencing with an initial development period including design and construction, usually carried out by Balfour Beatty Construction US, and overall management, maintenance and operational responsibilities carried out by Balfour Beatty Communities.

By the end of 2008, Balfour Beatty Communities was responsible for 17 military housing privatisation projects covering family housing at 44 military bases and one unaccompanied personnel project.

Looking forward, Balfour Beatty Communities is well-placed to win concessions for more of the remaining military family housing projects, along with unaccompanied military personnel housing schemes currently being piloted.

Non-PPP investments



Barking Power

Barking Power, which owns and operates a 1,000MW gas-fired power station in east London, performed strongly in 2008.

The station operated reliably and at high levels of capacity. Financial performance was driven by the beneficial impact of electricity prices and was also boosted by insurance recoveries following a generator outage in 2007.

Airports

Performance at Exeter International Airport and Blackpool International Airport was at anticipated levels, with reduction in passenger numbers being largely offset by cost savings, an improvement in passenger yields and increases in non-aeronautical revenues.

Exeter International Airport

Exeter is one of the most important regional airports in the country, helped by its status as an important base for FlyBe. It handled nearly 1m arriving and departing passengers in 2008.

The airport development master plan, a draft of which was published in May 2008, sets out a strategy which will see Exeter Airport develop its infrastructure to deal with the increasing demands for business and leisure flights both to and from the region.

Plans for growth include new terminal facilities, new aircraft stands and in the longer term, further terminal capacity, stand and taxiway development.

These plans are expected to underpin the airport's long-term future which will see a growth in passenger usage from its current c.1m passengers per year to an estimated 1.9m passengers by 2015 and 3.3m by 2030.

Blackpool International Airport

Balfour Beatty acquired 95% of Blackpool International Airport for £14m (including acquired borrowings) in May 2008, as part of the strategy to extend into non-PPP investments and to build a portfolio of regional airports.

Situated one mile south of Blackpool town centre, the airport's key customers include Jet2.com, Aer Arann and Manx2.com. The airport handled about half a million passengers in 2008, flying 12 routes to the UK, Ireland, Isle of Man and mainland European destinations.

Blackpool International Airport has the potential to become a thriving gateway to Lancashire and Cumbria. The strategy is to deliver significant, sustained growth in passenger traffic at the airport by increasing penetration within the core catchment area and by attracting inbound visitors to the region.

Barking Power

Exeter International Airport

Blackpool International Airport

Corporate responsibility

INTEGRATED RESPONSIBILITY

In 2008, Balfour Beatty continued to make substantial progress in creating a safer working environment, in reducing its environmental impacts and in extending the value it adds to the communities in which it operates.



MANAGING OUR RESPONSIBILITIES

The Board

The Balfour Beatty Board sets policy and takes responsibility for the Group's performance in safety, health, the environment, business ethics, risk management, human rights and other social issues. The Business Practices Committee of the Board, which comprises non-executive Directors under the chairmanship of Stephen Howard, reviews policy and performance in these areas.

In 2008, specific groups were identified to take responsibility for safety and for sustainability. The Group Safety, Health and Environment team has also been expanded during the year to offer greater support to our operating companies which also have their own dedicated resources.

Guiding principles

It is Balfour Beatty's policy to operate to clear and unequivocal standards of ethical behaviour. The Group has set out five core principles, which are at the heart of all the Group's activities. These are set out on our website, and in summary are:

- to comply with the law wherever we operate;
- to conduct all our business and make all our decisions within a clear ethical framework;
- to maintain safe and healthy workplaces and ensure the safety of the public;
- to contribute positively to the physical and social environments in which we operate; and
- to engage positively with all our stakeholders.

Balfour Beatty first defined and communicated a coherent set of ethical principles in 1986. Since then, these principles have been regularly reviewed and updated, most recently in 2006.

Two companion codes have also been developed to ensure adherence to these principles. The first, "Business Conduct Guidelines," explains to every employee what is expected of them, in terms of behaviour, procedures and attitudes. In 2008, an online training programme to embed these principles was initiated.

By the end of the year, over 55% of UK employees had successfully completed the programme. This will continue to be rolled-out across the Group in 2009, and further, more detailed programmes will be developed.

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

During 2008, the Group began a process to refine its ethical principles further, with an exercise to define its core values. These will be widely communicated during 2009.

Together, these documents constitute a comprehensive system of ethical governance which will continue to be reviewed periodically.

Group policies

Balfour Beatty has clearly-stated policies and principles for a range of important issues such as risk management, safety, health, environment, human rights, equal opportunities, whistleblowing and competitive behaviour. Within this framework, operating companies are required to develop specific policies and practices, relevant to their particular businesses.

Management systems

The Group-wide risk management framework provides a common system for identifying and controlling risks of all types. The principal risks and risk management are set out in the Directors' report and accounts 2008 on pages 9 and 10.

Each operating company, division and project is subject to rigorous risk analysis, evaluation and management. Major risks and opportunities are reviewed regularly at senior management levels including by the Audit Committee and Board.

Balfour Beatty Group and operating company review processes are also in place for key non-financial issues.

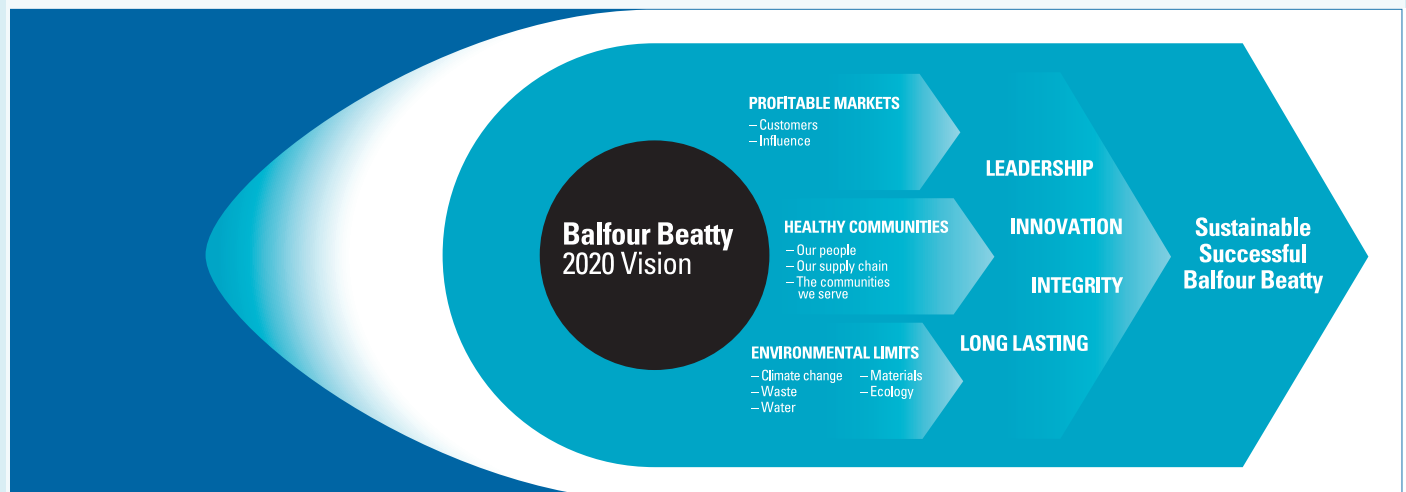
Safety and health issues are reviewed by the Board and its Executive Committee, with each main segment of the business having its own equivalent body. Balfour Beatty requires all its operating companies to have formal safety management systems, which are subject to external audit.

Strategic environmental issues are reviewed by the sustainability working group, chaired by a Group managing director. An environmental managers' forum reviews key topics and shares best practice between the operating companies. Environmental performance is audited regularly and Group-wide statistics are collated in respect of the Group's major environmental impacts.

SUSTAINABILITY

During 2008, a cross-sectoral sustainability working group was established under the leadership of a Group managing director. With support from Forum for the Future, current practices have been reviewed and a Group vision for 2020 has been developed, incorporating sector leadership, innovation, integrity and life cycle thinking. Our success as a sustainable company will be achieved by aligning the long-term interests of our markets, communities and the environment.

A Group-wide strategy on sustainability will be launched in early 2009. Many of our operating companies already have well developed sustainability programmes. The objective will be to accelerate and cross-fertilise the approaches already developed in many parts of our business.



Corporate responsibility

ENGAGING WITH OUR STAKEHOLDERS

Balfour Beatty recognises the importance of engagement with all its key stakeholders as a key element of its corporate responsibility and to achieve its sustainability vision.

Systems and programmes for stakeholder engagement are at different stages of development across the Group and are in the process of being reviewed and enhanced.

Employees

There is a comprehensive corporate and operating company-based communications programme aimed at ensuring that all employees have access to relevant and timely information about the Group and their own operating company.

Most operating companies conduct regular employee attitude and opinion surveys. The first Group-wide survey of employee opinion commenced in 2007 and was completed in early 2008. A range of action plans was identified with operating companies taking the lead. In addition to other measures, this confirmed that employees were aware of the Group's Business Conduct Guidelines and whistleblowing policy. There were 28 issues raised through the whistleblowing procedures during the year (16 in 2007). All of these were investigated and reported to the Board's Business Practices Committee.

The Group measures its equal opportunities performance. In 2008, 20% of all employees were women and 15% were of ethnic minority origin. These statistics have considerably improved from when measurement first took place in 1999. At graduate intake level in 2008, the proportion of women is 24%, the highest level since we started recording across the Group in 2000, and of ethnic minorities is 19%, again the highest level since we began recording in 2002.

15%

of employees are from ethnic minority origin

In 2008, a suite of key performance indicators was developed which is being implemented during 2009. This will provide an improved level of reporting at Group level and promote sharing of best practice throughout our businesses.

Shareholders

Balfour Beatty runs an active shareholder engagement programme involving regular roadshows and one-to-one meetings. Requests for meetings with and information about the Company are handled quickly and efficiently. During 2008, senior executives held approximately 100 meetings with shareholders. All financial presentations are webcast in order to ensure that they are accessible to all shareholders and other interested parties.

Customers

Most of the Group's operating companies conduct regular customer attitude and opinion surveys. A substantial proportion of the Group's business is conducted with organisations with which its operating companies have long-term relationships. An increasing number of customers take advantage of the integrated nature of Balfour Beatty's services by working with several operating companies.

Suppliers

An increasing proportion of the Group's supply base is retained in long-term relationships based on the compatibility of their values and behaviour with the requirements of the Group as well as product quality and price.

We undertake rigorous checks on the financial strength of our supply base before we sign contracts and seek to ensure that we are not over-reliant on any particular business.

Government and regulators

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

Bibliotheca Alexandrina project

In October 2008, Balfour Beatty reached full settlement of all issues relating to the Bibliotheca Alexandrina project in Egypt, a joint venture contract entered into in 1996.

Balfour Beatty carried out its own fully-documented internal investigation of certain payment irregularities identified in the contract and, in April 2005, self-reported the findings to the appropriate authorities, including the Serious Fraud Office (SFO), for further investigation.

As part of the settlement agreed with the SFO, Balfour Beatty agreed to review its existing codes of conduct to ensure they are consistent with best practice, to put in place further training programmes in the area of ethical business conduct, and to appoint an external monitor to review the policies and processes within the Group.

The external monitor appointed by Balfour Beatty is the Global Infrastructure Anti-Corruption Centre (GIACC). GIACC has been conducting a thorough review of Balfour Beatty and its existing systems. The Board plans to implement the recommendations of GIACC in full, and a copy of the GIACC report will be sent to the director of the SFO. When complete, a summary of the contents of the GIACC report, and its recommendations, will be provided in the Corporate Social Responsibility Report.

ENSURING SAFETY AND HEALTH

Maintaining a first-class safety culture is key to our business and we continue to make good progress.

Safety

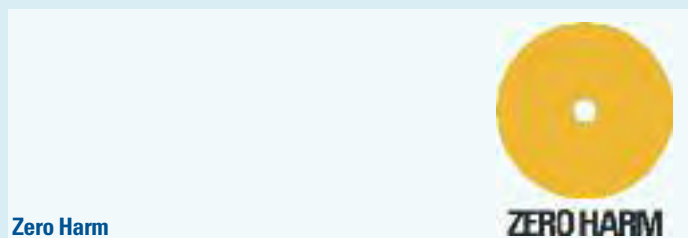
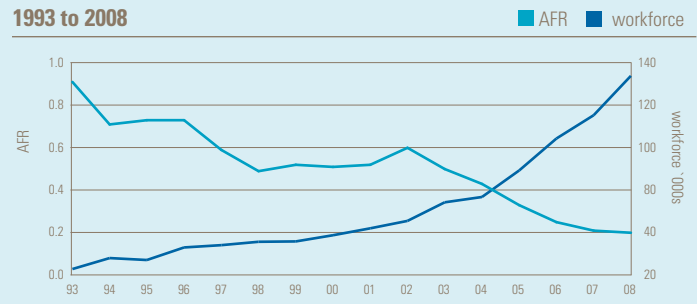
In recent years, the Group has made consistent progress in reducing accidents. In 2008, its Accident Frequency Rate (AFR) was reduced by 5%, the sixth consecutive year of improvement and stood at 0.20 reportable accidents per 100,000 man-hours worked. This has been achieved despite very significant increases in numbers employed. The Group's safety statistics are subject to independent external audit. Performance is benchmarked against industry norms in the UK, Germany, US and Hong Kong. The Group's performance compares favourably with these external benchmarks.

Regrettably, there were eight fatalities during the year (18 in 2007). Five of the fatalities were in joint venture business operations in South-East Asia and the Gulf, with one each in Australia, Chile and the UK. Very significant effort is made in improving safety management standards throughout the Group to ensure that we reach high standards in all our businesses across the world.

All fatalities and serious incidents are fully investigated and reviewed at senior management level. Root cause analyses are captured and logged to enable detection of system causes, and for appropriate programmes to be developed in response.

During National Road Safety Week, Balfour Beatty Plant and Fleet Services launched an award-winning driving simulator designed to reduce the risk of accidents and improve fuel efficiency. This is part of the Group's strong commitment to improving road safety.

1993 to 2008



Zero Harm

During 2008, the Group initiated a major programme to promote its aim to have zero fatalities, zero permanent disabling injuries, zero injuries to the public and to be accident free overall by 2012, while an accident frequency rate below 0.1 is achieved.

Entitled "Zero Harm," this programme is led by a Group managing director. It is intended to challenge the industry's assumptions about risk and extends to all parts of the Balfour Beatty Group, partners, subsidiaries and sub-contractors, working anywhere in the world.

Health

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

The Group's approach is to identify the potential causes of ill-health and develop specific policies and programmes for each one. Active programmes exist for hand-arm vibration syndrome, disorders arising from manual handling, alcohol and drug abuse and substances hazardous to health. An enhanced occupational health (OH) strategy is under development, with our OH partners, and will be taken forward in 2009. Stress management arrangements have also been enhanced.



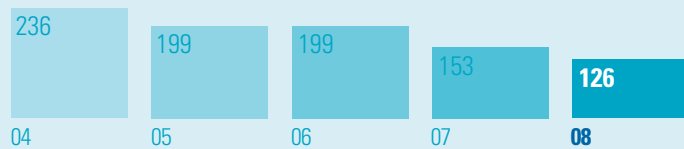
Corporate responsibility

PROTECTING THE ENVIRONMENT

Waste disposed

UK tonnes disposed per £m sales

-18% compared to 2007



Carbon footprint

UK tonnes equivalent CO₂ per £m sales

-18% compared to 2007



Our goal is to prevent harm to the environment as a result of our actions.

Management

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

The Group reviews and maintains progress by monitoring trends and performance in five specific areas. These are:

- energy use and greenhouse gas emissions;
- materials usage;
- waste and recycling;
- water consumption; and
- impact on environmentally-sensitive areas, including biodiversity.

The robustness of the Group's environmental management systems is also measured. The Group continues to work hard to improve the quality and robustness of its data in an environment characterised by a growing and constantly changing project portfolio.

Five environmental incidents across the Group resulted in fines in the year – three in the UK, one in the US and one in Hong Kong. Corrective action has been taken in all cases.

Validation and external audit of the 2008 data will not be complete until after the date of publication of this report. Relevant data will appear on the Balfour Beatty website in May 2009 at www.balfourbeatty.com



Energy use and greenhouse gas emissions

Balfour Beatty has reduced its relative contribution to global warming by 47% over the period from 2004 to 2008 for its UK operations. The Group invests in new and emerging technologies for vehicle emission reduction. Most particularly, significant improvements have been achieved by the use of GPS and vehicle tracking systems in more economical vehicle routing and usage. During the year, the Group further developed its understanding of the carbon impacts of its projects through their life cycle. The Group is making preparations for the introduction of the Carbon Reduction Commitment (CRC) in the UK. Under CRC, large companies will be required to report and reduce their carbon emissions from fixed site sources under a "cap and trade" scheme.

Materials usage

There is an increasingly systematic focus on our sourcing of materials, usage of non-renewable resources and evaluating and managing the Group's supply chain in respect of environmental issues. For example, in 2008, 70% of all timber purchased in the UK came from managed sources, including 55% specifically from Forest Stewardship Council schemes.

Waste and recycling

The construction process typically generates large volumes of waste. Over the last six years, Balfour Beatty has raised the awareness of this problem across the business, and has improved its measurement of construction waste – aided by the use of national waste contractors who are able to provide accurate data on waste volumes and recycling.

The total amount of waste disposed in 2008 across our UK operations was 17.5% lower than in 2007 at 126 tonnes relative to £m sales. 64% of all our waste is recycled or recovered.

↓ 17.5%

reduction in waste disposed relative to sales,
compared to 2007



Water consumption

We continue to measure our consumption of water. Rainwater harvesting and water efficiency measures are applied across our projects.

Environmentally-sensitive areas

The Group has extended its range of key indicators to include positive and negative effects on environmentally-sensitive sites and is developing its thinking on biodiversity. All operating companies have reviewed their responsibilities for contaminated land. Archaeological aspects of sites are explored thoroughly before commencement of use.



Corporate responsibility

ADDING VALUE TO THE COMMUNITY

It is Balfour Beatty's intent to engage fully with the communities and individuals directly impacted by our project work and to keep them appropriately informed of progress and any issues which might affect them. We are also committed to adding value to the work we undertake in creating and caring for infrastructure assets, by adding community benefits and offering opportunities to disadvantaged individuals.

Communities around our projects

It is Balfour Beatty's policy that all its major projects have a dedicated community relations team who provide information about the project to its stakeholders and manage relationships with them. Typically, major projects will be preceded by exhibitions and presentations. Regular newsletters and letter drops will keep stakeholders informed at key project milestones. Key stakeholders will be offered direct access and, where required, there will be help-lines and liaison with local police and other emergency services.

Helping young people fulfil their potential

Building Better Futures

In 2009, to mark the company's Centenary year, Balfour Beatty formed a new charitable fund, The Balfour Beatty Charitable Trust. Through this fund, a programme called "Building Better Futures" has been launched. The fund will work in partnership with two major charities, Action for Children (previously, NCH, the Children's Charity) and The Prince's Trust, to help disadvantaged young people throughout the UK. The funds will create accessible play areas for children at Action for Children centres and fund community cash awards for The Prince's Trust. The Company will donate £200,000 and will also match money raised by employees. Some community projects nominated by Balfour Beatty operating companies outside the UK will also be supported during the year.

The Group also sponsors The Prince's Trust initiative "Get into Construction." This offers training and employment in the construction industry to disadvantaged young people. Some 49 courses have been run to date, assisting over 600 people and further courses are in the planning stage. Of the individuals taking part to date, 95% have gone on to employment or further training.

95%

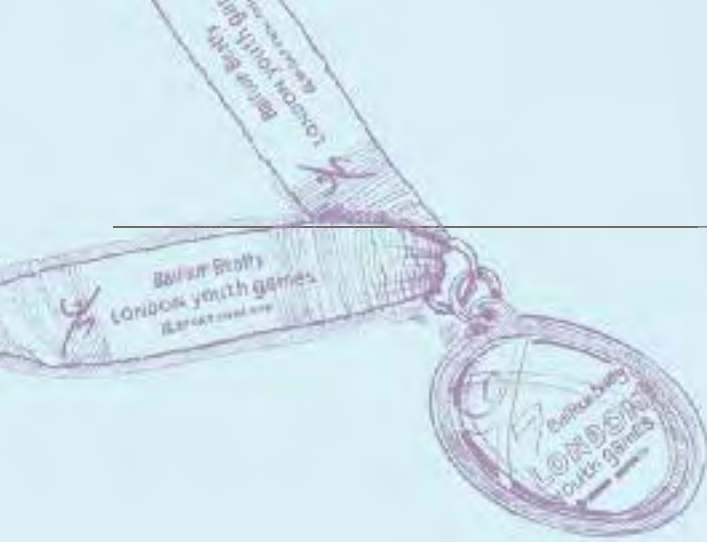
of participants in "Get into Construction" have gone on to employment or further training



Balfour Beatty received an Award of Excellence from The Prince's Trust in November 2008. This recognised the significant contribution the Group has made in supporting the scheme and increasing the skills and opportunities for disadvantaged young people.

In early 2009, Balfour Beatty became a patron of The Prince's Trust and is also sponsoring the Trust's Educational Achiever of the Year award.

Action for Children was Balfour Beatty's principal charity partner in 2007 and 2008. During that period, the charity received over £250,000 from the Group, in a mixture of corporate contributions and money raised by Balfour Beatty employees in a wide variety of fundraising activities.



Balfour Beatty London Youth Games

Having become a supporter of the London Youth Games in 2006, Balfour Beatty became the title sponsor in 2008, committing £1.7m to the Games in the period to 2013. The London Youth Games is Europe's largest youth sports programme. In addition to the sponsorship programme, a sports development grant scheme encourages participation amongst school children at grassroots level and maximises participation of the 32 London Boroughs and the City of London in the Games. A second grant scheme "Sporting Pathways" will promote the development of minority sports in London, in conjunction with their national governing bodies. An employee volunteering scheme has been launched for all Balfour Beatty's London-based staff, in conjunction with the Games.



Stoke Football Action

Over £100,000 of funding and substantial management support from Balfour Beatty has unlocked public sector funds to create a £320,000 three-year football coaching programme in Stoke, where Balfour Beatty is the PPP schools concession company. Now entering its final year, the programme has proven extremely effective in reducing vandalism and other anti-social behaviour among pupils at risk of social exclusion and is now being extended to include specialist centres for excluded pupils. In 2008, the scheme involved 320 young people at 17 schools and centres.

Groundwork UK

Balfour Beatty has worked with Groundwork UK for three years to deliver improvement projects close to long-term Balfour Beatty work sites, aimed at enhancing local amenities and facilities for neighbouring communities and engaging young local people in the process. In 2008, the basis of the Group's relationship with Groundwork has been reviewed and a new programme of work with the charity will begin in 2009.

Other charities

Our Chief Executive, Ian Tyler has continued his role as president of CRASH, the construction and property industry charity for the homeless.

The Group continues to make donations to CRASH; to its former charity of the year, Marie Curie Cancer Care; to support the work of RedR, the engineering-based disaster relief charity; and remains a leading supporter of Engineers Against Poverty, the international charity dedicated to the alleviation of poverty in low-income countries.

Through Business in the Community (BiTC) the Group is supporting various activities, including a partnership arrangement to provide mentoring services to a school in Burnley.

In addition to the corporate programme, operating companies are extremely active in their local communities and have established partnerships with charities relevant to their own businesses. For example, during its centenary year in 2008, Mansell ran a company-wide campaign to raise £1m on behalf of a range of charities.

Balfour Beatty Utility Solutions in conjunction with one of its largest customers, National Grid plc, offers convicted offenders, due to be released back into the community, the chance to be trained and employed in its infrastructure refurbishment and upgrade work on the gas and electricity networks. Being able to pursue a specific job opportunity, while still detained, significantly increases the chances of a successful re-entry into society.

Balfour Beatty Construction US made a donation of \$100,000 to the Pentagon Memorial Fund, in parallel with its work to build the Memorial.

Balfour Beatty Capital seeks to make a real and tangible difference through its charitable partnerships. In 2008, this included a team undertaking project work in Malawi as part of the Times Leadership Challenge.

Reflecting the size of the Balfour Beatty fleet and our work with the Highways Agency, several operating companies also have a working relationship with the road safety charity BRAKE and support its campaigns.

Board of Directors

Steve Marshall

Non-executive Chairman from 15 May 2008



Ian Tyler

Chief Executive



Anthony Rabin

Deputy Chief Executive from 31 March 2008



Andrew McNaughton

Chief Operating Officer from 1 January 2009



Duncan Magrath

Finance Director from 31 March 2008



Peter Zinkin

Planning and Development Director



Mike Donovan

Non-executive Director



Stephen Howard

Non-executive Director



Hubertus Krossa

Non-executive Director from 9 September 2008



Graham Roberts

Non-executive Director from 1 January 2009



Gordon Sage

Non-executive Director



Robert Walvis

Non-executive Director



Board Committee membership is as follows:

Audit Committee

Graham Roberts
(Chair from 5 March 2009)
Steve Marshall (Chair to 5 March 2009)
Mike Donovan
Hubertus Krossa
Gordon Sage
Robert Walvis

Business Practices Committee

Stephen Howard (Chair)
Mike Donovan
Hubertus Krossa
Steve Marshall
Graham Roberts

Nomination Committee

Steve Marshall (Chair)
Mike Donovan
Stephen Howard
Gordon Sage
Ian Tyler
Robert Walvis

Remuneration Committee

Robert Walvis (Chair)
Stephen Howard
Hubertus Krossa
Steve Marshall
Gordon Sage

Steve Marshall

Non-executive Chairman

Age 52. A Fellow of the Chartered Institute of Management Accountants. Appointed a Director in 2005 and Chairman in May 2008. Currently also chairman of Delta plc and a non-executive director of Southern Water. He is also a former chairman at both Queens' Moat Houses plc and Torex Retail plc. He was chief executive of Thorn plc and of Railtrack Group plc, having also served as group finance director at each company. His earlier career included a wide range of corporate and operational roles at Grand Metropolitan plc, Black & Decker and BOC.

Andrew McNaughton

Chief Operating Officer

Age 45. A chartered civil engineer and Fellow of the Institution of Civil Engineers. Appointed Chief Operating Officer on 1 January 2009. He joined Balfour Beatty in 1997, having spent 12 years with the Kier Group, and held the position of managing director of Balfour Beatty Civil Engineering from 2004 to April 2007, when he became Group managing director with responsibility for civil engineering in the UK and the Group's interests in the Middle East. He is a board member of the Major Projects Association and he became a Freeman of the City of London and a Liveryman in the Worshipful Company of Engineers in 2006.

Mike Donovan

Non-executive Director

Age 55. Appointed a Director in 2006. A mechanical engineering graduate, he was most recently chief operating officer of Marconi plc from 2001 to 2005. Prior to that, he was chief executive officer of Marconi Systems and was previously responsible for managing major divisions of British Aerospace, Vickers and the Rover Group.

Graham Roberts

Non-executive Director

Age 50. A Fellow of the Institute of Chartered Accountants. Appointed a Director on 1 January 2009. He is finance director of The British Land Company PLC, one of the UK's largest quoted property companies. Prior to joining British Land in 2002, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors.

Ian Tyler

Chief Executive

Age 48. A chartered accountant. A Director since 1999, he became Chief Executive in January 2005, having been Chief Operating Officer since 2002 and prior to that, Finance Director. He joined Balfour Beatty in 1996 from the Hanson Group where he was finance director of ARC Ltd, one of its principal subsidiaries. He is currently a non-executive director of VT Group plc, and president of Construction Industry Relief, Assistance and Support for the Homeless Ltd, the construction and property industry charity for the homeless.

Duncan Magrath

Finance Director

Age 44. A chartered accountant and an engineering graduate. Appointed to the Board as Finance Director in March 2008. Joined Balfour Beatty in 2006 as deputy finance director from Exel plc, where he was director of investor relations and financial strategy, following a number of senior financial roles in the UK and US.

Stephen Howard

Non-executive Director

Age 56. Appointed a Director in 2006. He is a lawyer by background and was most recently group chief executive of Novar plc. Prior to that, he was chief executive of Cookson Group plc. He is also a non-executive director of SEGRO plc and is chief executive of Business in the Community.

Gordon Sage

Non-executive Director

Age 62. Appointed a Director in 2003. A chemical engineer, he is a non-executive director of BlackRock World Mining Trust plc. Between 1970 and 2001 he held a series of increasingly senior positions in Rio Tinto plc, latterly as executive director responsible for its industrial minerals and diamonds businesses.

Anthony Rabin

Deputy Chief Executive

Age 53. A chartered accountant and a barrister. A Director since 2002, he became Deputy Chief Executive in March 2008, prior to which he was Finance Director. He is responsible for the Group's worldwide infrastructure investment business, having previously been managing director of Balfour Beatty Capital. Prior to joining the Group in 1995, he was a partner at Coopers & Lybrand and before that, a senior assistant director at Morgan Grenfell.

Peter Zinkin

Planning and Development Director

Age 55. Joined the Group in 1981 and became Planning and Development Director in 1991 after a series of senior positions in the finance function. He is responsible for the Group's merger, acquisition and divestment activities as well as the development of Group strategy. Previously, he worked at the London Business School and UMIST. He is a member of the leadership governance and management committee of the Higher Education Funding Council and a former governor of the University of North London.

Hubertus Krossa

Non-executive Director

Age 61. Appointed a Director in September 2008. Until 2008, he was chief executive officer of KION Group GmbH, a leading international material handling equipment manufacturer. Prior to that, he spent seven years on the main board of Linde AG, the worldwide producer and supplier of industrial and medical gases. He was previously a member of the European management board of Whirlpool Europe and was also chairman of its German operating company, and has previously held non-executive directorships in the UK for Wassall plc and Thorn Lighting Group. He is currently chairman of the supervisory boards of Eckelmann AG and Bauknecht Hausgeraete GmbH.

Robert Walvis

Non-executive Director

Age 62. Appointed a Director in 2001. A chemical engineer, he was previously with the Royal Dutch Shell Group, latterly as chairman of the Global Corporate Centre of the Royal Dutch Shell Group of Companies. He is a non-executive director of Associated British Ports Holdings Limited and Johnson Matthey plc, and chairman of the supervisory board of Allianz Nederland Groep NV. He is the senior independent Director.

Summary Directors' report

Dividends

The Directors recommend a final dividend on ordinary shares of 7.7p (net) per ordinary share making, with the interim dividend of 5.1p, a total dividend for 2008 of 12.8p (net). Preference dividends totalling 10.75p (gross) per preference share have been paid for 2008.

The dividend reinvestment plan (DRIP) continues to be offered.

Share capital and major shareholders

During the year to 31 December 2008 no ordinary shares were repurchased for cancellation and 300,017 preference shares (representing 0.27% of the preference share capital) were repurchased for cancellation for a total consideration of £407,337 at an average price of 135.8p. Purchases of shares are only made after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company and its overall financial position. 1,286,053 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 334,927 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes.

On 15 May 2008, a total of 43,320,411 new ordinary shares in the Company were placed with institutions at a price of 430p per ordinary share raising £182m after issue costs. This placing represented an increase of approximately (but less than) 10% of the issued ordinary share capital. These placing shares were issued fully paid and ranked pari passu in all respects with the existing ordinary shares.

At 31 December 2008, the Directors had authority, under the shareholders' resolutions approved at the AGM and separate Class meeting held in May 2008, to purchase through the market 43,314,839 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which will follow the 2009 AGM.

As at 4 March 2009, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

	Number of ordinary shares held	Percentage of ordinary shares held
Standard Life Investments Limited	42,849,463	8.96%
Lloyds Banking Group plc	33,370,340	6.98%
Legal & General Group plc	32,807,704	6.86%
Prudential plc	25,285,102	5.28%
Schroder Investment Management Limited	22,057,637	4.61%

Corporate governance and the Combined Code

Overview

The Company is committed to high standards of corporate governance. The UK Listing Authority requires listed companies to disclose, in relation to Section 1 of the Combined Code issued by the Financial Reporting Council which is appended to the UK Listing Rules, how they have applied its principles and whether they have complied with its provisions through the accounting period. The Company has complied with the requirements of the UK Listing Authority relating to the provisions of the Combined Code throughout the accounting period other than in two respects:

- (i) Code provision C.3.1 – The chairman of the Audit Committee: following Steve Marshall's appointment as Chairman of the Company, the Board decided that he should continue as chairman of the Audit Committee temporarily pending the appointment of a successor. Graham Roberts was appointed non-executive Director on 1 January 2009 and he will assume the chairmanship of the Audit Committee on 5 March 2009.
- (ii) Code provision C.3.4 – Whistleblowing arrangements: the effectiveness of the Group's whistleblowing procedures is kept under review by the Business Practices Committee (BPC) and not by the Audit Committee. The principal reason for this is that the BPC, in particular, focuses on the Company's business conduct, its ethics and values and whistleblowing is an integral element within this overall remit. In addition, from the Company's experience, whistleblowing-type complaints often relate to non-financial matters and, in particular, employment issues.

Honorary President

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

Chairman

Steve Marshall became Chairman in May 2008, having joined the Board in November 2005. Steve Marshall spends an average of two days per week on the business of the Company. He has other commitments as non-executive chairman of Delta plc and as a non-executive director of Southern Water. The Board considers that these other commitments are not of such a nature as to hinder his activities as Chairman of the Company or Committees.

The Board

The Board currently comprises 12 Directors, of whom seven, including the Chairman, are non-executive. The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership to the Group.

Sir David John and Hans Christoph von Rohr retired from the Board on 15 May 2008 and 9 September 2008 respectively and Hubertus Krossa was appointed as a non-executive Director on 9 September 2008. Andrew McNaughton was appointed Chief Operating Officer and an executive Director on 1 January 2009. Graham Roberts was appointed as a non-executive Director with effect from the same date. Throughout 2008, the Chief Executive was Ian Tyler and the Senior Independent Director was Robert Walvis.

The Board operates both formally, through Board and Board Committee meetings, and informally through regular contact between Directors as required. Decisions on a list of specific matters, including the approval of financial statements, major tenders and capital expenditure and most acquisitions and disposals, are reserved to the Board or Board Committees. Matters falling outside the list are delegated to management. The list of these reserved matters is reviewed by the Board from time to time, most recently in October 2008. The terms of reference of the principal Board Committees and the reserved matters are displayed on the website: www.balfourbeatty.com

Board Committees

Audit Committee	Remuneration Committee	Nomination Committee	Business Practices Committee	Group Tender and Investment Committee	Finance and General Purposes Committee
<ul style="list-style-type: none"> • Financial statements • Financial controls • External auditor • Internal audit 	<ul style="list-style-type: none"> • Remuneration strategy and policies • Remuneration packages • Incentive plans 	<ul style="list-style-type: none"> • Structure and composition of Board • Appointment of non-executive Directors 	<ul style="list-style-type: none"> • Ethics and Codes of Conduct • Health & Safety • Sustainability • Whistleblowing 	<ul style="list-style-type: none"> • Major contract approvals • Investments and divestments 	<ul style="list-style-type: none"> • Borrowings • Banking arrangements • Share options • Share buy-backs

Directors

Brief biographical details of the Directors, are given on page 53.

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

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

Rotation of Directors, election and re-election

Steve Marshall, Ian Tyler and Peter Zinkin are due to retire by rotation as Directors at the 2009 AGM and, being eligible, offer themselves for re-election. Hubertus Krossa, Andrew McNaughton and Graham Roberts, who have been appointed to the Board since the date of the last AGM, will offer themselves for election in accordance with the Company's Articles of Association.

Evaluation

Formal evaluation of the performance of the Board and of the principal Board Committees, as well as individual assessments of the Directors, are normally carried out by an external consultant tri-annually, with internal assessments carried out in the intervening two years. The last external evaluation was completed in October 2007. Following Steve Marshall's appointment as Chairman in May 2008, an internal evaluation process comprising an assessment questionnaire, commenced in January 2009. As a result of the feedback, the Board has concluded that both it and the Directors operate effectively.

Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. As for previous years, the Board has continued to assess the effectiveness of the risk management processes and internal controls during 2008 and to the date of this report. Such assessment is based on reports made to the Board, the Audit Committee and the Business Practices Committee, including:

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

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

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

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

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

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

Following an internal reorganisation at the end of 2008, the separate roles of Group Risk Management and Internal Audit were amalgamated under a Head of Group Risk Management and Assurance, who is responsible for developing a comprehensive framework of assurance (including internal audit) and co-ordinating the risk management activities across the Group.

No significant failings or weaknesses have been identified by the Board in carrying out its review of the effectiveness of the risk management and internal control systems.

Annual General Meeting

The business to be put to the AGM is set out in the separate circular to shareholders. Steve Marshall and the other chairmen of the Board Committees will be available at the AGM to answer any questions arising from their work. The Board continues to regard the AGM as an important occasion on which to communicate with shareholders. Shareholders may put questions in advance of the AGM by writing to the Company Secretary.

Summary remuneration report

A resolution to approve the full Directors' Remuneration report, which can be found on pages 18 to 25 of the Directors' Report and accounts 2008, will be proposed at the AGM of the Company to be held on 14 May 2009.

Remuneration Committee

The Remuneration Committee ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for certain senior managers immediately below the level of the Board.

The RemCo has been chaired by Robert Walvis since November 2003. Its other members during the year were Stephen Howard, Steve Marshall, Gordon Sage, Christoph von Rohr until September 2008 and, from September 2008, Hubertus Krossa. Sir David John, the former Company Chairman, attended meetings by invitation. No member of the RemCo has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group.

Executive Directors' remuneration

General policy

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

The structure of executive Directors' remuneration was similar in 2008 to that in 2007 and no significant changes to the existing policy are currently envisaged for 2009. Under the current arrangements, if target performance is achieved, basic salary will represent around one-half of total earnings. If maximum is achieved, which would involve a superior level of performance substantially in excess of business plan, basic salary will represent around one-third of total earnings.

Basic salaries

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

Annual incentive plan

Each executive Director participates in an annual incentive plan, under which pre-determined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2008 was 80% of basic salary and the performance indicator chosen was profit before tax, exceptional items and amortisation of intangible assets ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of any bonus achieved is payable in cash, whilst the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time (unless specified leaver conditions are met, in which case early vesting may be permitted under the rules of the DBP). Bonuses are non-pensionable.

It is currently intended that the annual incentive plan for 2009 will operate in the same way and at the same level as for 2008 and the RemCo will continue to review the competitiveness and structure of the annual incentive plan in future years.

Long-term incentive scheme

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

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

The awards will vest, subject to the achievement of performance conditions, three years after the date of grant together with shares in lieu of dividends payable. There is no provision for the re-testing of these performance conditions. For the 2008 award, there are two performance conditions each applying to separate parts of the award. 50% of an award is linked to an adjusted earnings per share ("EPS") growth target, and the remaining 50% is linked to total shareholder return ("TSR") performance relative to a comparator group.

The RemCo considers that the EPS and TSR performance conditions provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market performance, which aligns with investors' interests.

It is the intention of the RemCo to make awards under the PSP in 2009. For the TSR element of the award, it is currently anticipated that a similar peer group of companies will be used. The RemCo is currently reviewing the EPS targets and individual levels of award, to ensure these continue to remain stretching and appropriate given current market conditions and business outlook.

Pensions

The executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). The Fund provides for a pension at a normal retirement age, for pension purposes, of 62 and each Director pays an annual contribution equal to 5% of pensionable salary. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. With effect from 6 April 2006, HMRC limits were changed, with one of the changes being to no longer use the earnings cap, when determining the maximum permissible benefits. However, a Fund-specific earnings cap has been retained for those members who were previously subject to the HMRC earnings cap. A discretionary cash supplement is paid in lieu of pension provision on earnings above the Fund specific cap.

Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100% of their basic salary at a reference date. In order to achieve this, they will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the PSP and the DBP. Details of the shareholdings of all the Directors can be found in the table on page 58.

Service contracts

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

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

Non-executive Directors

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

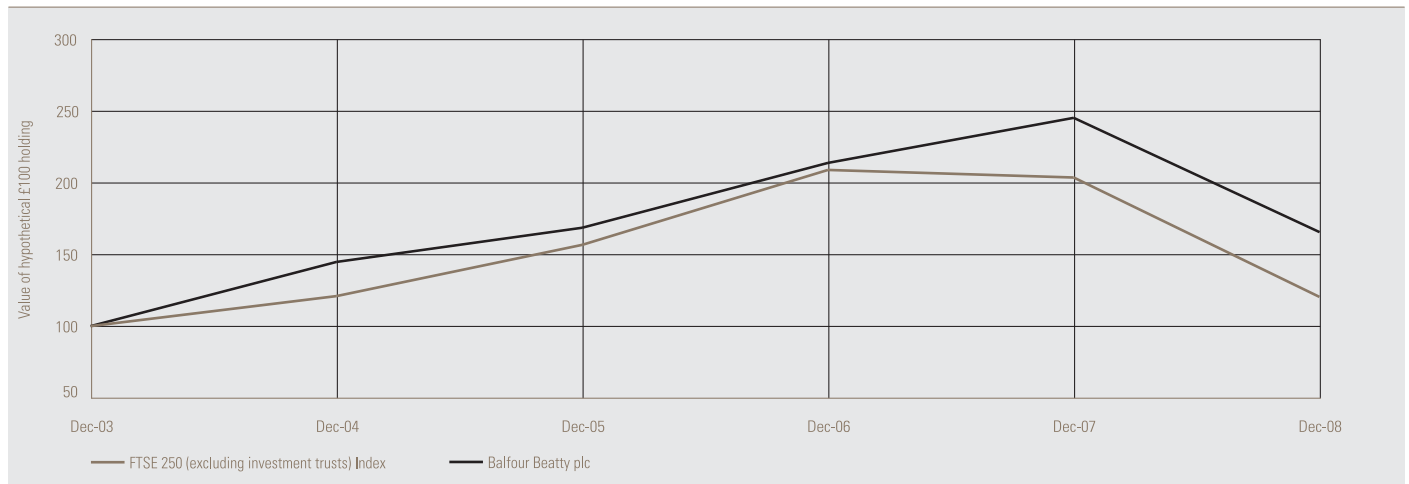
The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2008.

Performance graph

The graph below shows Balfour Beatty's TSR performance compared to the FTSE 250 Index (excluding investment trusts) TSR over the five financial years ended 31 December 2008.

As in previous reports, the RemCo has elected to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company was a constituent member during the year.

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



Summary remuneration report

Directors' remuneration earned in 2008

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual cash bonus £	Total remuneration 2008 £	Total remuneration 2007 £
M J Donovan	–	45,000	–	–	–	45,000	42,000
S L Howard	–	49,000	–	–	–	49,000	42,000
Sir David John	–	71,372	–	–	–	71,372	190,000
G E H Krossa	–	16,540	–	–	–	16,540	–
D J Magrath	256,308	–	33,531	12,008	181,333	483,180	–
S Marshall	–	162,273	–	–	–	162,273	49,000
A L P Rabin	402,500	–	70,236	20,852	226,667	720,255	653,951
G H Sage	–	45,000	–	–	–	45,000	42,000
I P Tyler	605,000	–	71,934	27,187	336,000	1,040,121	949,428
Dr H C von Rohr	–	54,092	–	–	–	54,092	62,548
R J W Walvis	–	52,500	–	–	–	52,500	49,000
P J L Zinkin	392,500	–	–	17,890	216,000	626,390	587,290
Former Directors	–	–	–	–	–	–	50,208
Total	1,656,308	495,777	175,701	77,937	960,000	3,365,723	2,717,425

Notes:

- Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors.
- Ian Tyler, Anthony Rabin and Duncan Magrath received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- The performance target for annual bonus was profit before tax, exceptional items and amortisation of intangible assets ("profit"). The profit for the year ended 31 December 2008 resulted in a maximum bonus of 80% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third is deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2012, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2009.
- Awards made under the Performance Share Plan in 2005 to Ian Tyler, Anthony Rabin, and Peter Zinkin vested during the year. At the date of vesting on 18 April 2008 the closing market price was 463p and the total values of the shares which vested were £546,354, £378,720, and £403,555 respectively.
- Ian Tyler, Anthony Rabin, and Peter Zinkin exercised savings-related share options during the year. The closing market prices on the dates of exercise ranged between 411.25p and 400.0p and the values realisable on exercise were £4,184, £1,826, and £3,450 respectively.

Directors' interests

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

Name of Director	Number of ordinary shares	
	At 1 January 2008*	At 31 December 2008
M J Donovan	5,000	5,000
S L Howard	5,045	5,045
G E H Krossa	–	5,000
D J Magrath	6,000	16,000
S Marshall	5,000	5,000
A L P Rabin	101,728	142,172
G H Sage	5,000	5,000
I P Tyler	133,005	154,051
R J W Walvis	10,000	10,000
P J L Zinkin	122,171	148,686

* or date of appointment, if later.

For the year ended 31 December 2008

Summary Group income statement

	2008			2007		
	Before exceptional items* £m	Exceptional items* (Note 3) £m	Total £m	Before exceptional items*# £m	Exceptional items* (Note 3) £m	Total# £m
Continuing operations						
Revenue including share of joint ventures and associates	9,486	–	9,486	7,488	–	7,488
Share of revenue of joint ventures and associates	(1,225)	–	(1,225)	(1,022)	–	(1,022)
Group revenue	8,261	–	8,261	6,466	–	6,466
Cost of sales	(7,628)	–	(7,628)	(5,959)	(33)	(5,992)
Gross profit	633	–	633	507	(33)	474
Net operating expenses						
– amortisation of intangible assets	–	(27)	(27)	–	(9)	(9)
– other	(478)	51	(427)	(394)	(6)	(400)
Group operating profit	155	24	179	113	(48)	65
Share of results of joint ventures and associates	75	(3)	72	65	6	71
Profit from operations	230	21	251	178	(42)	136
Investment income	43	–	43	42	–	42
Finance costs	(24)	–	(24)	(19)	(2)	(21)
Profit before taxation	249	21	270	201	(44)	157
Taxation	(66)	(8)	(74)	(53)	65	12
Profit for the year from continuing operations	183	13	196	148	21	169
Loss for the year from discontinued operations	–	–	–	2	(20)	(18)
Profit for the year attributable to equity shareholders	183	13	196	150	1	151

*and amortisation of intangible assets.

Re-presented (Note 1).

	Notes	2008 pence	2007 pence
Basic earnings per ordinary share			
– continuing operations	4	42.9	39.3
– discontinued operations	4	–	(4.2)
		42.9	35.1
Diluted earnings per ordinary share			
– continuing operations		42.7	39.0
– discontinued operations		–	(4.2)
		42.7	34.8
Dividends per ordinary share proposed for the year		12.8	11.5

For the year ended 31 December 2008

Summary Group statement of recognised income and expense

	2008 £m	2007 £m
Actuarial (losses)/gains on retirement benefit obligations	(76)	2
Cash flow hedges – fair value revaluations	(1)	–
PPP cash flow hedges – fair value revaluations	(107)	(7)
– reclassified and reported in net profit	–	7
PPP financial assets – fair value revaluations	102	(26)
– reclassified and reported in net profit	–	(3)
Changes in fair value of net investment hedges	(105)	(4)
Currency translation differences	217	7
Tax on items taken directly to equity	25	5
Net income/(expense) recognised directly in equity	55	(19)
Profit for the year from continuing operations	196	169
Loss for the year from discontinued operations	–	(18)
Total recognised income for the year attributable to equity shareholders	251	132

At 31 December 2008

Summary Group balance sheet

	2008 £m	2007 £m
Non-current assets		
Intangible assets – goodwill	975	694
– other	223	59
Property, plant and equipment	296	215
Investments in joint ventures and associates	469	381
Investments	55	57
PPP financial assets	151	62
Deferred tax assets	132	125
Derivative financial instruments	3	3
Trade and other receivables	74	77
	2,378	1,673
Current assets		
Inventories	125	72
Due from customers for contract work	383	338
Derivative financial instruments	2	1
Trade and other receivables	1,193	881
Cash and cash equivalents – PPP subsidiaries	2	3
– other	461	391
	2,166	1,686
Total assets	4,544	3,359
Current liabilities		
Trade and other payables	(2,168)	(1,718)
Due to customers for contract work	(540)	(415)
Derivative financial instruments	(66)	(6)
Current tax liabilities	(23)	(7)
Borrowings – PPP non-recourse loans	–	(3)
– other	(12)	(16)
	(2,809)	(2,165)
Non-current liabilities		
Trade and other payables	(152)	(135)
Derivative financial instruments	(40)	(6)
Borrowings – PPP non-recourse loans	(145)	(61)
– other	(9)	(1)
Deferred tax liabilities	(10)	(7)
Liability component of preference shares	(87)	(87)
Retirement benefit obligations	(261)	(286)
Provisions	(166)	(128)
	(870)	(711)
Total liabilities	(3,679)	(2,876)
Net assets	865	483
Equity		
Called-up share capital	239	216
Share premium account	54	52
Equity component of preference shares	16	16
Special reserve	139	164
Share of joint ventures' and associates' reserves	230	178
Other reserves	79	9
Retained profits/(accumulated losses)	104	(152)
Equity attributable to equity holders of the parent	861	483
Minority interests	4	–
Total equity	865	483

The summary financial statement, extracted from the Directors' report and accounts 2008, has been approved by the Board and signed on its behalf by:

Duncan Magrath Director
4 March 2009

For the year ended 31 December 2008

Summary Group cash flow statement

	2008 £m	2007 £m
Cash flows from operating activities		
Cash generated from operations	297	277
Income taxes paid	(18)	(24)
Net cash from operating activities	279	253
Cash flows from investing activities		
Dividends received from joint ventures and associates	53	83
Interest received	27	26
Acquisition of businesses, net of cash and cash equivalents acquired	(302)	(198)
Purchase of property, plant and equipment	(93)	(80)
Purchase of investments	–	(11)
Investment in and loans made to joint ventures and associates	(9)	(50)
Investment in PPP financial assets	(81)	(39)
Settlement of financial derivatives	(48)	4
Disposal of businesses, net of cash and cash equivalents disposed	–	92
Disposal of property, plant and equipment	17	9
Disposal of investments	2	–
Net cash used in investing activities	(434)	(164)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	186	5
Purchase of ordinary shares	(13)	(4)
Proceeds from new loans	81	42
Repayment of loans	(18)	(1)
Repayment of finance leases	(2)	–
Buy-back of preference shares	–	(8)
Ordinary dividends paid	(54)	(42)
Interest paid	(12)	(7)
Preference dividends paid	(11)	(11)
Net cash from/(used in) financing activities	157	(26)
Net increase/(decrease) in cash and cash equivalents	2	63
Effects of exchange rate changes	72	8
Cash and cash equivalents at beginning of year	379	308
Cash and cash equivalents at end of year	453	379

Notes to the summary financial statement

1 Basis of preparation

The summary financial statement has been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The Group's accounting policies are set out in the Directors' report and accounts 2008. In order to better reflect the operating performance of the Group, certain pension related income and costs have been reclassified within the income statement in the current year as permitted by IAS 19. The net amount of the interest cost for the unwind of the pension obligations and the expected return on scheme assets has been reclassified out of net operating expenses to investment income. 2007 comparative amounts have been re-presented to reflect this change.

2 Segment analysis – continuing operations

	Building, building management and services 2008 £m	Civil and specialist engineering and services 2008 £m	Rail engineering and services 2008 £m	Investments 2008 £m	Corporate costs 2008 £m	Total 2008 £m
Performance by activity:						
Results						
Revenue including share of joint ventures and associates	4,635	3,243	1,055	553	–	9,486
Share of revenue of joint ventures and associates	(137)	(656)	(39)	(393)	–	(1,225)
Group revenue	4,498	2,587	1,016	160	–	8,261
Group operating profit	84	85	39	(19)	(34)	155
Share of results of joint ventures and associates	4	19	2	50	–	75
Profit from operations before exceptional items and amortisation	88	104	41	31	(34)	230
Exceptional items	(1)	(5)	–	(5)	59	48
Amortisation of intangible assets	(14)	(3)	(1)	(9)	–	(27)
Profit from operations	73	96	40	17	25	251

	Europe 2008 £m	North America 2008 £m	Other* 2008 £m	Total 2008 £m
Performance by geographic origin:				
Group revenue	5,981	2,216	64	8,261
Profit from operations before exceptional items and amortisation	147	59	24	230
Exceptional items	51	(3)	–	48
Amortisation of intangible assets	(10)	(17)	–	(27)
Profit from operations	188	39	24	251

	Building, building management and services, 2007# £m	Civil and specialist engineering and services, 2007# £m	Rail engineering and services, 2007# £m	Investments, 2007# £m	Corporate costs, 2007# £m	Total, 2007# £m
Performance by activity:						
Results						
Revenue including share of joint ventures and associates	3,640	2,668	785	394	1	7,488
Share of revenue of joint ventures and associates	(113)	(556)	(10)	(343)	–	(1,022)
Group revenue	3,527	2,112	775	51	1	6,466
Group operating profit	70	59	39	(25)	(30)	113
Share of results of joint ventures and associates	–	23	1	41	–	65
Profit from operations before exceptional items and amortisation	70	82	40	16	(30)	178
Exceptional items	(26)	(9)	2	–	–	(33)
Amortisation of intangible assets	(6)	(3)	–	–	–	(9)
Profit from operations	38	70	42	16	(30)	136

2 Segment analysis – continuing operations continued

	Europe 2007# £m	North America 2007# £m	Other* 2007# £m	Total 2007# £m
Performance by geographic origin:				
Group revenue	4,958	1,471	37	6,466
Profit from operations before exceptional items and amortisation	132	18	28	178
Exceptional items	(27)	(6)	–	(33)
Amortisation of intangible assets	(4)	(5)	–	(9)
Profit from operations	101	7	28	136

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

Re-presented (Note 1).

3 Exceptional items and amortisation of intangible assets

	2008 £m	2007 £m
Credited to/(charged against) profit before taxation		
Reduction in pension past service liabilities	60	–
Metronet – net contract losses	–	(27)
Post-acquisition integration, reorganisation and other costs	(6)	(6)
Adjustment to Birse Group goodwill	(3)	–
Tax adjustments on share of joint ventures and associates	(3)	–
Premium on buy-back of preference shares	–	(2)
	48	(35)
(Charged against)/credited to taxation		
Tax on items above	(15)	11
Tax credit on recognition of Birse Group losses	3	–
Industrial buildings allowances	(3)	–
Recognition of US deferred tax assets	–	51
Credited to profit from continuing operations	33	27
Credited to/(charged against) profit from discontinued operations		
Profit on sale of operations	–	57
Metronet – impairment of investment	–	(87)
– tax thereon	–	10
Exceptional items credited to profit for the year	33	7
Amortisation of intangible assets	(27)	(9)
Tax thereon	7	3
Credited to profit for the year	13	1

4 Earnings per ordinary share

	Earnings Basic 2008 £m	EPS Basic 2008 pence	Earnings Basic 2007 £m	EPS Basic 2007 pence
Continuing operations	196	42.9	169	39.3
Discontinued operations	–	–	(18)	(4.2)
	196	42.9	151	35.1
Exceptional items	(33)	(7.2)	(7)	(1.6)
Amortisation of intangible assets	20	4.2	6	1.5
Adjusted earnings/earnings per ordinary share	183	39.9	150	35.0

The weighted average number of ordinary shares used to calculate basic earnings per share was 457.6m (2007: 430.0m). Adjusted earnings per ordinary share, before exceptional items and amortisation of intangible assets, and including the pre-exceptional results of discontinued operations in 2007, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

5 Post balance sheet events

On 23 February 2009 the Group acquired Dooley Construction Limited Partnership, a leading North Carolina USA firm in the interiors construction market, for a cash consideration of \$40m.

Independent auditors' statement to the members of Balfour Beatty plc

We have examined the Group's summary financial statement for the year ended 31 December 2008 which comprises the summary Group income statement, the summary Group balance sheet, the summary Group cash flow statement, the summary Group statement of recognised income and expense, the notes to the summary financial statement, the summary Directors' report and the summary Directors' remuneration report.

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

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual review 2008, including the summary financial statement, in accordance with United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual review 2008, with the full annual accounts, the Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the Annual review 2008 as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with bulletin 1999/6 "The Auditors' Statement on the Summary Financial Statement" issued by the Auditing Practices Board for use in the United Kingdom. Our report on the Group's and Company's full annual financial statements describes the basis of our audit opinion on those financial statements and the Directors' remuneration report.

Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts, the Directors' report and the Directors' remuneration report of Balfour Beatty plc for the year ended 31 December 2008 and complies with the applicable requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

Deloitte LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
4 March 2009

Summary reports

The Annual review 2008 includes a summary of information contained in the Directors' report and accounts 2008. The aim is to provide shareholders with information in a clear and concise manner. For this reason, the Annual review 2008 does not contain all the information to allow for a full understanding of the results of the Company and the Group and their state of affairs. For further information, the full Annual report and accounts 2008, comprising the Annual review 2008 and the Directors' report and accounts 2008 (containing the financial review, the Directors' report, the Directors' remuneration report, the financial statements and the independent auditors' report, which is unqualified), should be consulted. A copy of the Directors' report and accounts 2008 may be obtained, free of charge, by writing to Capita Registrars at the address on the inside back cover. Shareholders contacting the Registrars should quote their full name and address in correspondence. The Directors' report and accounts 2008 is also available on the Group's website at www.balfourbeatty.com



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Shareholder information

Financial calendar

	2009
22 April	Ex-dividend date for final 2008 ordinary dividend
24 April	Final 2008 ordinary dividend record date
14 May	Annual General Meeting
27 May	Ex-dividend date for July 2009 preference dividend
29 May	July 2009 preference dividend record date
10 June	Final date for receipt of DRIP mandate forms (see below)
1 July	Preference dividend payable
6 July*	Final 2008 ordinary dividend payable
12 August*	Announcement of 2009 half-year results
10 December*	Interim 2009 ordinary dividend payable

*Provisional dates.

Registrars

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

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

They can help you to:

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

Dividends and dividend reinvestment plan

If you wish dividends to be paid directly into your bank or building society account, through the Bankers Automated Clearing System (BACS), you should contact the Registrars for a dividend mandate form.

Balfour Beatty has a dividend reinvestment plan (DRIP) which allows ordinary shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. Full details of the DRIP and its charges, together with mandate forms, can be accessed at www.balfourbeatty-shares.com

Shareholder information on the internet and electronic communications

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

In conjunction with Capita Registrars, you can create a Share Portal account, through which you are able to access the full range of online shareholder services, including the ability to:

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

The Share Portal is easy to use. Please visit www.balfourbeatty-shares.com. Alternatively, you can email: shareportal@capita.co.uk

Balfour Beatty actively supports Climate Care, a not-for-profit organisation that funds global sustainable energy and forest restoration projects that reduce greenhouse gases. Climate Care's projects also help to improve people's standard of living and to protect wildlife habitats. For more information on Climate Care, visit www.climatecare.org

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

Gifting shares to your family or to charity

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

Any shares that you donate to ShareGift will be aggregated, sold when possible, and the proceeds will be donated to a wide range of other UK charities. Since ShareGift was launched, over £13m has been given to more than 1,500 charities. The relevant share transfer form may be accessed at www.balfourbeatty-shares.com. For more information on ShareGift, visit www.ShareGift.org

Share dealing services

Capita IRG Trustees Limited provide a telephone and online share dealing service for UK and EEA resident shareholders. To use this service, shareholders should contact Capita, Telephone: 0871 664 0454 – lines are open Monday to Friday 8.00 am to 4.30 pm, UK time (calls cost 10p per minute plus network extras). Alternatively, log on to www.capitadeal.com

The Company has also established an execution-only postal share dealing service through JPMorgan Cazenove Limited for private investors who wish to buy or sell Balfour Beatty plc's shares. Further details can be obtained from The Balfour Beatty Share Dealing Service, JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA, Telephone: 020 7155 5155.

An execution-only share dealing service for the purchase and sale of Balfour Beatty shares is also available from NatWest Stockbrokers. For details, please contact: NatWest Stockbrokers, Waterhouse Square, 138-142 Holborn, London EC1N 2TH, Telephone: 0808 208 4433.

Capita IRG Trustees Limited, JPMorgan Cazenove Limited and NatWest Stockbrokers are each authorised and regulated by the Financial Services Authority.

Share price

The Balfour Beatty share price can be found at the Balfour Beatty website at www.balfourbeatty.com and in the appropriate sections of national newspapers under the classification "Construction and Building Materials". It is also available on a number of personal finance websites on the Internet and from television text services.

The London Stock Exchange Daily Official List (SEDOL) codes are:

Ordinary shares: 0096162.

Preference shares: 0097820.

The London Stock Exchange "ticker" codes are:

Ordinary shares: BBY.

Preference shares: BBYB.

Capital gains tax

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

Enquiries

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

Balfour Beatty plc
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